LINCOLN NATIONAL CORP
Form 10-K
February 27, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2008

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________.

Commission File Number 1-6028

LINCOLN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	**35-1140070**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
150 N. Radnor Chester Road, Suite A305, Radnor, Pennsylvania	**19087**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (484) 583-1400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock	New York and Chicago
$3.00 Cumulative Convertible Preferred Stock, Series A	New York and Chicago
6.75% Capital Securities	New York
6.75% Trust Preferred Securities, Series F [1]	New York

[1] Issued by Lincoln National Capital VI. Payments of distributions and payments on liquidation or redemption are

guaranteed by
Lincoln
National
Corporation.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the shares of the registrant s common stock held by non-affiliates (based upon the closing price of these shares on the New York Stock Exchange) as of the last business day of the registrant s most recently completed second fiscal quarter was $11.6 billion.

As of February 20, 2009, 256,042,499 shares of common stock of the registrant were outstanding.

Documents Incorporated by Reference:

Selected portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled for May 14, 2009, have been incorporated by reference into Part III of this Form 10-K.

Lincoln National Corporation
Table of Contents

Item	Page
PART I	
1. Business	1
Overview	1
Business Segments and Other Operations	3
Retirement Solutions	3
Retirement Solutions Annuities	4
Retirement Solutions Defined Contribution	8
Insurance Solutions	9
Insurance Solutions Life Insurance	10
Insurance Solutions Group Protection	13
Investment Management	14
Lincoln UK	17
Other Operations	18
Reinsurance	19
Reserves	19
Investments	19
Ratings	20
Regulatory	22
Employees	27
Available Information	27
1A. Risk Factors	28
1B. Unresolved Staff Comments	42
2. Properties	42

3. Legal Proceedings 42

4. Submission of Matters to a Vote of Security Holders 42

Executive Officers of the Registrant 43

PART II

5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 44

6. Selected Financial Data 45

7. Management s Discussion and Analysis of Financial Condition and Results of Operations 46

Forward-Looking Statements Cautionary Language 47

Introduction 48

Executive Summary 48

Critical Accounting Policies and Estimates 53

Acquisitions and Dispositions 69

Results of Consolidated Operations 69

Results of Retirement Solutions 73

Retirement Solutions Annuities 73

Retirement Solutions Defined Contribution 81

Results of Insurance Solutions 88

Insurance Solutions Life Insurance 88

Insurance Solutions Group Protection 95

Table of Contents

Item	Page
Results of Investment Management	98
Results of Lincoln UK	101
Results of Other Operations	105
Realized Gain (Loss)	108
Consolidated Investments	114
Reinsurance	140
Review of Consolidated Financial Condition	142
Liquidity and Capital Resources	142
Other Matters	151
Other Factors Affecting Our Business	151
Recent Accounting Pronouncements	151
Acquisitions and Divestitures	151
Restructuring Activities	151
7A. Quantitative and Qualitative Disclosures About Market Risk	152
8. Financial Statements and Supplementary Data	161
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	249
9A. Controls and Procedures	250
9B. Other Information	250
PART III	
10. Directors, Executive Officers and Corporate Governance	251
11. Executive Compensation	251
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	251
13. Certain Relationships and Related Transactions, and Director Independence	251

14. Principal Accountant Fees and Services 251

PART IV

15. Exhibits and Financial Statement Schedules 252

Signatures 253

Index to Financial Statement Schedules FS-1

Index to Exhibits E-1

Table of Contents

PART I

The Business section and other parts of this Form 10-K contain forward-looking statements that involve inherent risks and uncertainties. Statements that are not historical facts, including statements about our beliefs and expectations, and containing words such as believes, estimates, anticipates, expects or similar words are forward-looking statements. Our actual results may differ materially from the projected results discussed in the forward-looking statements.

Factors that could cause such differences include, but are not limited to, those discussed in Item 1A. Risk Factors and in the Forward-Looking Statements Cautionary Language in Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of the Form 10-K. Our consolidated financial statements and the accompanying notes to the consolidated financial statements (Notes) are presented in Part II Item 8. Financial Statements and Supplementary Data.

***Item 1.* Business**

OVERVIEW

Lincoln National Corporation (LNC, which also may be referred to as Lincoln, we, our or us) is a holding comp which operates multiple insurance and investment management businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life insurance (UL), variable universal life insurance (VUL), term life insurance, mutual funds and managed accounts.

LNC was organized under the laws of the state of Indiana in 1968. We currently maintain our principal executive offices in Radnor, Pennsylvania, which were previously located in Philadelphia, Pennsylvania. Lincoln Financial Group is the marketing name for LNC and its subsidiary companies. As of December 31, 2008, LNC had consolidated assets of $163.1 billion and consolidated stockholders equity of $8.0 billion.

Prior to our realignment discussed below, we provided products and services in four operating businesses: Individual Markets; Employer Markets; Investment Management; and Lincoln UK. We reported results through six business segments: Individual Markets Annuities; Individual Markets - Life Insurance; Employer Markets Retirement Products; Employer Markets Group Protection; Investment Management; and Lincoln UK.

On July 21, 2008, we announced the realignment of our segments under our former Employer Markets and Individual Markets operating businesses into two new operating businesses Retirement Solutions and Insurance Solutions. We believe the new structure more closely aligns with consumer needs and should lead to more coordinated product development and greater effectiveness across the enterprise. The only change to our prior segment reporting was to report the results of the Executive Benefits business, which was previously part of the Retirement Products segment, in the Life Insurance segment for all periods presented. These changes are in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, and reflect the manner in which we are organized for purposes of making operating decisions and assessing performance. We view the changes to the existing segments as immaterial. Accordingly, we provide products and services in four operating businesses and report results through six segments as follows:

Business	**Corresponding Segments**
Retirement Solutions	Annuities Defined Contribution (formerly Retirement Products)
Insurance Solutions	Life Insurance (including Executive Benefits business) Group Protection
Investment Management	Investment Management
Lincoln UK	Lincoln UK

In addition, the results of our run-off Institutional Pension business, formerly reported in Employer Markets Retirement Products Executive Benefits, are included in Other Operations for all periods presented. Other Operations also includes the financial data for operations that are not directly related to the business segments, unallocated

corporate items and the ongoing amortization of deferred gain on the indemnity reinsurance portion of the sale of our former reinsurance segment to Swiss Re Life & Health America Inc. (Swiss Re) in the fourth quarter of 2001. Unallocated corporate items include investment income on investments related to the amount of statutory surplus in our insurance subsidiaries that is not allocated to our business units and other corporate investments, interest expense on short-term and long-term borrowings and certain expenses, including restructuring and merger-related expenses.

Table of Contents

On November 12, 2007, we signed agreements to sell the television stations, sports programming business and certain radio properties of our former Lincoln Financial Media segment. The sales closed during the fourth quarter of 2007 and the first quarter of 2008. Accordingly, we have reported the results of these businesses as discontinued operations on our Consolidated Statements of Income and the assets and liabilities as held for sale on our Consolidated Balance Sheets for all periods presented. The results of the remaining radio properties, which are included in Other Operations, do not qualify as discontinued operations. For further information, see Acquisitions and Dispositions below.

The results of Lincoln Financial Network (LFN) and Lincoln Financial Distributors (LFD), our retail and wholesale distributors, respectively, are included in the segments for which they distribute products. LFD distributes our individual as well as Defined Contribution and Executive Benefits (which includes corporate-owned UL and VUL (COLI) and bank-owned UL and VUL (BOLI)) products and services. The distribution occurs primarily through brokers, planners, agents, financial advisors, third party administrators (TPAs) and other intermediaries. Group Protection distributes its products and services primarily through employee benefit brokers, TPAs and other employee benefit firms. As of December 31, 2008, LFD had approximately 830 internal and external wholesalers (including sales managers). As of December 31, 2008, LFN offered LNC and non-proprietary products and advisory services through a national network of approximately 7,400 active producers who placed business with us within the last twelve months.

On July 16, 2008, we announced our change in definitions of segment operating revenues and income from operations to better reflect the underlying economics of our variable and indexed annuities that employ derivative instruments to hedge policy benefits and the manner in which management evaluates that business. For more information regarding this change, see the MD&A below.

Financial information in the tables that follow is presented in conformity with accounting principles generally accepted in the United States of America (GAAP), unless otherwise indicated. We provide revenues, income (loss) from operations and assets attributable to each of our business segments and Other Operations, as well as revenues derived inside and outside the U.S. for the last three fiscal years, in Note 23.

Revenues by segment (in millions) were as follows:

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Revenues			
Operating revenues:			
Retirement Solutions:			
Annuities	$ 2,610	$ 2,533	$ 2,060
Defined Contribution	936	986	988
Total Retirement Solutions	3,546	3,519	3,048
Insurance Solutions:			
Life Insurance	4,250	4,189	3,470
Group Protection	1,640	1,500	1,032
Total Insurance Solutions	5,890	5,689	4,502
Investment Management	438	590	564
Lincoln UK	327	370	308
Other Operations	439	473	444
Excluded realized gain (loss), pre-tax	(760)	(175)	12
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	3	9	1

Total revenues	$	9,883	$	10,475	$	8,879

Acquisitions and Dispositions

On January 8, 2009, the Office of Thrift Supervision approved our application to become a savings and loan holding company and our acquisition of Newton County Loan & Savings, FSB, a federally regulated savings bank, located in Indiana. We agreed to contribute $10 million to the capital of Newton County Loan & Savings, FSB. We closed on our purchase of Newton County Loan & Savings, FSB on January 15, 2009. We also filed an application with the U.S. Treasury to participate in the Troubled Assets Relief Program (TARP) Capital Purchase Program (CPP). We have also applied to participate in the Federal Deposit Insurance Corporation s (FDIC) Temporary Liquidity Guarantee Program (the TLGP). Our applications to participate in the CPP and the TLGP are subject to approval from the U.S. Treasury and FDIC, respectively. Accordingly, there can be no assurance that we will participate in the CPP or the TLGP. These programs are discussed further below in Regulatory.

On November 12, 2007, Lincoln Financial Media Company (LFMC), our wholly-owned subsidiary, entered into two stock purchase agreements with Raycom Holdings, LLC (Raycom). Pursuant to one of the agreements, LFMC agreed to sell to Raycom all of the outstanding capital stock of three of LFMC s wholly-owned subsidiaries: WBTV, Inc., the owner and operator of television station WBTV, Charlotte, North Carolina; WCSC, Inc., the owner and operator of television station WCSC, Charleston, South Carolina; and WWBT, Inc., the owner and operator of television station WWBT, Richmond, Virginia. The transaction closed on March 31, 2008, and LFMC received proceeds of $546 million. Pursuant to the other agreement, LFMC agreed to sell to Raycom all of the outstanding capital stock of Lincoln Financial Sports, Inc., a wholly-owned subsidiary of LFMC. This transaction closed on November 30, 2007, and LFMC received $42 million of proceeds.

On November 12, 2007, LFMC also entered into a stock purchase agreement with Greater Media, Inc., to sell all of the outstanding capital stock of Lincoln Financial Media Company of North Carolina, the owner and operator of radio stations WBT(AM), Charlotte, North Carolina; WBT-FM, Chester, South Carolina; and WLNK(FM), Charlotte, North Carolina. This transaction closed on January 31, 2008, and LFMC received proceeds of $100 million. More information on these LFMC transactions can be found in our Form 8-K filed on November 14, 2007, and in Note 3.

During the fourth quarter of 2007, we sold certain institutional taxable fixed income business to an unaffiliated investment management company. Investment Management transferred $12.3 billion of assets under management as part of this transaction. Based upon the assets transferred as of October 31, 2007, the purchase price is expected to be approximately $49 million. During the fourth quarter of 2007, we received $25 million of the purchase price, with additional scheduled payments over the next three years. During 2007, we recorded an after-tax loss of $2 million in realized gain (loss) on our Consolidated Statements of Income as a result of the goodwill we attributed to this business. During 2008, we recorded an after-tax gain of $5 million in realized gain (loss) on our Consolidated Statements of Income related to this transaction, for additional cash received toward the purchase price. Investment Management manages approximately $90.7 billion of fixed income assets with a team of 100 fixed income investment professionals. The transaction did not impact the fixed income team that manages our fixed income mutual funds or general account assets.

On April 3, 2006, we completed our merger with Jefferson-Pilot Corporation (Jefferson-Pilot), pursuant to which Jefferson-Pilot merged into one of our wholly-owned subsidiaries. Prior to the merger, Jefferson-Pilot, through its subsidiaries, offered full lines of individual life, annuity and investment products, and group life insurance products, disability income and dental contracts, and it operated television and radio stations and a sports broadcasting network.

In September 2004, we completed the sale of our London-based international investment unit, Delaware International Advisors Ltd. (DIAL), to a newly-formed company associated with DIAL s management and a private-equity firm. At closing, we received $181 million in cash and relief of certain obligations of approximately $19 million. We had an after-tax gain from the transaction of $46 million. DIAL, which has since been renamed Mondrian Investment Partners (Mondrian), continues to provide sub-advisory services with respect to certain international asset classes for our Investment Management segment and LNC.

For further information about acquisitions and divestitures, see Note 3.

BUSINESS SEGMENTS AND OTHER OPERATIONS

RETIREMENT SOLUTIONS

Overview

The Retirement Solutions business, with principal operations in Radnor, Pennsylvania; Fort Wayne, Indiana; Hartford, Connecticut; and Greensboro, North Carolina and additional operations in Concord, New Hampshire and Arlington Heights, Illinois, provides its products through two segments: Annuities and Defined Contribution. The Annuities segment provides tax-deferred growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities, and variable annuities. The Defined Contribution segment provides employer-sponsored fixed and variable annuities and mutual fund-based programs in the 401(k), 403(b) and 457 plan marketplaces. Products for both segments are distributed through a wide range of intermediaries including both affiliated and unaffiliated channels including advisors, consultants, brokers, banks and wirehouses.

Retirement Solutions Annuities

Overview

The Annuities segment provides tax-deferred growth and lifetime income opportunities for its clients by offering fixed and variable annuities. As a result of a broad product portfolio and a strong and diverse distribution network, Annuities ranked 5th in assets and 5th in variable annuity flows for the year ended December 31, 2008, in the U.S., according to Morningstar Annuity Research Center.

The Annuities segment offers non-qualified and qualified fixed and variable annuities to individuals. The fixed and variable classification describes whether we or the contract holders bear the investment risk of the assets supporting the contract. This also determines the manner in which we earn investment margin profits from these products, either as investment spreads for fixed products or as asset-based fees charged to variable products.

Annuities have several features that are attractive to customers. First, they provide tax-deferred growth in the underlying principal, thereby deferring the tax consequences of the growth in value until withdrawals are made from the accumulation values, often at lower tax rates occurring during retirement. Second, annuities are unique in that contract holders can select a variety of payout alternatives to help provide an income flow for life. Many annuity contracts include guarantee features (living and death benefits) that are not found in any other investment vehicle and, we believe, make annuities attractive especially in times of economic uncertainty. Over the last several years, the individual annuities market has seen an increase in competition with respect to guarantee features.

Products

In general, an annuity is a contract between an insurance company and an individual or group in which the insurance company, after receipt of one or more premium payments, agrees to pay an amount of money either in one lump sum or on a periodic basis (i.e. annually, semi-annually, quarterly or monthly), beginning on a certain date and continuing for a period of time as specified in the contract. Periodic payments can begin within twelve months after the premium is received (referred to as an immediate annuity) or at a future date in time (referred to as a deferred annuity). This retirement vehicle helps protect an individual from outliving his or her money and can be either a fixed annuity or a variable annuity.

The Annuities segment s deposits (in millions) were as follows:

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Deposits			
Variable portion of variable annuity	$ 6,690	$ 9,135	$ 7,251
Fixed portion of variable annuity	3,433	2,795	2,090
Total variable annuity	10,123	11,930	9,341
Fixed indexed annuity	1,078	755	717
Other fixed annuity	529	772	698
Total deposits	$ 11,730	$ 13,457	$ 10,756

Variable Annuities

A variable annuity provides the contract holder the ability to direct the investment of premium deposits into one or more sub-accounts offered through the product (variable portion) or into a fixed account with a guaranteed return (fixed portion). The value of the variable portion of the contract holder s account varies with the performance of the underlying sub-accounts chosen by the contract holder. The underlying assets of the sub-accounts are managed within a special insurance series of mutual funds. The contract holder s return is tied to the performance of the segregated assets underlying the variable annuity (i.e. the contract holder bears the investment risk associated with these investments). The value of the fixed portion is guaranteed by us and recorded in our general account liabilities. Variable annuity account values were $44.5 billion, $62.1 billion and $51.8 billion for the years ended December 31, 2008, 2007 and 2006, respectively, including the fixed portions of variable accounts of $3.6 billion, $3.5 billion and

$3.6 billion, for the years ended December 31, 2008, 2007 and 2006, respectively.

We charge mortality and expense assessments and administrative fees on variable annuity accounts to cover insurance and administrative expenses. These assessments are built into accumulation unit values, which when multiplied by the number of units owned for any sub-account equals the contract holder s account value for that sub-account. The fees that we earn from these contracts are reported as insurance fees on our Consolidated Statements of Income. In addition, for some contracts, we collect surrender charges that range from 0% to 10% of withdrawals when contract holders surrender their contracts during the surrender charge period, which is generally higher during the early years of a contract. Our individual variable annuity products have a maximum surrender charge period of ten years.

Table of Contents

We offer A-share, B-share, C-share, L-share and bonus variable annuities, although not with every annuity product. The differences in these relate to the sales charge and fee structure associated with the contract.

An A-share has a front-end sales charge and no back-end contingent deferred sales charge, also known as a surrender charge. The net premium (premium less front-end charge) is invested in the contract, resulting in full liquidity and lower mortality and expense assessments over the long term than those in other share classes.

A B-share has a seven-year surrender charge that is only paid if the account is surrendered or withdrawals are in excess of contractual free withdrawals within the contract s specified surrender charge period. The entire premium is invested in the contract, but it offers limited liquidity during the surrender charge period.

A C-share has no front-end sales charge or back-end surrender charge. Accordingly, it offers maximum liquidity but mortality and expense assessments are higher than those for A-share or B-share during the surrender charge period. A persistency credit is applied beginning in year eight so that the total charge to the customer is consistent with B-share levels.

An L-share has a four to five year surrender charge that is only paid if the account is surrendered or withdrawals are in excess of contractual free withdrawals within the contract s specified surrender charge period. The differences between the L-share and the B-share are the length of the surrender charge period and the fee structure. L-shares have a shorter surrender charge period, so for the added liquidity, mortality and expense assessments are higher. We offer L-share annuity products with persistency credits that are applied in all years after surrender charges are no longer applicable so that the total charge to the customer is consistent with B-share levels.

A bonus annuity is a variable annuity contract that offers a bonus credit to a contract based on a specified percentage (typically ranging from 2% to 5%) of each deposit. The entire premium plus the bonus are invested in the sub-accounts supporting the contract. It has a seven to nine-year surrender charge. The expenses are slightly more than those for a B-share. We offer bonus annuity products with persistency credits that are applied in all years after surrender charges are no longer applicable so that the total charge to the customer is consistent with B-share levels.

We offer guaranteed benefit riders with certain of our variable annuity products, such as a guaranteed death benefit (GDB), a guaranteed withdrawal benefit (GWB), a guaranteed income benefit (GIB) and a combination of such benefits. Most of our variable annuity products also offer the choice of a fixed option that provides for guaranteed interest credited to the account value.

Approximately 91% of variable annuity separate account values had a GDB rider as of December 31, 2008, 2007 and 2006. The GDB features currently offered include those where we contractually guarantee to the contract holder that upon death, we will return no less than: the total deposits made to the contract, adjusted to reflect any partial withdrawals; the total deposits made to the contract, adjusted to reflect any partial withdrawals, plus a minimum return; or the highest contract value on a specified anniversary date adjusted to reflect any partial withdrawals following the contract anniversary.

Approximately 28%, 31% and 26% of variable annuity account values as of December 31, 2008, 2007 and 2006, respectively, had a GWB rider. The *Lincoln SmartSecurity®* Advantage benefit is a GWB rider that offers the contract holder a guarantee equal to the initial deposit (or contract value, if elected after issue), adjusted for any subsequent purchase payments or withdrawals. There are two elective step-up options: a one-year option and a five-year option. In general, the one-year option allows an owner to step up the guarantee amount automatically on the benefit anniversary to the current contract value, and the five-year option allows the owner to step up the guarantee amount to the current contract value on or after the fifth anniversary of the election or of the most recent step up. In each case, the contract value must be greater than the guarantee amount at the time of step up. To receive the full amount of the guarantee, annual withdrawals are limited to either 5% of the guaranteed amount for the one-year option or 7% of the guaranteed amount for the five-year option. Under the one-year option, withdrawals will continue for the rest of the owner s life (single life version) or the life of the owner or owner s spouse (joint life version) as long as withdrawals begin after attained age 65 and are limited to 5% of the guaranteed amount. Withdrawals in excess of the applicable maximum in any contract year are assessed any applicable surrender charges, and the guaranteed amount is recalculated.

We offer other product riders including *i4LIFE*® Advantage and 4LATER® Advantage. The *i4LIFE*® rider, on which we have received a U.S. patent, allows variable annuity contract holders access and control during the income distribution phase of their contract. This added flexibility allows the contract holder to access the account value for transfers, additional withdrawals and other service features like portfolio rebalancing. Approximately 11%, 9% and 6% of variable annuity account values as of December 31, 2008, 2007 and 2006, respectively, have elected an *i4LIFE*® Advantage feature. In general, GIB is an optional feature available with *i4LIFE*® Advantage that guarantees regular income payments will not fall below 75% of the highest income payment on a specified anniversary date (reduced for any subsequent withdrawals). Approximately 92%, 88% and 83% of *i4LIFE*® Advantage account values elected the GIB feature as of December 31, 2008, 2007 and 2006, respectively. 4LATER® Advantage provides a minimum income base used to determine the GIB floor when a client begins income payments under *i4LIFE*® Advantage. The income base is equal to the initial deposit (or contract value, if elected after issue) and increases by 15% every three years (subject to a 200% cap). The owner may step up the income base on or after the third anniversary of rider election or of the most recent step-up (which also resets the 200% cap).

The *Lincoln Lifetime Income*℠ Advantage and *Lincoln Lifetime Income*℠ Advantage Plus are hybrid benefit riders combining aspects of GWB and GIB. Both benefit riders allow the contract holder the ability to take income at a maximum rate of 5% of the guaranteed amount when they are above the lifetime income age or income through *i4LIFE®* Advantage with the GIB. *Lincoln Lifetime Income*℠ Advantage and *Lincoln Lifetime Income*℠ Advantage Plus provide higher income if the contract holder delays withdrawals, including both a 5% enhancement to the guaranteed amount each year a withdrawal is not taken for a specified period of time and a doubling of the initial guaranteed amount at the later of ten years or age seventy, subject to withdrawal limits. The *Lincoln Lifetime Income*℠ Advantage Plus provides an additional benefit, which is a return of principal at the end of the seventh year if the customer has not taken any withdrawals. Contract holders under both the *Lincoln Lifetime Income*℠ Advantage and *Lincoln Lifetime Income*℠ Advantage Plus are subject to restrictions on the allocation of their account value within the various investment choices. Approximately 8% of variable annuity account values as of December 31, 2008, had a *Lincoln Lifetime Income*℠ Advantage or *Lincoln Lifetime Income*℠ Advantage Plus rider.

To mitigate the increased risks associated with guaranteed benefits, we developed a dynamic hedging program. The customized dynamic hedging program uses equity and interest rate futures positions, interest rate and variance swaps, as well as equity-based options depending upon the risks underlying the guarantees. Our program is designed to offset both positive and negative changes in the carrying value of the guarantees. However, while we actively manage these hedge positions, the hedge positions may not be effective to exactly offset the changes in the carrying value of the guarantees due to, among other things, the time lag between changes in their values and corresponding changes in the hedge positions, high levels of volatility in the equity markets, contract holder behavior and divergence between the performance of the underlying funds and hedging indices, which is referred to as basis risk. For more information on our hedging program, see Critical Accounting Policies and Estimates Derivatives and Realized Gain (Loss) in the MD&A. For information regarding risks related to guaranteed benefits, see Item 1A. Risk Factors - Changes in the equity markets, interest rates and/or volatility affect the profitability of our products with guaranteed benefits; therefore, such changes may have a material adverse effect on our business and profitability.

We design and actively manage the features and structure of our guaranteed benefit riders to maintain a competitive suite of products consistent with profitability and risk management goals. In late 2008 and early 2009, in light of changes in the variable annuity market place driven by financial market conditions, we made changes to our rider designs that are expected to reduce the risk of these benefits. The changes include, but are not limited to, implementing investment restrictions for all new rider sales and for the majority of in force policies with guaranteed riders, raising the charge for guaranteed benefit riders and eliminating certain features. We plan to make further rider design changes in 2009 that we expect will reduce the risk of our guaranteed benefit riders. The changes will take into account the rapidly evolving competitive environment for guaranteed benefit annuities.

Fixed Annuities

A fixed annuity preserves the principal value of the contract while guaranteeing a minimum interest rate to be credited to the accumulation value. We offer single and flexible premium fixed deferred annuities to the individual annuities market. Single premium fixed deferred annuities are contracts that allow only a single premium to be paid. Flexible premium fixed deferred annuities are contracts that allow multiple premium payments on either a scheduled or non-scheduled basis. Our fixed annuities include both traditional fixed-rate and fixed indexed annuities. With fixed deferred annuities, the contract holder has the right to surrender the contract and receive the current accumulation value less any applicable surrender charge and, if applicable, a market value adjustment (MVA). Depending on market conditions, MVAs can, for some products, be less than zero, which means the MVA results in an increase to the amount received by the contract holder.

Fixed indexed annuities allow the contract holder to elect an interest rate linked to the performance of the Standard & Poor s (S&P) 500 Index® (S&P 500). The indexed interest rate is guaranteed never to be less than zero. Our fixed indexed annuities provide contract holders a choice of a traditional fixed-rate account and one or more different indexed accounts. A contract holder may elect to change allocations at renewal dates, either annually or biannually. At each renewal date, we have the opportunity to re-price the indexed component (i.e. reset the caps, spreads or participation rates), subject to guarantees.

Fixed annuity contracts are general account obligations. We bear the investment risk for fixed annuity contracts. To protect from premature withdrawals, we impose surrender charges. Surrender charges are typically applicable during the early years of the annuity contract, with a declining level of surrender charges over time. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line and what we credit to our fixed annuity contract holders accounts. In addition, with respect to fixed indexed annuities, we purchase options that are highly correlated to the indexed account allocation decisions of our contract holders, such that we are closely hedged with respect to indexed interest for the current reset period. For more information on our hedging program for fixed indexed annuities, see Critical Accounting Policies and Estimates Derivatives and Realized Gain (Loss) in the MD&A.

Individual fixed annuity account values were $14.0 billion, $14.4 billion and $14.9 billion as of December 31, 2008, 2007 and 2006, respectively. Approximately $10.1 billion of individual fixed annuity account values as of December 31, 2008, were still within the surrender charge period.

Our fixed annuity product offerings as of December 31, 2008, consisted of traditional fixed-rate and fixed indexed deferred annuities, as well as fixed-rate immediate annuities with various payment options, including lifetime incomes. In addition to traditional fixed-rate immediate annuities, in 2007 we introduced *Lincoln SmartIncome*SM Inflation Annuity. This product provides lifetime income with annual adjustments to keep pace with inflation. It uses a patent-pending design to preserve access to remaining principal, also adjusted annually for inflation, for premature death or unexpected needs. The traditional fixed-rate deferred annuity products include the *Lincoln Classic*SM (Single and Flexible Premium), *Lincoln Select*SM and *Lincoln ChoicePlus*SM Fixed annuities. The fixed indexed deferred annuity products include the Lincoln *OptiPoint*®, *Lincoln OptiChoice*SM, *Lincoln New Directions*® and *Lincoln Future Point*® annuities. The fixed indexed annuities offer one or more of the following indexed accounts:

- The Performance Triggered Indexed Account pays a specified rate, declared at the beginning of the indexed term, if the S&P 500 value at the end of the indexed term is the same or greater than the S&P 500 value at the beginning of the indexed term;
- The Point to Point Indexed Account compares the value of the S&P 500 at the end of the indexed term to the S&P 500 value at the beginning of the term. If the S&P 500 at the end of the indexed term is higher than the S&P 500 value at the beginning of the term, then the percentage change, up to the declared indexed interest cap, is credited to the indexed account;
- The Monthly Cap Indexed Account reflects the monthly changes in the S&P 500 value over the course of the indexed term. Each month, the percentage change in the S&P 500 value is calculated, subject to a monthly indexed cap that is declared at the beginning of the indexed term. At the end of the indexed term, all of the monthly change percentages are summed to determine the rate of indexed interest that will be credited to the account; and
- The Monthly Average Indexed Account compares the average monthly value of the S&P 500 to the S&P 500 value at the beginning of the term. The average of the S&P 500 values at the end of each of the twelve months in the indexed term is calculated. The percentage change of the average S&P 500 value to the starting S&P 500 value is calculated. From that amount, the indexed interest spread, which is declared at the beginning of the indexed term, is subtracted. The resulting rate is used to calculate the indexed interest that will be credited to the account.

If the S&P 500 values produce a negative indexed interest rate, no indexed interest is credited to the indexed account.

We introduced the *Lincoln Living Income*SM Advantage in 2007. Available with certain of our fixed indexed annuities, it provides the contract holder a guaranteed lifetime withdrawal benefit. Withdrawals in excess of the free amount are assessed any applicable surrender charges, and the guaranteed withdrawal amount is recalculated.

Many of our fixed annuities have an MVA. If a contract with an MVA is surrendered during the surrender charge period, both a surrender charge and an MVA may be applied. The MVA feature increases or decreases the contract value of the annuity based on a decrease or increase in interest rates. Individual fixed annuities with an MVA feature constituted 46%, 40% and 24% of total fixed annuity account values as of December 31, 2008, 2007 and 2006, respectively.

Distribution

The Annuities segment distributes its individual fixed and variable annuity products through LFD, our wholesaling distribution organization. LFD s distribution channels give the Annuities segment access to its target markets. LFD distributes the segment s products to a large number of financial intermediaries, including LFN. The financial intermediaries include wire/regional firms, independent financial planners, financial institutions and managing general agents.

Competition

The annuities market is very competitive and consists of many companies with no one company dominating the market for all products. The Annuities segment competes with numerous other financial services companies. The main factors upon which entities in this market compete are distribution channel access and the quality of wholesalers,

investment performance, cost, product features, speed to market, brand recognition, financial strength ratings, crediting rates and client service.

Table of Contents

Retirement Solutions Defined Contribution

Overview

The Defined Contribution segment provides employers the ability to offer tax-deferred retirement savings plans to their employees, primarily through 403(b) and 401(k) retirement savings plans. We provide a variety of plan investment vehicles, including individual and group variable annuities, group fixed annuities and mutual funds. We also offer a broad array of plan services including plan recordkeeping, compliance testing, participant education and other related services.

Defined contribution (DC) plans are a popular employee benefit offered by many employers across a wide spectrum of industries and by employers large and small. Some plans include employer matching of contributions, which can increase participation by employees. Growth in the number of DC plans has occurred as these plans have been used as replacements for frozen or eliminated defined benefit retirement plans. In general, DC plans offer tax-deferred contributions and investment growth, thereby deferring the tax consequences of both the contributions and investment growth until withdrawals are made from the accumulated values, often at lower tax rates occurring during retirement. Lincoln s 403(b) assets accounted for 60% of total assets under management in this segment as of December 31, 2008. The 401(k) business accounted for 46% of our new deposits during 2008 for this segment.

Products and Services

The Defined Contribution segment currently offers four primary offerings to the employer-sponsored market: LINCOLN DIRECTOR℠ group variable annuity, *LINCOLN ALLIANCE®* program, *Lincoln SmartFuture®* program and *Multi-Fund®* variable annuity.

The Defined Contribution segment s deposits (in millions) were as follows:

	For the Years Ended December 31,		
	2008	2007	2006
Deposits			
Variable portion of variable annuity	$ 2,170	$ 2,355	$ 2,525
Fixed portion of variable annuity	369	351	441
Total variable annuity	2,539	2,706	2,966
Fixed annuity	812	754	506
Mutual funds	2,196	2,090	1,113
Total deposits	$ 5,547	$ 5,550	$ 4,585

LINCOLN DIRECTOR℠ and *Multi-Fund®* products are variable annuities. *LINCOLN ALLIANCE®* and *Lincoln SmartFuture®* programs are mutual fund-based programs. This suite of products covers both the 403(b) and 401(k) marketplace. Both 403(b) and 401(k) plans are tax-deferred, defined contribution plans offered to employees of an entity to enable them to save for retirement. The 403(b) plans are available to employees of educational institutions, not-for-profit healthcare organizations and certain other not-for-profit entities, while 401(k) plans are generally available to employees of for-profit entities. The investment options for our annuities encompass the spectrum of asset classes with varying levels of risk and include both equity and fixed income. As of December 31, 2008 and 2007, healthcare clients accounted for 45% and 43% of account values for these products, respectively.

LINCOLN DIRECTOR℠ group variable annuity is a 401(k) DC retirement plan solution available to micro- to small-sized businesses, typically those that have DC plans with less than $3 million in account values. The LINCOLN DIRECTOR℠ product offers participants a broad array of investment options from several fund families. In 2008, the investment options were significantly enhanced with the addition of the funds that had been offered only through the *Lincoln American Legacy Retirement®* group variable annuity. *Lincoln American Legacy Retirement®* was merged into LINCOLN DIRECTOR℠ group variable annuity in 2008 and is no longer offered as a standalone product for new sales. LINCOLN DIRECTOR℠ group variable annuity has the option of being serviced through a TPA or fully serviced by Lincoln. As of December 31, 2008, approximately 90% of LINCOLN DIRECTOR℠ clients were

serviced through TPAs. The Defined Contribution segment earns revenue through asset charges, investment income, surrender charges and recordkeeping fees from this product. Account values for LINCOLN DIRECTOR^{SM} group variable annuity were $4.9 billion, $7.8 billion and $7.5 billion as of December 31, 2008, 2007 and 2006, respectively. Deposits for LINCOLN DIRECTOR^{SM} group variable annuity were $1.5 billion, $1.6 billion and $1.8 billion during 2008, 2007 and 2006, respectively.

The *LINCOLN ALLIANCE*® program is a 401(k) or 403(b) DC retirement plan solution aimed at mid to large employers, typically those that have DC plans with $15 million or more in account value. The target market is primarily for-profit corporations, educational institutions and healthcare providers. The program bundles our traditional fixed annuity products with the employer s choice of retail mutual funds, along with recordkeeping, plan compliance services and customized employee education services. Included in the product offering is the LIFESPAN® learning program, which provides participants with educational materials and one-on-one guidance for retirement planning assistance. The program allows the use of any retail mutual fund. We earn fees for our recordkeeping and educational services and the services we provide to mutual fund accounts. We also earn investment margins on fixed annuities. The retail mutual funds associated with this program are not included in the separate accounts reported on our Consolidated Balance Sheets, as we do not have any ownership interest in them. *LINCOLN ALLIANCE*® program account values were $9.4 billion, $9.5 billion and $7.0 billion as of December 31, 2008, 2007 and 2006, respectively.

The *Lincoln SmartFuture*® program is a 401(k) or 403(b) DC retirement plan solution aimed at small to mid to large employers, typically those that have DC plans with between $3 million to $15 million or more in account value. The target market is primarily for-profit corporations, educational institutions and healthcare providers. The *Lincoln SmartFuture*® program was introduced in 2008 and is built on the *LINCOLN ALLIANCE*® platform. Like *LINCOLN ALLIANCE*®, the program bundles our traditional fixed annuity products with retail mutual funds, recordkeeping, plan compliance services and employee education services using the LIFESPAN® learning program, which is described further above. However, the *Lincoln SmartFuture*® program allows the employer to choose from a list of over 100 retail mutual funds chosen by us, which consists of a broad range of low-cost funds. Services for this program are typically not customized for each employer. We earn fees for our recordkeeping and educational services and the services we provide to mutual fund accounts. We also earn investment margins on fixed annuities. The retail mutual funds associated with this program are not included in the separate accounts reported on our Consolidated Balance Sheets, as we do not have any ownership interest in them. *Lincoln SmartFuture*® program account values were $104 million as of December 31, 2008.

Multi-Fund® Variable Annuity is a defined contribution retirement plan solution with full-bundled administrative services and high quality investment choices marketed to small- to mid-sized healthcare, education, governmental and not-for-profit plans. The product can be sold either to the employer through the *Multi-Fund*® group variable annuity contract or directly to the individual through the *Multi-Fund*® select variable annuity contract. Included in the product offering is the LIFESPAN® learning program, which is described further above. We earn mortality and expense charges, investment income and surrender charges from this product. The *Multi-Fund*® variable annuity is currently available in all states except New York. Account values for the *Multi-Fund*® variable annuity were $9.7 billion, $13.3 billion and $13.5 billion as of December 31, 2008, 2007 and 2006, respectively. *Multi-Fund*® program deposits represented 15%, 17% and 20% of the segment s deposits in 2008, 2007 and 2006, respectively.

Distribution

Defined contribution products are distributed by LFD, which has approximately 80 internal and external wholesalers (including sales managers). The wholesalers distribute the defined contribution products through advisors, consultants, banks, wirehouses, TPAs and individual planners. The *Multi-Fund*® program is sold primarily by affiliated advisors; certain non-affiliated advisors can also distribute the product. The *LINCOLN ALLIANCE*® program and the *Lincoln SmartFuture*® program are sold primarily through consultants and affiliated advisors. LINCOLN DIRECTOR℠ group variable annuity is sold primarily by TPAs and individual planners and is in the early stages of introduction to wirehouses and banks.

Competition

The defined contribution marketplace is very competitive and is comprised of many providers with no one company dominating the market for all products. We compete with numerous other financial services companies. The main factors upon which entities in this market compete are distribution channel access and the quality of wholesalers, investment performance, cost, product features, speed to market, brand recognition, financial strength ratings, crediting rates and client service.

INSURANCE SOLUTIONS

Overview

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Life Insurance segment offers wealth protection and transfer opportunities through both individual and survivorship versions of UL and VUL, as well as term insurance and the *MoneyGuard*® product, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs). The Group Protection segment focuses on offering group term life, disability income and dental insurance primarily in the small to mid-sized employer marketplace for their eligible employees.

Table of Contents

Insurance Solutions Life Insurance

Overview

The Life Insurance segment, with principal operations in Greensboro, North Carolina and Hartford, Connecticut and additional operations in Concord, New Hampshire and Fort Wayne, Indiana, focuses on the creation and protection of wealth for its clients through the manufacturing of life insurance products. The Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single and survivorship versions of UL and VUL, including COLI and BOLI products.

The Life Insurance segment primarily targets the affluent to high net worth markets, defined as households with at least $250,000 of financial assets. For those individual policies we sold in 2008, the average face amount (excluding term and MoneyGuard® products) was $1 million and average first year premiums paid were approximately $60,000. The Life Insurance segment also offers COLI and BOLI products and services to small- to mid-sized banks and mid- to large-sized corporations, mostly through executive benefit brokers.

Products

The Life Insurance segment sells primarily interest/market-sensitive products (UL and VUL), including COLI and BOLI products, and term products. The segment s sales (in millions) were as follows:

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Sales by Product			
UL:			
Excluding *MoneyGuard®*	$ 525	$ 597	$ 436
MoneyGuard ®	50	40	31
Total UL	575	637	467
VUL	54	77	61
COLI and BOLI	84	91	83
Term/whole life	28	32	43
Total sales	$ 741	$ 837	$ 654

UL, VUL and COLI and BOLI sales represent target premium plus 5% of excess premium (including adjustments for internal replacements at 50%); whole life and term sales represent 100% of first year paid premium; and linked-benefit sales represent 15% of premium deposits.

The segment generally has higher sales in the second half of the year than in the first half of the year. Approximately 46% and 41% of total sales were in the first half of 2008 and 2006, respectively; however, in 2007, approximately 50% of total sales were in the first half of the year. In 2007, this was due to the transition of our product portfolio to the new unified product portfolio.

In addition, the following table shows life policies face amount in force (in millions):

	As of December 31,		
	2008	**2007**	**2006**
In-Force Face Amount			
UL and other	$ 310,198	$ 299,598	$ 282,874
Term insurance	235,023	235,919	234,148
Total in-force face amount	$ 545,221	$ 535,517	$ 517,022

Mortality margins, morbidity margins (for linked-benefit products), investment margins (through spreads or fees), net expense charges (expense charges assessed to the contract holder less expenses incurred to manage the business) and surrender fees drive life insurance profits. Mortality margins represent the difference between amounts charged to the customer to cover the mortality risk and the actual cost of reinsurance and death benefits paid. Mortality charges are either specifically deducted from the contract holder s policy account value (i.e. cost of insurance assessments or COIs) or are embedded in the premiums charged to the customer. In either case, these amounts are a function of the rates priced into the product and level of insurance in force (less reserves previously set aside to fund benefits). Insurance in force, in turn, is driven by sales, persistency and mortality experience.

Similar to the annuity product classifications described above, life products can be classified as fixed or variable contracts. This classification describes whether we or the policy holders bear the investment risk of the assets supporting the policy. This also determines the manner in which we earn investment margin profits from these products, either as investment spreads for fixed products or as asset-based fees charged to variable products.
We offer four categories of life insurance products consisting of:

Interest-sensitive Life Insurance (Primarily UL)
Interest-sensitive life insurance products provide life insurance with account (cash) values that earn rates of return based on company-declared interest rates. Contract holder account values are invested in our general account investment portfolio, so we bear the risk of investment performance. Some of our UL contracts include secondary guarantees, which are explained more fully below.
In a UL contract, contract holders have flexibility in the timing and amount of premium payments and the amount of death benefit, provided there is sufficient account value to cover all policy charges for mortality and expenses for the coming period. Under certain contract holder options and market conditions, the death benefit amount may increase or decrease. Premiums received on a UL product, net of expense loads and charges, are added to the contract holder s account value. The client has access to their account value (or a portion thereof) through contractual liquidity features such as loans, partial withdrawals and full surrenders. Loans and withdrawals reduce the death benefit amount payable and are limited to certain contractual maximums (some of which are required under state law), and interest is charged on all loans. Our UL contracts assess surrender charges against the policies account values for full or partial face amount surrenders that occur during the contractual surrender charge period. Depending on the product selected, surrender charge periods can range from 0 to 20 years.
We also offer a fixed indexed UL product that functions similarly to a traditional UL policy, with the added flexibility of allowing contract holders to have portions of their account value earn interest credits linked to the performance of the S&P 500. The indexed interest rate is guaranteed never to be less than 1%. Our fixed indexed UL policy provides contract holders a choice of a traditional fixed rate account and several different indexed accounts. A contract holder may elect to change allocations annually for amounts in the indexed accounts and quarterly for new premiums into the policy. Prior to each new allocation we have the opportunity to re-price the indexed components, subject to minimum guarantees.
As mentioned previously, we offer survivorship versions of our individual UL products. These products insure two lives with a single policy and pay death benefits upon the second death.
Sales results are heavily influenced by the series of UL products with secondary guarantees. A UL policy with a secondary guarantee can stay in force, even if the base policy account value is zero, as long as secondary guarantee requirements have been met. The secondary guarantee requirement is based on the evaluation of a reference value within the policy, calculated in a manner similar to the base policy account value, but using different assumptions as to expense charges, COI charges and credited interest. The assumptions for the secondary guarantee requirement are listed in the contract. As long as the contract holder funds the policy to a level that keeps this calculated reference value positive, the death benefit will be guaranteed. The reference value has no actual monetary value to the contract holder; it is only a calculated value used to determine whether or not the policy will lapse should the base policy account value be less than zero.
Unlike other guaranteed death benefit designs, our secondary guarantee benefits maintain the flexibility of a traditional UL policy, which allows a contract holder to take loans or withdrawals. Although loans and withdrawals are likely to shorten the time period of the guaranteed death benefit, the guarantee is not automatically or completely forfeited, as is sometimes the case with other death benefit guarantee designs. The length of the guarantee may be increased at any time through additional excess premium deposits. Secondary guarantee UL face amount in force was $99.0 billion, $83.9 billion and $65.5 billion as of December 31, 2008, 2007 and 2006, respectively. For information on the reserving requirements for this business, see Regulatory below and Review of Consolidated Financial Condition in the MD&A.
We manage investment margins (i.e. the difference between the amount the portfolio earns compared to the amount that is credited to the customer) by seeking to maximize current yields, in line with asset/liability and risk

management targets, while crediting a competitive rate to the customer. Crediting rates are typically subject to guaranteed minimums specified in the underlying life insurance contract. Interest-sensitive life account values (including *MoneyGuard*® and the fixed portion of VUL) were $27.5 billion, $26.5 billion and $25.4 billion as of December 31, 2008, 2007 and 2006, respectively.

Linked-benefit Life Products

Linked-benefit life products combine UL with long-term care insurance through the use of riders. The first rider allows the contract holder to accelerate death benefits on a tax-free basis in the event of a qualified long-term care need. The second rider extends the long-term care insurance benefits for an additional period of time if the death benefit is fully depleted for the purposes of long-term care. If the long-term care benefits are never used, the policy provides a tax-free death benefit to the contract holder s heirs. Linked-benefit life products generate earnings through investment, mortality and morbidity margins. *MoneyGuard*® products are linked-benefit life products.

VUL

VUL products are UL products that provide a return on account values linked to an underlying investment portfolio of sub-accounts offered through the product. The value of the contract holder s account varies with the performance of the sub-accounts chosen by the contract holder. The underlying assets of the sub-accounts are managed within a special insurance series of mutual funds. Premiums, net of expense loads and charges for mortality and expenses, received on VUL products are invested according to the contract holder s investment option selection. As the return on the investment portfolio increases or decreases, the account value of the VUL policy will increase or decrease. As with fixed UL products, contract holders have access, within contractual maximums, to account values through loans, withdrawals and surrenders. Surrender charges are assessed during the surrender charge period, ranging from 0 to 20 years depending on the product. The investment choices we offer in VUL products are the same, in most cases, as the investment choices offered in our individual variable annuity contracts.

In addition, VUL products offer a fixed account option that is managed by us. Investment risk is borne by the customer on all but the fixed account option. We charge fees for mortality costs and administrative expenses as well as asset-based investment management fees. VUL account values (excluding the fixed portion of VUL) were $4.3 billion, $6.0 billion and $5.4 billion as of December 31, 2008, 2007 and 2006, respectively.

We also offer survivorship versions of our individual VUL products. These products insure two lives with a single policy and pay death benefits upon the second death.

We also offer an enhanced single life version of our secondary guarantee VUL products with a survivorship option. These products combine the lapse protection elements of UL with the upside potential of a traditional VUL product, giving clients the flexibility to choose the appropriate balance between protection and market risk that meets their individual needs. The combined single life and survivorship face amount in force of these products was $4.9 billion, $4.0 billion and $2.9 billion as of December 31, 2008, 2007 and 2006, respectively.

Term Life Insurance

Term life insurance provides a fixed death benefit for a scheduled period of time. It usually does not offer cash values. Scheduled policy premiums are required to be paid at least annually. Products offering a return of premium benefit payable at the end of a specified period are also available.

Distribution

The Life Insurance segment s products are sold through LFD. LFD provides the Life Insurance segment with access to financial intermediaries in the following primary distribution channels - wire/regional firms, independent planner firms (including LFN), financial institutions and managing general agents/independent marketing organizations. LFD distributes COLI/BOLI products to approximately 15 intermediaries who specialize in the executive benefits market and are serviced through a network of internal and external sales professionals.

Competition

The life insurance industry is very competitive and consists of many companies with no one company dominating the market for all products. As of the end of 2007, the latest year for which data is available, there were 1,009 life insurance companies in the U.S., according to the American Council of Life Insurers.

The Life Insurance segment competes on product design and customer service. The Life Insurance segment designs products specifically for the high net worth and affluent markets. In addition to the growth opportunity offered by its target market, our product breadth, design innovation, competitiveness, speed to market, customer service, underwriting and risk management and extensive distribution network all contribute to the strength of the Life Insurance segment. On average, the development of products takes approximately six months. The Life Insurance segment implemented several major product upgrades and/or new features, including important UL, VUL,

linked-benefit and term product enhancements in 2008. With respect to customer service, management tracks the speed, accuracy and responsiveness of service to customers calls and transaction requests. Further, the Life Insurance segment tracks the turnaround time and quality for various client services such as processing of applications.

Table of Contents

Underwriting

In the context of life insurance, underwriting is the process of evaluating medical and non-medical information about an individual and determining the effect these factors statistically have on life expectancy or mortality. This process of evaluation is often referred to as risk classification. Of course, no one can accurately predict how long any individual will live, but certain risk factors can affect life expectancy and are evaluated during the underwriting process.

Claims Administration

Claims services are delivered to customers from the Greensboro, North Carolina and Concord, New Hampshire home offices. Claims examiners are assigned to each claim notification based on coverage amount, type of claim and the experience of the examiner. Claims meeting certain criteria are referred to senior claim examiners. A formal quality assurance program is carried out to ensure the consistency and effectiveness of claims examining activities. A network of in-house legal counsel, compliance officers, medical personnel and an anti-fraud investigative unit also support claim examiners. A special team of claims examiners, in conjunction with claims management, focus on more complex claims matters such as long-term care claims, claims incurred during the contestable period, beneficiary disputes, litigated claims and the few invalid claims that are encountered.

The Life Insurance segment maintains a centralized claim service center in order to minimize the volume of clerical and repetitive administrative demands on its claims examiners while providing convenient service to policy owners and beneficiaries.

Insurance Solutions Group Protection

Overview

The Group Protection segment offers group non-medical insurance products, principally term life, disability and dental, to the employer marketplace through various forms of contributory and noncontributory plans. Most of the segment s group contracts are sold to employers with fewer than 500 employees.

The Group Protection segment was added as a result of the merger with Jefferson-Pilot and was then known as Benefit Partners. Accordingly, the insurance premium product line data (in millions) for this segment, provided in the following table, only include nine months during 2006:

	For the Years Ended December 31,		
	2008	2007	2006
Insurance Premiums by Product Line			
Life	$ 541	$ 494	$ 334
Disability	672	601	407
Dental	150	136	95
Total non-medical	1,363	1,231	836
Medical	154	149	113
Total insurance premiums	$ 1,517	$ 1,380	$ 949

Products

Group Life Insurance

We offer employer-sponsored group term life insurance products including basic, optional and voluntary term life insurance to employees and their dependents. Additional benefits may be provided in the event of a covered individual s accidental death or dismemberment.

Table of Contents

Group Disability Insurance
We offer short- and long-term employer-sponsored group disability insurance, which protects an employee against loss of wages due to illness or injury. Short-term disability generally provides benefits for up to 26 weeks following a short waiting period, ranging from one to 30 days. Long-term disability provides benefits following a longer waiting period, usually between 30 and 180 days and provides benefits for a longer period, at least two years and typically extending to normal (Social Security) retirement age.

Group Dental
We offer employer-sponsored group dental insurance, which covers a portion of the cost of eligible dental procedures for employees and their dependents. Products offered include indemnity coverage, which does not distinguish benefits based on a dental provider s participation in a network arrangement, and a Preferred Provider Organization (PPO) product that does reflect the dental provider s participation in the PPO network arrangement, including agreement with network fee schedules.

Distribution
The segment s products are marketed primarily through a national distribution system, including 143 managers and marketing representatives. The managers and marketing representatives develop business through employee benefit brokers, TPAs and other employee benefit firms.

Competition
The group protection marketplace is very competitive. Principal competitive factors include particular product features, price, quality of customer service and claims management, technological capabilities, financial strength and claims-paying ratings. In the group insurance market, the Group Protection segment competes with a limited number of major companies and selected other companies that focus on these products.

Underwriting
The Group Protection segment s underwriters evaluate the risk characteristics of each employee group. Generally, the relevant characteristics evaluated include employee census information (such as age, gender, income and occupation), employer industry classification, geographic location, benefit design elements and other factors. The segment employs detailed underwriting policies, guidelines and procedures designed to assist the underwriter to properly assess and quantify risks. The segment uses technology to efficiently review, price and issue smaller cases, utilizing its underwriting staff on larger, more complex cases. Individual underwriting techniques (including evaluation of individual medical history information) may be used on certain covered individuals selecting larger benefit amounts. For voluntary and other forms of employee paid coverages, minimum participation requirements are used to obtain a better spread of risk and minimize the risk of anti-selection.

Claims Administration
Claims for the Group Protection segment are managed by a staff of experienced claim specialists. Disability claims management is especially important to segment results, as results depend on both the incidence and the length of approved disability claims. The segment employs nurses and rehabilitation specialists to help evaluate medical conditions and develop return to work plans. Independent medical reviews are routinely performed by external medical professionals to further evaluate conditions as part of the claim management process.

INVESTMENT MANAGEMENT

Overview
The Investment Management segment, with principal operations in Philadelphia, Pennsylvania, provides investment products and services to both individual and institutional investors through Delaware Management Holdings, Inc. and its affiliates, (Delaware Investments). Delaware Investments offers a broad line of mutual funds and other investment products to retail investors (including managed accounts).

Delaware Investments also offers investment advisory services and products to institutional clients, such as corporate and public retirement plans, endowments and foundations, nuclear decommissioning trusts, Taft-Hartley plans and sub-advisory separate accounts for which Delaware Investments acts as a sub-advisor. As of December 31, 2008, Delaware Investments served as an investment advisor to approximately 190 institutional accounts, acted as investment manager and performed additional services for 81 open-end funds and for 7 closed-end funds. The Investment Management segment also provides investment advisory services for the general account of LNC s

insurance subsidiaries, including separate accounts and mutual funds, and acts as an investment advisor to collateralized debt obligations (CDOs).

Table of Contents

Products

Investment Management products include U.S. and international equity and fixed-income retail mutual funds, institutional separate accounts, institutional mutual funds and managed accounts.

The Investment Management segment s assets under management (including assets under administration) (in millions) were as follows:

	As of December 31,		
	2008	2007	2006
Assets Under Management			
Retail equity	$ 15,222	$ 31,598	$ 31,705
Retail fixed	10,453	10,801	8,790
Total retail	25,675	42,399	40,495
Institutional equity	11,203	21,751	21,977
Institutional fixed [1]	9,696	11,536	21,105
Total institutional	20,899	33,287	43,082
Inter-segment assets	73,648	77,088	81,166
Total assets under management	$ 120,222	$ 152,774	$ 164,743
Total sub-advised assets, included above [2]	$ 10,227	$ 20,789	$ 22,671

(1) In the fourth quarter of 2007, the Investment Management segment sold a portion of our institutional fixed-income business to an unaffiliated investment management company.

(2) Effective May 1, 2007, the investment advisory role for the Lincoln Variable Insurance Trust, a product within our Retirement

Solutions segment, transitioned from Investment Management to another internal advisor. In the role of investment advisor, Investment Management provided investment performance and compliance oversight on third-party investment managers in exchange for a fee. Investment Management is continuing to manage certain of the assets as a sub-advisor. As a result of this change, the Investment Management assets under management decreased by $3.2 billion, with a corresponding reduction in investment advisory fees inter-segment and associated expenses.

Retail Products and Services

The Investment Management segment offers various retail products including mutual funds to individual investors, as well as investment services to high net worth and small institutional investors through managed accounts. The external retail assets under management were $25.7 billion, $42.4 billion and $40.5 billion as of December 31, 2008, 2007 and 2006, respectively. These assets include $8.0 billion, $16.2 billion and $18.0 billion of sub-advised assets as of December 31, 2008, 2007 and 2006, respectively. We pay fees to the third-party sub-advisors to manage the assets. See Results of Investments Management in the MD&A for discussion of the decline in retail assets under management.

The Investment Management segment, through Delaware Investments, offers open-end and closed-end mutual funds to suit an array of investment needs. Delaware Investments mutual funds are grouped by asset class, with each investment management team focused on a specific investment discipline. This structure of distinct investment teams allows for a style-specific research effort tailored for each asset class. The mutual funds are owned by the shareholders of those funds and not by Delaware Investments. Delaware Investments manages the funds pursuant to an agreement with the separate funds boards. Accordingly, the mutual fund assets and liabilities, as well as related investment returns, are not reflected in our consolidated financial statements. Instead, Delaware Investments earns fees for providing the management and other services to the funds. However, Delaware s assets under management do include seed capital investments in new products, which are included on our Consolidated Balance Sheets and are marked-to-market through net income on our Consolidated Statements of Income.

Delaware Investments manages both open-end and closed-end funds. An open-end mutual fund does not have a fixed number of shares and will normally offer as many shares as investors are willing to buy. Investors sell their shares by requesting the fund to redeem the shares. The open-end funds are available with various pricing structures, such as A-class with a front end sales charge and C-class with a contingent deferred sales charge, as well as R-class and Institutional class, which are sold without a front end or contingent deferred sales charge and are designed for certain retirement plans and/or institutional investors. Effective May 2007, no new or subsequent investments are allowed in the B-class except through a reinvestment of dividends or capital gains by existing shareholders. A-, B-, C- and R-classes are generally subject to Rule 12b-1 fees. A closed-end fund offers a fixed number of shares and is usually sold through a brokerage firm. After the initial offering, shares normally trade on a major stock exchange.

The Investment Management segment also provides investment advisory services to clients through separately managed accounts, commonly referred to as wrap accounts. These products are offered by a sponsor, typically a broker-dealer, to higher net worth individuals with a minimum investment of approximately $250,000. During 2006, the Investment Management segment closed the International American Depository Receipt (ADR) separately managed account product, which is sub-advised by Mondrian, and the Delaware Large Cap Growth Equity separately managed account to new investors. During 2008, both of these products were reopened to new investors. An ADR is a security that trades in the U.S., but represents a specified number of shares in a foreign corporation. ADRs are bought and sold on U.S. markets just like traditional stocks and are issued or sponsored in the U.S. by a bank or brokerage firm.

Institutional Products and Services

For institutional clients, the Investment Management segment offers Delaware Pooled Trust and institutional separate accounts and manages CDOs. External institutional assets under management were $20.9 billion, $33.3 billion and $43.1 billion as of December 31, 2008, 2007 and 2006, respectively.

Delaware Pooled Trust is a registered investment company that offers a series of mutual funds managed in styles that are similar to institutional separate account offerings and are best suited for smaller- to medium-sized institutional investment mandates. Delaware Pooled Trust s minimum initial investment is typically $1 million. The funds included in Delaware Pooled Trust are offered without a sales charge directly through Delaware Investments institutional marketing and client services group.

The Investment Management segment provides investment advisory services through individually managed accounts to a broad range of institutional clients, such as corporate and public retirement plans, endowments and foundations, nuclear decommissioning trusts, sub-advisory clients and Taft-Hartley plans, among others. Included among sub-advisory clients are mutual funds and other commingled vehicles offered by institutional parties. Most clients utilize individually managed separate accounts, which means clients have the opportunity to customize the management of their portfolio by including or excluding certain types of securities, sectors or segments within a given asset class. Because of their individually managed nature, these separate accounts are best suited for larger investment mandates. Currently, the minimum account size is typically $25 million.

The Investment Management segment also provides investment advisory services for CDOs. CDOs are pools of debt instruments that are securitized and sold to investors through a sponsor, typically an investment bank. The Investment Management segment does not invest in these securities, but the insurance portfolios of LNC s insurance subsidiaries are invested in certain of these securities. The Investment Management segment provides investment advisory services at a fee. As of December 31, 2008, 2007 and 2006, the Investment Management segment provided advisory services for $5.0 billion, $6.1 billion and $3.7 billion, respectively, of CDOs.

As stated in Acquisitions and Dispositions above, during the fourth quarter of 2007, we completed the sale of certain institutional taxable fixed income business with an unaffiliated investment management company involving certain members of our fixed income team and related institutional taxable fixed income business.

The Investment Management segment also provides investment management services for LNC s general account assets for which it earns advisory revenue.

Distribution

The businesses in the Investment Management segment deliver their broad range of products through multiple distribution channels, enabling them to reach an expanding community of retail and institutional investors. Investment Management distributes retail mutual funds and managed accounts through intermediaries, including LFN, which are serviced by the LFD wholesaling distribution network. Delaware Distributors, L.P. is the principal underwriter for the Delaware Investments mutual funds and serves as a liaison between the funds and LFD.

Delaware Investments institutional marketing group, working closely with manager selection consultants, markets substantially all of the institutional products.

Table of Contents

Competition

The Investment Management segment primarily competes with mutual fund complexes that are broker sold, and other asset managers offering managed accounts, institutional accounts and sub-advisory services. Competitive factors impacting the Investment Management segment include investment performance, breadth of investment styles offered, distribution capabilities and customer service.

Investment performance is a key driver of the Investment Management segment s ability to attract new sales, retain existing assets and improve net flows. The following table summarizes the performance of institutional and managed accounts composites relative to their respective benchmarks for the one-, three- and five-year periods ended December 31, 2008:

	One Year	Three Year	Five Year
Number of institutional composites outperforming their respective benchmarks (1)	4 of 8	3 of 8	4 of 7
Number of managed account styles outperforming their respective benchmarks (2)	3 of 7	2 of 7	3 of 5

(1) Represents the largest composites based on assets under management. The returns for these composites are Global Investment Performance Standards (GIPS®) compliant and the benchmarks are industry standards.

(2) Represents Delaware Investments managed account styles that have associated benchmarks for the respective length of time.

Delaware Investments closely monitors the relative performance of individual funds. Fund performance is compared to a benchmark group of peer funds that have similar investment characteristics and objectives. Performance in various key categories, as reported to Lipper, one of the leading providers of mutual fund research, is used by

Delaware Investments in measuring its funds performance. The following table summarizes the performance for the 25 largest mutual funds and for all of the mutual funds in the Delaware Investments family of funds for the one-, three- and five-year periods ended December 31, 2008:

	One Year	**Three Year**	**Five Year**
Number of funds out of Delaware s top 25 retail mutual funds in top half of their Lipper category [(1)]	19 of 25	16 of 25	15 of 25
Number of all retail mutual funds in top half of their Lipper category [(1)]	28 of 41	25 of 41	27 of 40

[(1)] For these purposes, Delaware Investments family of funds does not include variable insurance product funds or mutual funds managed by Delaware Investments for certain of our affiliates or other third parties.

LINCOLN UK

Overview

Lincoln UK is headquartered in Barnwood, Gloucester, England and is licensed to do business throughout the United Kingdom (U.K.). Lincoln UK is primarily focused on protecting and enhancing the value of its existing customer base. The segment accepts new deposits on the existing block of business and markets a limited range of life and retirement income products.

Lincoln UK s product portfolio principally consists of unit-linked life and pension products, which are similar to U.S. produced variable life and annuity products, where the risk associated with the underlying investments is borne by the contract holders. These products have largely been issued to individuals, and benefits, premium levels and charges can often be varied within limits. Certain contract holders have chosen to contract out of the U.K. government s pension scheme through a Lincoln personal pension arrangement for which Lincoln UK receives rebate premiums from the government.

Table of Contents

The Lincoln UK segment s product revenues (in millions) were as follows:

	For the Years Ended December 31,		
	2008	2007	2006
Product Revenues			
Life products	$ 106	$ 121	$ 95
Pension products	136	160	131
Other products	6	8	11
Total product revenues	$ 248	$ 289	$ 237

Product revenues include premiums, fees and assessments for Lincoln UK s products.

Our subsidiary in the U.K. has its balance sheets and income statements translated at the current spot exchange rate as of the year-end and average spot exchange rate for the year, respectively.

Lincoln UK has an evergreen agreement to outsource its customer service and policy administration functions to Capita Life & Pensions Services Limited, a subsidiary of Capita Group Plc (Capita). The purpose of the outsourcing is to reduce the operational risk and variability of future costs associated with administering the business by taking advantage of Capita s proven expertise in providing outsourcing solutions to a variety of industries including insurance companies. To date, the relationship has provided the segment with results in line with expectations.

Competition

The U.K. life insurance market is very competitive and consists of many companies, with no one company dominating the market for all products. Lincoln UK markets a limited range of new unit-linked life and pension products through independent intermediaries. The main factors upon which entities in this market compete are distribution access, product features, investment choice, cost, customer service, brand recognition and financial strength.

OTHER OPERATIONS

Other Operations includes the results of operations that are not directly related to the business segments, unallocated corporate items and the ongoing amortization of deferred gain on the indemnity reinsurance portion of the sale of our former reinsurance segment to Swiss Re in the fourth quarter of 2001. Unallocated corporate items include investment income on investments related to the amount of statutory surplus in our insurance subsidiaries that is not allocated to our business units and other corporate investments, such as our remaining radio properties, interest expense on short-term and long-term borrowings, our closed block of run-off pension business in the form of group annuity and insured funding-type of contracts with assets under management of approximately $1.9 billion as of December 31, 2008, and certain expenses, including restructuring and merger-related expenses. Other Operations also includes the eliminations of inter-company transactions and the inter-segment elimination of the investment advisory fees for asset management services the Investment Management segment provides to Retirement Solutions and Insurance Solutions.

Revenues (in millions) from Other Operations were as follows:

	For the Years Ended December 31,		
	2008	2007	2006
Operating Revenues			
Insurance premiums	$ 4	$ 3	$ 9
Net investment income	358	372	373
Amortization of deferred gain on business sold through reinsurance	74	74	75
Media revenues (net)	85	107	85
Other revenues and fees		4	(1)
Inter-segment elimination of investment advisory fees	(82)	(87)	(97)
Total operating revenues	$ 439	$ 473	$ 444

REINSURANCE

We follow the industry practice of reinsuring a portion of our life insurance and annuity risks with unaffiliated reinsurers. In a reinsurance transaction, a reinsurer agrees to indemnify another insurer for part or all of its liability under a policy or policies it has issued for an agreed upon premium. We use reinsurance to protect our insurance subsidiaries against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss. We also use reinsurance to improve our results by leveraging favorable reinsurance pricing. Although reinsurance does not discharge the insurance subsidiaries from their primary liabilities to their contract holders for losses insured under the insurance policies, it does make the assuming reinsurer liable to the insurance subsidiaries for the reinsured portion of the risk. Because we bear the risk of nonpayment by one or more of our reinsurers, we primarily cede reinsurance to well-capitalized, highly rated reinsurers.

We reinsure approximately 50% to 55% of the mortality risk on newly issued non-term life insurance contracts and approximately 40% to 45% of total mortality risk including term insurance contracts. Our policy for this program is to retain no more than $10 million on a single insured life issued on fixed and VUL insurance contracts. Additionally, the retention per single insured life for term life insurance and for COLI is $2 million for each type of insurance.

From July 2007 until June 2008, we reinsured our *Lincoln SmartSecurity*® Advantage rider related to our variable annuities. Swiss Re provided 50% quota share coinsurance of our lifetime GWB, *Lincoln SmartSecurity*® Advantage, for business written in 2007 and 2008, up to a total of $3.8 billion in deposits.

Portions of our deferred annuity business have been reinsured on a modified coinsurance (Modco) basis with other companies to limit our exposure to interest rate risks. In a Modco program, the reinsurer shares proportionally in all financial terms of the reinsured policies (i.e. premiums, expenses, claims, etc.) based on their respective quota share of the risk.

In addition, we acquire other reinsurance to cover products other than as discussed above with retentions and limits that management believes are appropriate for the circumstances.

We obtain reinsurance from a diverse group of reinsurers and we monitor concentration and financial strength ratings of our principal reinsurers. Swiss Re represents our largest exposure. As of December 31, 2008 and 2007, the amounts recoverable from reinsurers were $8.5 billion and $8.2 billion, respectively, of which $4.5 billion and $4.3 billion was recoverable from Swiss Re for the same periods, respectively.

For more information regarding reinsurance, see Reinsurance in the MD&A and Note 9. For risks involving reinsurance, see Item 1A. Risk Factors We face a risk of non-collectibility of reinsurance, which could materially affect our results of operations.

RESERVES

The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding policies. These reserves are the amounts that, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates and methods of valuation.

For more information on reserves, see Critical Accounting Policies and Estimates Derivatives and Critical Accounting Policies and Estimates Future Contract Benefits and Other Contract Holder Obligations in the MD&A. See Regulatory below for information on permitted practices and proposed regulations that may impact the amount of statutory reserves necessary to support our current insurance liabilities.

For risks related to reserves, see Item 1A. Risk Factors Changes in interest rates may cause interest rate spreads to decrease and may result in increased contract withdrawals.

INVESTMENTS

An important component of our financial results is the return on invested assets. Our investment strategy is to balance the need for current income with prudent risk management, with an emphasis on generating sufficient current income to meet our obligations. This approach requires the evaluation of risk and expected return of each asset class utilized, while still meeting our income objectives. This approach also permits us to be more effective in our asset-liability management because decisions can be made based upon both the economic and current investment income

considerations affecting assets and liabilities. Investments by our insurance subsidiaries must comply with the insurance laws and regulations of the states of domicile.

Table of Contents

We do not use derivatives for speculative purposes. Derivatives are used for hedging purposes and income generation. Hedging strategies are employed for a number of reasons including, but not limited to, hedging certain portions of our exposure to changes in our GDB, GWB and GIB liabilities, interest rate fluctuations, the widening of bond yield spreads over comparable maturity U.S. Government obligations and credit, foreign exchange and equity risks. Income generation strategies include credit default swaps through replication synthetic asset transactions. These derivatives synthetically create exposure in the general account to corporate debt, similar to investing in the credit markets. Our investment portfolio does not contain any significant concentrations in single issuers. As of December 31, 2008, we had investments in the collateralized mortgage obligation industry with a fair value of $6.8 billion, or 10% of the invested assets portfolio totaling $67.3 billion. We did not have a concentration of financial instruments in a single industry as of December 31, 2007.

For additional information on our investments, including carrying values by category, quality ratings and net investment income, see Consolidated Investments in the MD&A, as well as Notes 1 and 5.

RATINGS

The Nationally Recognized Statistical Ratings Organizations rate the financial strength of our principal insurance subsidiaries and the debt of LNC. Ratings are not recommendations to buy our securities.

Rating agencies rate insurance companies based on financial strength and the ability to pay claims, factors more relevant to contract holders than investors. We believe that the ratings assigned by nationally recognized, independent rating agencies are material to our operations. There may be other rating agencies that also rate our securities, which we do not disclose in our reports.

Insurer Financial Strength Ratings

The insurer financial strength rating scales of A.M. Best, Fitch Ratings (Fitch), Moody s Investors Service (Moody s) and S&P are characterized as follows:

- A.M. Best A++ to S
- Fitch AAA to C
- Moody s Aaa to C
- S&P AAA to R

As of February 26, 2009, the financial strength ratings of our principal insurance subsidiaries, as published by the principal rating agencies that rate our securities, or us, were as follows:

	A. M. Best	Fitch	Moody s	S&P
The Lincoln National Life Insurance Co. (LNL)	A+ (2nd of 16)	AA (3rd of 21)	Aa3 (4th of 21)	AA- (4th of 21)
Lincoln Life & Annuity Co. of New York (LLANY)	A+ (2nd of 16)	AA (3rd of 21)	Aa3 (4th of 21)	AA- (4th of 21)
First Penn-Pacific Life Insurance Co. (FPP)	A+ (2nd of 16)	AA (3rd of 21)	A1 (5th of 21)	A+ (5th of 21)

A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings.

Table of Contents

Debt Ratings

The long-term credit rating scales of A.M. Best, Fitch, Moody s and S&P are characterized as follows:

A.M. Best aaa to rs
Fitch AAA to D
Moody s Aaa to C
S&P AAA to D

As of February 26, 2009, our long-term credit ratings, as published by the principal rating agencies that rate our long-term credit, were as follows:

A. M. Best	Fitch	Moody s	S&P
a-	A	A3	A-
(7th of 23)	(6th of 21)	(7th of 21)	(7th of 22)

The short-term credit rating scales of A.M. Best, Fitch Ratings, Moody s and S&P are characterized as follows:

A.M. Best AMB-1+ to d
Fitch F1+ to D
Moody s P-1 to NP
S&P A-1+ to D

As of February 26, 2009, our short-term credit ratings, as published by the principal rating agencies that rate our short-term credit, were as follows:

A. M. Best	Fitch	Moody s	S&P
AMB-1	F1	P-2	A-2
(2nd of 6)	(2nd of 7)	(2nd of 4)	(3rd of 10)

A downgrade of our debt ratings could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described above.

On February 10, 2009, Moody s placed LNC s senior debt rating and the insurance financial strength ratings of the insurance subsidiaries under review for possible downgrade, but affirmed its stable outlook for LNC s short-term credit rating. Placing the company s ratings under review for possible downgrade indicates that Lincoln s ratings could be affirmed or lowered in the near term based on developments in financial market conditions, and/or Lincoln s business performance or financial measures. On February 20, 2009, A.M. Best downgraded our long-term credit rating to a- from a, and affirmed the financial strength ratings of our insurance subsidiaries. Additionally, A.M. Best revised its ratings outlook to negative from stable. On February 26, 2009, S&P downgraded our long-term credit rating to A- from A+, our short-term credit rating to A-2 from A-1 and the insurance financial strength ratings of the insurance subsidiaries to AA- from AA. S&P revised its outlook for the holding company to stable from negative and maintained its stable outlook for the insurance subsidiaries.

In late September and early October of 2008, A.M. Best, Fitch, Moody s and S&P each revised their outlook for the U.S. life insurance sector to negative from stable. We believe that the rating agencies may heighten the level of scrutiny that they apply to such institutions, may increase the frequency and scope of their credit reviews, may request additional information from the companies that they rate and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. In addition, actions we take to access third-party financing may in turn cause rating agencies to reevaluate our ratings.

All of our ratings are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that our principal insurance subsidiaries or LNC can maintain these ratings. Each rating should be evaluated independently of any other rating.

Table of Contents

REGULATORY

Insurance Regulation

Our insurance subsidiaries, like other insurance companies, are subject to regulation and supervision by the states, territories and countries in which they are licensed to do business. The extent of such regulation varies, but generally has its source in statutes that delegate regulatory, supervisory and administrative authority to supervisory agencies. In the U.S., this power is vested in state insurance departments.

In supervising and regulating insurance companies, state insurance departments, charged primarily with protecting contract holders and the public rather than investors, enjoy broad authority and discretion in applying applicable insurance laws and regulation for that purpose. Our principal insurance subsidiaries, LNL, LLANY and FPP, are domiciled in the states of Indiana, New York and Indiana, respectively.

The insurance departments of the domiciliary states exercise principal regulatory jurisdiction over our insurance subsidiaries. The extent of regulation by the states varies, but in general, most jurisdictions have laws and regulations governing standards of solvency, adequacy of reserves, reinsurance, capital adequacy, licensing of companies and agents to transact business, prescribing and approving policy forms, regulating premium rates for some lines of business, prescribing the form and content of financial statements and reports, regulating the type and amount of investments permitted and standards of business conduct. Insurance company regulation is discussed further under Insurance Holding Company Regulation and Restrictions on Subsidiaries Dividends and Other Payments.

As part of their regulatory oversight process, state insurance departments conduct periodic, generally once every three to five years, examinations of the books, records, accounts, and business practices of insurers domiciled in their states. During the three-year period ended December 31, 2008, we have not received any material adverse findings resulting from state insurance department examinations of our insurance subsidiaries conducted during this three-year period.

State insurance laws and regulations require our U.S. insurance companies to file financial statements with state insurance departments everywhere they do business, and the operations of our U.S. insurance companies and accounts are subject to examination by those departments at any time. Our U.S. insurance companies prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments. The National Association of Insurance Commissioners (NAIC) has approved a series of statutory accounting principles that have been adopted, in some cases with minor modifications, by virtually all state insurance departments.

We received approval from the Indiana Department of Insurance for a permitted practice to the prescribed NAIC statutory accounting principles for our Indiana-domiciled insurance subsidiaries as of December 31, 2008. The permitted practice modifies the statutory accounting for deferred income taxes prescribed by the NAIC by increasing the realization period for deferred tax assets from one to three years and increasing the asset recognition limit from 10% to 15% of statutory capital and surplus. This permitted practice is expected to benefit the statutory capital and surplus of our Indiana-domiciled insurance subsidiaries by approximately $300 million, but may not be considered when calculating the dividends available from the insurance subsidiaries. We also received approval from the Department for two more permitted practices for LNL relating to the application of specified mortality tables for life insurance. These are expected to benefit the statutory capital and surplus of LNL by approximately $16 million.

A new statutory reserving standard, Actuarial Guideline 43, Commissioners Annuity Reserve Valuation Method for Variable Annuities (VACARVM), replaces current statutory reserve practices for variable annuities with guaranteed benefits, such as GWBs. VACARVM was adopted by the NAIC in September 2008 and will be effective as of December 31, 2009. Based upon the level of variable annuity account values as of December 31, 2008, we estimate that VACARVM would have decreased our statutory capital by $125 million to $175 million. The actual impact of the adoption will be dependent upon account values and conditions that exist as of December 31, 2009. We plan to utilize existing captive reinsurance structures, as well as pursue additional third-party reinsurance arrangements, to lessen any negative impact on statutory capital and dividend capacity in our life insurance subsidiaries. However, additional statutory reserves could lead to lower risk-based capital (RBC) ratios and potentially reduce future dividend capacity from our insurance subsidiaries. For more information on VACARVM and our use of captive reinsurance structures, see Review of Consolidated Financial Condition Liquidity and Capital Resources in the MD&A.

22

Insurance Holding Company Regulation

LNC and its primary insurance subsidiaries are subject to regulation pursuant to the insurance holding company laws of the states of Indiana and New York. These insurance holding company laws generally require an insurance holding company and insurers that are members of such insurance holding company s system to register with the insurance department authorities, to file with it certain reports disclosing information including their capital structure, ownership, management, financial condition, and certain inter-company transactions, including material transfers of assets and inter-company business agreements and to report material changes in that information. These laws also require that inter-company transactions be fair and reasonable and, under certain circumstances, prior approval of the insurance departments must be received before entering into an inter-company transaction. Further, these laws require that an insurer s contract holders surplus following any dividends or distributions to shareholder affiliates is reasonable in relation to the insurer s outstanding liabilities and adequate for its financial needs.

In general, under state holding company regulations, no person may acquire, directly or indirectly, a controlling interest in our capital stock unless such person, corporation or other entity has obtained prior approval from the applicable insurance commissioner for such acquisition of control. Pursuant to such laws, in general, any person acquiring, controlling or holding the power to vote, directly or indirectly, ten percent or more of the voting securities of an insurance company, is presumed to have control of such company. This presumption may be rebutted by a showing that control does not exist in fact. The insurance commissioner, however, may find that control exists in circumstances in which a person owns or controls a smaller amount of voting securities. To obtain approval from the insurance commissioner of any acquisition of control of an insurance company, the proposed acquirer must file with the applicable commissioner an application containing information regarding: the identity and background of the acquirer and its affiliates; the nature, source and amount of funds to be used to carry out the acquisition; the financial statements of the acquirer and its affiliates; any potential plans for disposition of the securities or business of the insurer; the number and type of securities to be acquired; any contracts with respect to the securities to be acquired; any agreements with broker-dealers; and other matters.

Other jurisdictions in which our insurance subsidiaries are licensed to transact business may have similar or additional requirements for prior approval of any acquisition of control of an insurance or reinsurance company licensed or authorized to transact business in those jurisdictions. Additional requirements in those jurisdictions may include re-licensing or subsequent approval for renewal of existing licenses upon an acquisition of control. As further described below, laws that govern the holding company structure also govern payment of dividends to us by our insurance subsidiaries.

Restrictions on Subsidiaries Dividends and Other Payments

We are a holding company that transacts substantially all of our business directly and indirectly through subsidiaries. Our primary assets are the stock of our operating subsidiaries. Our ability to meet our obligations on our outstanding debt and to pay dividends and our general and administrative expenses depends on the surplus and earnings of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us.

Our insurance subsidiaries are subject to certain insurance department regulatory restrictions as to the transfer of funds and payment of dividends to the holding company. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including our primary insurance subsidiary, LNL, may pay dividends to LNC without prior approval of the Indiana Insurance Commissioner (the Commissioner), only from unassigned surplus or must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding twelve consecutive months, would exceed the statutory limitation. The current statutory limitation is the greater of 10% of the insurer s contract holders surplus, as shown on its last annual statement on file with the Commissioner or the insurer s statutory net gain from operations for the previous twelve months, but in no event to exceed statutory unassigned surplus. As discussed above, we may not consider the permitted practice to the prescribed statutory accounting principles relating to the deferred tax asset in calculating available dividends. Indiana law gives the Commissioner broad discretion to disapprove requests for dividends in excess of these limits. New York, the state of domicile of our other major insurance subsidiary, LLANY, has similar restrictions, except that in New York it is the lesser of 10% of surplus to contract holders as of the immediately preceding calendar year or net gain from operations for the immediately preceding calendar year, not including realized capital gains.

Indiana law also provides that following the payment of any dividend, the insurer s contract holders surplus must be reasonable in relation to its outstanding liabilities and adequate for its financial needs, and permits the Indiana Insurance Commissioner to bring an action to rescind a dividend which violates these standards. In the event that the Indiana Insurance Commissioner determines that the contract holders surplus of one subsidiary is inadequate, the Commissioner could use his or her broad discretionary authority to seek to require us to apply payments received from another subsidiary for the benefit of that insurance subsidiary. For information regarding dividends paid to us during 2008 from our insurance subsidiaries, see Review of Consolidated Financial Condition Liquidity and Capital Resources Sources of Liquidity and Cash Flow in the MD&A.

Lincoln UK s insurance subsidiaries are regulated by the U.K. Financial Services Authority (FSA) and are subject to capital requirements as defined by the U.K. Capital Resources Requirement. Lincoln UK maintains a target of approximately 1.5 to 2.0 times the required capital as prescribed by the regulatory resource requirement. Effective January 1, 2005, all insurance companies operating in the U.K. also have to complete an RBC assessment to demonstrate to the FSA that they hold sufficient capital to cover their risks. RBC requirements in the U.K. are different than the NAIC requirements. In addition, the FSA imposes certain minimum capital requirements for the combined U.K. subsidiaries. As is the case with regulated insurance companies in the U.S., future changes to regulatory capital requirements could impact the dividend capacity of our U.K. insurance subsidiaries and cash flow to the holding company.

Table of Contents

Risk-Based Capital

The NAIC has adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. There are five major risks involved in determining the requirements:

Category	Name	Description
Asset risk affiliates	C-0	Risk of assets default for certain affiliated investments
Asset risk other	C-1	Risk of assets default of principal and interest or fluctuation in fair value
Insurance risk	C-2	Risk of underestimating liabilities from business already written or inadequately pricing business to be written in the future
Interest rate risk, health credit risk and market risk	C-3	Risk of losses due to changes in interest rate levels, risk that health benefits prepaid to providers become the obligation of the health insurer once again and risk of loss due to changes in market levels associated with variable products with guarantees
Business risk	C-4	Risk of general business

A company s risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure adequacy of a company s statutory surplus by comparing it to the RBC determined by the formula. Under RBC requirements, regulatory compliance is determined by the ratio of a company s total adjusted capital, as defined by the NAIC, to its company action level of RBC (known as the RBC ratio), also as defined by the NAIC. Accordingly, factors that have an impact on the total adjusted capital of our insurance subsidiaries, such as the permitted practices discussed above, will also affect their RBC levels.

Four levels of regulatory attention may be triggered if the RBC ratio is insufficient:

- Company action level If the RBC ratio is between 75% and 100%, then the insurer must submit a plan to the regulator detailing corrective action it proposes to undertake;
- Regulatory action level If the RBC ratio is between 50% and 75%, then the insurer must submit a plan, but a regulator may also issue a corrective order requiring the insurer to comply within a specified period;
- Authorized control level If the RBC ratio is between 35% and 50%, then the regulatory response is the same as at the Regulatory action level, but in addition, the regulator may take action to rehabilitate or liquidate the insurer; and
- Mandatory control level If the RBC ratio is less than 35%, then the regulator must rehabilitate or liquidate the insurer.

As of December 31, 2008, the RBC ratios of LNL, LLANY and FPP reported to their respective states of domicile and the NAIC all exceeded the company action level. We believe that we will be able to maintain the RBC ratios of our insurance subsidiaries in excess of company action level through prudent underwriting, claims handling, investing and capital management. However, no assurances can be given that developments affecting the insurance subsidiaries, many of which could be outside of our control, will not cause the RBC ratios to fall below our targeted levels. These developments may include, but may not be limited to: changes to the manner in which the RBC ratio is calculated; new regulatory requirements for calculating reserves such as VACARVM and principles based reserving; economic conditions leading to higher levels of impairments of securities in our insurance subsidiaries general accounts; and an inability to securitize life reserves including the issuing of letters of credit supporting captive reinsurance structures. See Item 1A. Risk Factors A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings.

Federal Initiatives

The U.S. federal government does not directly regulate the insurance industry; however, federal initiatives from time to time can impact the insurance industry. In reaction to the current credit market illiquidity and global financial crisis, Congress enacted the Emergency Economic Stabilization Act of 2008 (EESA) on October 3, 2008, and enacted the American Recovery and Reinvestment Act of 2009 (ARRA) on February 17, 2009, in an effort to restore liquidity to the U.S. credit markets. The EESA defines financial institutions to include insurance companies. The EESA contains the TARP. The TARP authorized the U.S. Treasury to purchase troubled assets (as defined in the TARP) from financial institutions, including insurance companies. Pursuant to the authority granted under the TARP, the U.S. Treasury has adopted the CPP, the Generally Available Capital Access Program (GACAP) and the Exceptional Financial Recovery Assistance (EFRA). The ARRA contains provisions impacting participants in these various capital assistance programs, such as limits imposed on executive compensation. Under the CPP, as currently adopted, bank and thrift holding companies may apply to the U.S. Treasury for the direct sale of preferred stock and warrants to the U.S. Treasury. We filed an application with the U.S. Treasury to participate in the CPP, but there are no assurances that the U.S. Treasury will approve our application, or that we will participate in the GACAP or the EFRA. It remains unclear at this point if or when the EESA and the ARRA will restore sustained liquidity and confidence in the markets and its affect on the fair value of our invested assets.

In June 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) was enacted. The EGTRRA contains provisions that have and will continue, near term, to significantly lower individual tax rates. These may have the effect of reducing the benefits of tax deferral on the inside build-up of annuities and life insurance products. The EGTRRA also includes provisions that will eliminate, over time, the estate, gift and generation-skipping taxes and partially eliminates the step-up in basis rule applicable to property held in a decedent s estate. Some of these changes might hinder our sales and result in the increased surrender of insurance and annuity products. These provisions expire after 2010, unless extended.

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) was enacted. Individual taxpayers are the principal beneficiaries of the JGTRRA, which includes an acceleration of certain of the income tax rate reductions enacted originally under the EGTRRA, as well as capital gains and dividend tax rate reductions. On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2006 (TIPRA) was signed into law. TIPRA extends the lower capital gains and dividends rates through the end of 2010. Although most of these rate reductions expire after 2010, these reductions have the effect of reducing the benefits of tax deferral on the build-up of value of annuities and life insurance products. Like the EGTRRA changes, the JGTRRA changes may hinder our sales and result in increased surrender of insurance and annuity products.

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. The PPA makes numerous changes to pension and other tax laws including: permanence for the EGTRRA enacted pension provisions including higher annual contribution limits for defined contribution plans and IRAs as well as catch-up contributions for persons over age 50; clarification of the safest available annuity standard for the selection of an annuity as a distribution option for defined contribution plans; expansion of investment advice options for defined contribution plan participants and IRA owners; more stringent funding requirements for defined benefit pension plans and clarification of the legal status of hybrid (cash balance) pension plans; non-pension related tax changes, such as the codification of COLI best practices, bringing more certainty to this market segment; permanence for EGTRRA enacted tax benefits for Section 529 college savings plans; and favorable tax treatment for long-term care insurance included as a rider to or on annuity products. We expect many of these changes to have a beneficial effect upon various segments of our business lines.

The USA PATRIOT Act of 2001 (the Patriot Act), enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the U.S. contain provisions that may be different, conflicting or more rigorous. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for

information by regulatory authorities and law enforcement agencies, and share information with other financial institutions require the implementation and maintenance of internal practices, procedures and controls.

Employee Retirement Income Security Act (ERISA) Considerations

ERISA is a comprehensive federal statute that applies to U.S. employee benefit plans sponsored by private employers and labor unions. Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. ERISA provisions include reporting and disclosure rules, standards of conduct that apply to plan fiduciaries and prohibitions on transactions known as prohibited transactions, such as conflict-of-interest transactions and certain transactions between a benefit plan and a party in interest. ERISA also provides for a scheme of civil and criminal penalties and enforcement. Our insurance, asset management, plan administrative services and other businesses provide services to employee benefit plans subject to ERISA, including services where we may act as an ERISA fiduciary. In addition to ERISA regulation of businesses providing products and services to ERISA plans, we become subject to ERISA s prohibited transaction rules for transactions with those plans, which may affect our ability to enter transactions, or the terms on which transactions may be entered, with those plans, even in businesses unrelated to those giving rise to party in interest status.

Broker-Dealer, Securities and Savings and Loan Regulation

Some of our separate accounts as well as mutual funds that we sponsor, in addition to being registered under the Securities Act of 1933, are registered as investment companies under the Investment Company Act of 1940, and the shares of certain of these entities are qualified for sale in some or all states and the District of Columbia. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934 (Exchange Act) and are subject to federal and state regulation, including but not limited to the Financial Industry Regulation Authority s (FINRA) net capital rules. In addition, we have several subsidiaries that are investment advisors registered under the Investment Advisers Act of 1940. LFN s registered representatives and our employees, insofar as they are involved in the sale or marketing of products that are securities, are subject to the Exchange Act and to examination requirements and regulation by the U.S. Securities and Exchange Commission (SEC), FINRA and state securities commissioners. Regulation also extends to various LNC entities that employ or control those individuals. The SEC and other governmental agencies and self-regulatory organizations, as well as state securities commissions in the U.S., have the power to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of the regulated entity or its employees.

Our U.S. banking operations are subject to federal and state regulation. As a result of its ownership of Newton County Loan & Savings, FSB, which was approved on January 8, 2009, LNC is considered to be a savings and loan holding company and, along with Newton County Loan & Savings, FSB, is subject to annual examination by the Office of Thrift Supervision of the U.S. Department of Treasury. Federal and state banking laws generally provide that no person may acquire control of LNC, and gain indirect control of Newton County Loan & Savings, FSB, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of LNC would be presumed to constitute control.

As a savings and loan holding company, we have applied to participate in the FDIC s TLGP. Under the TLGP, the FDIC will guarantee newly issued senior unsecured debt issued on or before June 30, 2009. The amount guaranteed may not exceed 125% of the par or face value of senior unsecured debt outstanding as of September 30, 2008, that is scheduled to mature on or before June 30, 2009. This means only debt maturing before June 30, 2009, can be included in calculating the cap. The FDIC can vary the cap. The debt guarantee expires June 30, 2012, regardless if the debt matures later. The proceeds of guaranteed debt cannot be used to prepay debt that is not guaranteed. Entities participating in the TLGP are subject to enhanced supervisory oversight to prevent rapid growth or excessive risk taking, including additional reporting and on-site reviews to determine compliance with the TLGP. There can be assurance that the FDIC will approve our participation in the TLGP.

Environmental Considerations

Federal, state and local environmental laws and regulations apply to our ownership and operation of real property. Inherent in owning and operating real property are the risk of hidden environmental liabilities and the costs of any required clean-up. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect our commercial mortgage lending. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, in some states and under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), we may be liable, as an owner or operator, for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us. We also risk environmental liability when we foreclose on a property mortgaged to us. Federal legislation provides for a safe harbor from CERCLA liability for secured lenders that foreclose and sell the mortgaged real estate, provided that certain requirements are met. However, there are circumstances in which actions taken could still expose us to CERCLA liability. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments for real estate we acquire for investment and before taking title through foreclosure to real property collateralizing mortgages that we hold. Although unexpected environmental liabilities can always arise, based on these environmental assessments and compliance with our internal procedures, we believe that any costs associated with compliance with environmental laws and regulations or any clean-up of properties would not have a material adverse effect on our results of operations.

Table of Contents

Intellectual Property

We rely on a combination of copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. We have implemented a patent strategy designed to protect innovative aspects of our products and processes which we believe distinguish us from competitors. We currently own four issued U.S. patents and have additional patent applications pending in the U.S. Patent and Trademark Office. Our currently issued U.S. patents will expire between 2015 and 2021. We intend to continue to file patent applications as we develop new products, technologies and patentable enhancements.

We regard our patents as valuable assets and intend to vigorously protect them against infringement. However, complex legal and factual determinations and evolving laws make patent protection uncertain, and while we believe our patents provide us with a competitive advantage, we cannot be certain that patents will be issued from any of our pending patent applications or that any issued patents will have sufficient breadth to offer meaningful protection. In addition, our issued patents may be successfully challenged, invalidated, circumvented or found unenforceable so that our patent rights would not create an effective competitive barrier. We have in the past instituted litigation against competitors to enforce our intellectual property rights with success. For example, we recently won a $13 million judgment that upheld the validity of one of our patents and found infringement by the defendants. We are currently reviewing the judgment and its applicability in relation to other potentially infringing parties.

Finally, we have an extensive portfolio of trademarks and service marks that we consider important in the marketing of our products and services, including, among others, the trademarks of the Lincoln National and Lincoln Financial names, the Lincoln silhouette logo and the combination of these marks. Trademark registrations may be renewed indefinitely subject to continued use and registration requirements. We regard our trademarks as valuable assets in marketing our products and services and protect them against infringement.

EMPLOYEES

As of December 31, 2008, we had a total of 9,696 employees. In addition, we had a total of 1,486 planners and agents who had active sales contracts with one of our insurance subsidiaries. None of our employees are represented by a labor union, and we are not a party to any collective bargaining agreements. We consider our employee relations to be good.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other documents with the SEC under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including LNC, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We also make available, free of charge, on or through our Internet website http://www.lincolnfinancial.com, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The information on the website listed above is not, and should not, be considered part of this annual report on Form 10-K and is not incorporated by reference in this document. This website is, and is only intended to be, an inactive textual reference.

Table of Contents

Item 1A. Risk Factors

You should carefully consider the risks described below before investing in our securities. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of our securities could decline substantially.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, access to capital and cost of capital.

The capital and credit markets have been experiencing extreme volatility and disruption for more than twelve months. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for certain issuers.

We maintain an investment portfolio of various holdings, types and maturities. These investments are subject to general credit, liquidity, market and interest rate risks. An extended disruption in the credit and capital markets could adversely affect LNC and its subsidiaries ability to access sources of liquidity, and there can be no assurance that additional financing will be available to us on favorable terms, or at all, in the current market environment. In addition, further other-than-temporary impairments could reduce our statutory surplus, leading to lower RBC ratios and potentially reducing future dividend capacity from our insurance subsidiaries.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, to maintain our securities lending activities and to replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations, and our business will suffer. As a holding company with no direct operations, our principal asset is the capital stock of our insurance and investment management subsidiaries. Our ability to meet our obligations for payment of interest and principal on outstanding debt obligations, including the $500 million of senior securities due in April 2009, and to pay dividends to shareholders and corporate expenses depends significantly upon the surplus and earnings of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Payments of dividends and advances or repayment of funds to us by our insurance subsidiaries are restricted by the applicable laws and regulations of their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. Changes in these laws can constrain the ability of our subsidiaries to pay dividends or to advance or repay funds to us in sufficient amounts and at times necessary to meet our debt obligations and corporate expenses. For our insurance and other subsidiaries, the principal sources of our liquidity are insurance premiums and fees, annuity considerations, investment advisory fees, and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. At the holding company level, sources of liquidity in normal markets also include a variety of short- and long-term instruments, including credit facilities, commercial paper and medium- and long-term debt.

In the event that current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if we incur large investment losses or if the level of our business activity decreases due to a market downturn. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us as has happened recently. See Item 1. Business Ratings for a complete description of our ratings and ratings outlook. Our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; generate fee income and market-related revenue to meet liquidity needs; and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter term securities than we prefer, or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility. Recently, our credit spreads have widened considerably, which increases the interest rate we must pay on any new debt obligation we may

issue. Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

Table of Contents

Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations and we do not expect these conditions to improve in the near future.

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during the second half of 2008, particularly in the fourth quarter of 2008. Recently, concerns over unemployment, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices and declining business and consumer confidence, have precipitated a recession. In addition, the fixed-income markets are experiencing a period of extreme volatility, which has negatively impacted market liquidity conditions. Initially, the concerns on the part of market participants were focused on the subprime segment of the mortgage-backed securities market. However, these concerns have since expanded to include a broad range of mortgage- and asset-backed and other fixed income securities, including those rated investment grade, the U.S. and international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes and sectors. As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events and increased probability of default. Securities that are less liquid are more difficult to value and may be hard to sell, if desired. Domestic and international equity markets have also been experiencing heightened volatility and turmoil, with issuers (such as our company) that have exposure to the real estate, mortgage and credit markets particularly affected. These events and the continuing market upheavals may have an adverse effect on us, in part because we have a large investment portfolio and are also dependent upon customer behavior. Our revenues are likely to decline in such circumstances and our profit margins could erode. In addition, in the event of extreme prolonged market events, such as the global credit crisis, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets and inflation all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on our business, results of operations and financial condition. The current mortgage crisis has also raised the possibility of future legislative and regulatory actions in addition to the recent enactments of the EESA and the ARRA that could further impact our business. We cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on our business, results of operations and financial condition. A continuation of current economic conditions may require us to raise additional capital or consider other transactions to manage our capital position or our liquidity.

If our businesses do not perform well and/or the price of our common stock does not increase, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. As of December 31, 2008, we had a total of $3.9 billion of goodwill on our Consolidated Balance Sheets, of which $2.2 billion related to our Insurance Solutions Life Insurance segment and $1.0 billion related to our Retirement Solutions Annuities segment. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the reporting unit to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The fair value of the reporting unit is impacted by the performance of the business. If it is determined that the goodwill has been impaired, i.e. when the fair value of the reporting unit is not expected to recover in a reasonable amount of time, we must write down the

goodwill by the amount of the impairment, with a corresponding charge to net income. For the year ended December 31, 2008, we took total pre-tax impairment charges of $176 million, primarily related to our media assets. If current market conditions persist during 2009, in particular, if our share price remains below book value per share, or if we take actions to limit risk associated with our products or investments that causes a significant change in any one reporting unit s fair value, this may trigger goodwill impairment testing at the end of each quarter as part of an annual or interim impairment test. We expect to perform interim tests of goodwill impairment in addition to our annual test during 2009, especially if our market capitalization remains below our book value. Subsequent reviews of goodwill could result in impairment of goodwill during 2009, as early as the first quarter. These subsequent reviews of goodwill could result in additional impairment of goodwill during 2009, and such write downs could have a material adverse effect on our results of operations or financial position, but will not affect the statutory capital of our insurance subsidiaries. For more information on goodwill, see Note 8 and the MD&A.

Table of Contents

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management s determination include the performance of the business, including the ability to generate capital gains from a variety of sources and tax planning strategies. If, based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. Such valuation allowance could have a material adverse effect on our results of operations and financial position, but will not affect the statutory capital of our insurance subsidiaries.

There can be no assurance that actions of the U.S. Government, Federal Reserve and other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve the intended effect.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the EESA was signed into law and on February 17, 2009, the ARRA was signed into law. The federal government, Federal Reserve and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. There can be no assurance as to what impact such actions will have on the financial markets, including the extreme levels of volatility currently being experienced.

The difficulties faced by other financial institutions could adversely affect us.

We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it. We also may have exposure to these financial institutions in the form of unsecured debt instruments, derivative transactions and/or equity investments. There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect our business and results of operations. Furthermore, we distribute a significant amount of our insurance, annuity and mutual fund products through large financial institutions. We believe that the mergers of several of these entities, as well as the negative impact of the markets on these entities, has disrupted and may lead to further disruption of their businesses, which may have a negative effect on our production levels.

Our participation in a securities lending program and a reverse repurchase program subjects us to potential liquidity and other risks.

We participate in a securities lending program for our general account whereby fixed income securities are loaned by our agent bank to third parties, primarily major brokerage firms and commercial banks. The borrowers of our securities provide us with collateral, typically in cash, which we separately maintain. We invest such cash collateral in other securities, primarily in commercial paper and money market or other short term funds. Securities with a cost or amortized cost of $430 million and a fair value of $410 million were on loan under the program as of December 31, 2008. Securities loaned under such transactions may be sold or repledged by the transferee. We were liable for cash collateral under our control of $427 million as of December 31, 2008.

We participate in a reverse repurchase program for our general account whereby we sell fixed income securities to third parties, primarily major brokerage firms, with a concurrent agreement to repurchase those same securities at a determined future date. The borrowers of our securities provide us with cash collateral which is typically invested in fixed maturity securities. The fair value of securities pledged under reverse repurchase agreements was $496 million as of December 31, 2008.

As of December 31, 2008, substantially all of the securities on loan under the program could be returned to us by the borrowers at any time. Collateral received under the reverse repurchase program cannot be returned prior to maturity, however, market conditions on the repurchase date may limit our ability to enter into new agreements. The return of loaned securities or our inability to enter into new reverse repurchase agreements would require us to return the cash collateral associated with such securities. In addition, in some cases, the maturity of the securities held as invested collateral (i.e. securities that we have purchased with cash received from the third parties) may exceed the term of the related securities and the market value may fall below the amount of cash received as collateral and invested. If we are

required to return significant amounts of cash collateral on short notice and we are forced to sell securities to meet the return obligation, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In addition, under stressful capital market and economic conditions, such as those conditions we have experienced recently, liquidity broadly deteriorates, which may further restrict our ability to sell securities.

Table of Contents

Our reserves for future policy benefits and claims related to our current and future business as well as businesses we may acquire in the future may prove to be inadequate.

We establish and carry, as a liability, reserves based on estimates of how much we will need to pay for future benefits and claims. For our life insurance and annuity products, we calculate these reserves based on many assumptions and estimates, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy, the lapse rate of the policies, the amount of benefits or claims to be paid and the investment returns on the assets we purchase with the premiums we receive. The assumptions and estimates we use in connection with establishing and carrying our reserves are inherently uncertain. In addition, the sensitivity of our statutory reserves and surplus established for our variable annuity base contracts and riders to changes in the equity markets will vary depending on the magnitude of the decline. The sensitivity will be affected by the level of account values relative to the level of guaranteed amounts, product design and reinsurance. Statutory reserves for variable annuities depend upon the cumulative equity market impacts on the business in force, and therefore, result in non-linear relationships with respect to the level of equity market performance within any reporting period. Accordingly, we cannot determine with precision the ultimate amount or the timing of the payment of actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove to be inadequate in relation to our estimated future benefits and claims. As a result, we would incur a charge to our earnings in the quarter in which we increase our reserves.

Because the equity markets and other factors impact the profitability and expected profitability of many of our products, changes in equity markets and other factors may significantly affect our business and profitability.

The fee revenue that we earn on equity-based variable annuities, unit-linked accounts, VUL insurance policies and investment advisory business is based upon account values. Because strong equity markets result in higher account values, strong equity markets positively affect our net income through increased fee revenue. Conversely, a weakening of the equity markets results in lower fee income and may have a material adverse effect on our results of operations and capital resources.

The increased fee revenue resulting from strong equity markets increases the expected gross profits (EGPs) from variable insurance products as do better than expected lapses, mortality rates and expenses. As a result, higher EGPs may result in lower net amortized costs related to deferred acquisition costs (DAC), deferred sales inducements (DSI), value of business acquired (VOBA), deferred front-end loads (DFEL) and changes in future contract benefits. However, a decrease in the equity markets, as well as worse than expected increases in lapses, mortality rates and expenses, depending upon their significance, may result in higher net amortized costs associated with DAC, DSI, VOBA, DFEL and changes in future contract benefits and may have a material adverse effect on our results of operations and capital resources. For example, in the fourth quarter of 2008, we reset the baseline of account values from which EGPs are projected. As a result of this and the impact of the volatile capital market conditions on our annuity reserves, we had a cumulative unfavorable prospective unlocking of $223 million, after-tax.

Changes in the equity markets, interest rates and/or volatility affect the profitability of our products with guaranteed benefits; therefore, such changes may have a material adverse effect on our business and profitability.

Certain of our variable annuity products include guaranteed benefit riders. These include GDB, GWB and GIB riders. Our GWB, GIB and 4LATER® features have elements of both insurance benefits accounted for under Statement of Position 03-1 (SOP 03-1) and embedded derivatives accounted for under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities and SFAS No. 157, Fair Value Measurements, (SFAS 157). The SOP 03-1 component is calculated in a manner consistent with our GDB, as described below. We weight the reserves based on the significance of their features. The amount of reserves related to GDB for variable annuities is tied to the difference between the value of the underlying accounts and the GDB, calculated using a benefit ratio approach. The GDB reserves take into account the present value of total expected GDB payments, the present value of total expected GDB assessments over the life of the contract, claims paid to date and assessments to date. Reserves for our GIB and certain GWB with lifetime benefits are based on a combination of fair value of the underlying benefit and a benefit ratio approach that is based on the projected future payments in excess of projected future account values. The benefit ratio

approach takes into account the present value of total expected GIB payments, the present value of total expected GIB assessments over the life of the contract, claims paid to date and assessments to date. The amount of reserves related to those GWB that do not have lifetime benefits is based on the fair value of the underlying benefit.

Both the level of expected payments and expected total assessments used in calculating the benefit ratio are affected by the equity markets. The liabilities related to fair value are impacted by changes in equity markets, interest rates and volatility. Accordingly, strong equity markets will decrease the amount of reserves that we must carry, and strong equity markets, increases in interest rates and decreases in volatility will generally decrease the reserves calculated using fair value. Conversely, a decrease in the equity markets will increase the expected future payments used in the benefit ratio approach, which has the effect of increasing the amount of reserves. Also, a decrease in the equity market along with a decrease in interest rates and an increase in volatility will generally result in an increase in the reserves calculated using fair value, which are the conditions we have experienced recently.

Increases in reserves would result in a charge to our earnings in the quarter in which the increase occurs. Therefore, we maintain a customized dynamic hedge program that is designed to mitigate the risks associated with income volatility around the change in reserves on guaranteed benefits. However, the hedge positions may not be effective to exactly offset the changes in the carrying value of the guarantees due to, among other things, the time lag between changes in their values and corresponding changes in the hedge positions, high levels of volatility in the equity markets and derivatives markets, extreme swings in interest rates, contract holder behavior different than expected and divergence between the performance of the underlying funds and hedging indices. For example, for the years ended December 31, 2008 and 2007, we experienced a breakage on our guaranteed living benefits net derivatives results of $51 million and $(136) million, pre-DAC, pre-tax. Breakage is defined as the difference between the change in the value of the liabilities, excluding the amount related to the non-performance risk component, and the change in the fair value of the derivatives. The non-performance risk factor is required under SFAS 157, which requires us to consider our own credit standing, which is not hedged, in the valuation of certain of these liabilities. A decrease in our own credit spread could cause the value of these liabilities to increase, resulting in a reduction to net income. Conversely, an increase in our own credit spread could cause the value of these liabilities to decrease, resulting in an increase to net income. See Realized Gain (Loss) in the MD&A for further discussion.

In addition, we remain liable for the guaranteed benefits in the event that derivative counterparties are unable or unwilling to pay, and we are also subject to the risk that the cost of hedging these guaranteed benefits increases, resulting in a reduction to net income. These, individually or collectively, may have a material adverse effect on net income, financial condition or liquidity.

Changes in interest rates may cause interest rate spreads to decrease and may result in increased contract withdrawals.

Because the profitability of our fixed annuity and interest-sensitive whole life, UL and fixed portion of VUL insurance business depends in part on interest rate spreads, interest rate fluctuations could negatively affect our profitability. Changes in interest rates may reduce both our profitability from spread businesses and our return on invested capital. Some of our products, principally fixed annuities, interest-sensitive whole life, UL and the fixed portion of VUL insurance, have interest rate guarantees that expose us to the risk that changes in interest rates will reduce our spread, or the difference between the amounts that we are required to pay under the contracts and the amounts we are able to earn on our general account investments intended to support our obligations under the contracts. Declines in our spread or instances where the returns on our general account investments are not enough to support the interest rate guarantees on these products could have a material adverse effect on our businesses or results of operations.

In periods of increasing interest rates, we may not be able to replace the assets in our general account with higher yielding assets needed to fund the higher crediting rates necessary to keep our interest-sensitive products competitive. We therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments then available. Moreover, borrowers may prepay fixed-income securities, commercial mortgages and mortgage-backed securities in our general account in order to borrow at lower market rates, which exacerbates this risk. Because we are entitled to reset the interest rates on our fixed rate annuities only at limited, pre-established intervals, and since many of our contracts have guaranteed minimum interest or crediting rates, our spreads could decrease and potentially become negative. Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as contract holders seek to buy products with perceived higher returns. This process may lead to a flow of cash out of our businesses. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. A sudden demand among consumers to change product types or withdraw funds could lead us to sell assets at a loss to meet the demand for funds.

Our requirements to post collateral or make payments related to declines in market value of specified assets may adversely affect our liquidity and expose us to counterparty credit risk.

Many of our transactions with financial and other institutions, including settling futures positions, specify the circumstances under which the parties are required to post collateral. The amount of collateral we may be required to post under these agreements may increase under certain circumstances, which could adversely affect our liquidity. In addition, under the terms of some of our transactions, we may be required to make payment to our counterparties related to any decline in the market value of the specified assets.

Losses due to defaults by others could reduce our profitability or negatively affect the value of our investments.
Third parties that owe us money, securities or other assets may not pay or perform their obligations. These parties include the issuers whose securities we hold, borrowers under the mortgage loans we make, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers and other financial intermediaries. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, corporate governance issues or other reasons. A further downturn in the U.S. and other economies could result in increased impairments.

Defaults on our mortgage loans and volatility in performance may adversely affect our profitability.
Our mortgage loans face default risk and are principally collateralized by commercial properties. Mortgage loans are stated on our balance sheet at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, and are net of valuation allowances. We establish valuation allowances for estimated impairments as of the balance sheet date based on information, such as the market value of the underlying real estate securing the loan, any third party guarantees on the loan balance or any cross collateral agreements and their impact on expected recovery rates. As of December 31, 2008, no loans were in default for our mortgage loan investments. The performance of our mortgage loan investments, however, may fluctuate in the future. In addition, some of our mortgage loan investments have balloon payment maturities. An increase in the default rate of our mortgage loan investments could have a material adverse effect on our business, results of operations and financial condition. Further, any geographic or sector exposure in our mortgage loans may have adverse effects on our investment portfolios and consequently on our consolidated results of operations or financial condition. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are exposed.

Our investments are reflected within our consolidated financial statements utilizing different accounting bases, and, accordingly, we may not have recognized differences, which may be significant, between cost and fair value in our consolidated financial statements.
Our principal investments are in fixed maturity and equity securities, mortgage loans on real estate, policy loans, short-term investments, derivative instruments, limited partnerships and other invested assets. The carrying value of such investments is as follows:

- Fixed maturity and equity securities are classified as available-for-sale, except for those designated as trading securities, and are reported at their estimated fair value. The difference between the estimated fair value and amortized cost of such securities (i.e. unrealized investment gains and losses) are recorded as a separate component of other comprehensive income or loss, net of adjustments to DAC, policyholder related amounts and deferred income taxes;
- Fixed maturity and equity securities designated as trading securities, which support certain reinsurance arrangements, are recorded at fair value with subsequent changes in fair value recognized in realized gain (loss). However, offsetting the changes to fair value of the trading securities are corresponding changes in the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. In other words, the investment results for the trading securities, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements;
- Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are stated at amortized cost, which approximates fair value;
- Mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances;
- Policy loans are stated at unpaid principal balances;
- Real estate joint ventures and other limited partnership interests are carried using the equity method of accounting; and
- Other invested assets consist principally of derivatives with positive fair values. Derivatives are carried at fair value with changes in fair value reflected in income from non-qualifying derivatives and derivatives in fair value hedging relationships. Derivatives in cash flow hedging relationships are reflected as a separate component of

other comprehensive income or loss.

Investments not carried at fair value in our consolidated financial statements principally, mortgage loans, policy loans and real estate may have fair values which are substantially higher or lower than the carrying value reflected in our consolidated financial statements. In addition, unrealized losses are not reflected in net income unless we realize the losses by either selling the security at below amortized cost or determine that the decline in fair value is deemed to be other-than-temporary (i.e. impaired). Each of such asset classes is regularly evaluated for impairment under the accounting guidance appropriate to the respective asset class.

Our valuation of fixed maturity, equity and trading securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

Fixed maturity, equity and trading securities and short-term investments, which are reported at fair value on our Consolidated Balance Sheets, represented the majority of our total cash and invested assets. Pursuant to SFAS 157, we have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The determination of fair values in the absence of quoted market prices is based on: valuation methodologies; securities we deem to be comparable; and assumptions deemed appropriate given the circumstances. The fair value estimates are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. Factors considered in estimating fair value include coupon rate, maturity, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of significantly increasing/decreasing or high/low interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, as well as valuation methods which are more sophisticated or require greater estimation, thereby resulting in values which may be less than the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

See Note 2 for further information about SFAS 157.

Some of our investments are relatively illiquid and are in asset classes that have been experiencing significant market valuation fluctuations.

We hold certain investments that may lack liquidity, such as privately placed fixed maturity securities, mortgage loans, policy loans and other limited partnership interests. These asset classes represented 25% of the carrying value of our total cash and invested assets as of December 31, 2008. Even some of our very high quality assets have been more illiquid as a result of the recent challenging market conditions.

If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we would be able to sell them for the prices at which we have recorded them and we might be forced to sell them at significantly lower prices.

We invest a portion of our invested assets in investment funds, many of which make private equity investments. The amount and timing of income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the funds, which depends on particular events relating to the underlying investments, as well as the funds schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income that we record from these investments can vary substantially from quarter to quarter. Recent equity and credit market volatility may

reduce investment income for these types of investments.

In addition, other external factors may cause a drop in value of investments, such as ratings downgrades on asset classes. For example, Congress has proposed legislation to amends the U.S. Bankruptcy Code to permit bankruptcy courts to modify mortgages on primary residences, including an ability to reduce outstanding mortgage balances. Such actions by bankruptcy courts may impact the ratings and valuation of our residential mortgage-backed investment securities.

Table of Contents

The determination of the amount of allowances and impairments taken on our investments is highly subjective and could materially impact our results of operations or financial position.

The determination of the amount of allowances and impairments varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

For example, the cost of our fixed maturity and equity securities is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. The assessment of whether impairments have occurred is based on management s case-by-case evaluation of the underlying reasons for the decline in fair value. In evaluating whether a decline in value is other-than-temporary, we consider several factors including, but not limited to: our ability and intent to hold the security for a sufficient period of time to allow for a recovery in value; the cause of the decline; fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer; and severity of the decline in value.

Additionally, our management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management s evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Another key factor in whether determining an other-than-temporary impairment has occurred is our intent or ability to hold to recovery or maturity. In the event that we determine that we do not have the intent or ability to hold to recovery or maturity, we are required to write down the security. A write-down is necessary even in situations where the unrealized loss is not due to an underlying credit issue, but may be solely related to the impact of changes in interest rates on the fair value of the security. Where such analysis results in a conclusion that declines in fair values are other-than-temporary, the security is written down to fair value.

Our gross unrealized losses on securities available-for-sale as of December 31, 2008, were $7.5 billion, pre-tax, and the component of gross unrealized losses for securities with a decline of 20% or more for at least six months was $5.0 billion, pre-tax. Related to our unrealized losses, we establish deferred tax assets for the tax benefit we may receive in the event that losses are realized. The realization of significant realized losses could result in an inability to recover the tax benefits and may result in the establishment of valuation allowances against our deferred tax assets. Realized losses or impairments may have a material adverse impact on our results of operation and financial position.

We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve capital adequacy or net income and stockholders equity levels.

We have approximately $1.6 billion in principal amount of capital securities outstanding. All of the capital securities contain covenants that require us to make interest payments in accordance with an alternative coupon satisfaction mechanism (ACSM) if we determine that one of the following triggers exists as of the 30th day prior to an interest payment date (determination date):

1. LNL s RBC ratio is less than 175% (based on the most recent annual financial statement filed with the State of Indiana); or
2. (i) The sum of our consolidated net income for the four trailing fiscal quarters ending on the quarter that is two quarters prior to the most recently completed quarter prior to the determination date is zero or negative, and (ii) our consolidated stockholders equity (excluding accumulated other comprehensive income and any increase in stockholders equity resulting from the issuance of preferred stock during a quarter) (adjusted stockholders equity) as of (x) the most recently completed quarter and (y) the end of the quarter that is two quarters before the most recently completed quarter, has declined by 10% or more as compared to the quarter that is ten fiscal quarters prior to the last completed quarter (the benchmark quarter).

The ACSM would generally require us to use commercially reasonable efforts to satisfy our obligation to pay interest in full on the capital securities with the net proceeds from sales of our common stock and warrants to purchase our common stock with an exercise price greater than the market price. We would have to utilize the ACSM until the

trigger events above no longer existed, and, in the case of test 2 above, our adjusted stockholders equity amount has increased or has declined by less than 10% as compared to the adjusted stockholders equity at the end of the benchmark quarter for each interest payment date as to which interest payment restrictions were imposed by test 2 above.

As a result of our net loss of $505 million in the quarter ended December 31, 2008, if we have net income of $232 million or less for the quarter ended March 31, 2009, we would trigger test 2(i) above with respect to the quarter ended September 30, 2009. If our adjusted stockholders equity at each of the quarters ended March 31 and September 30, 2009, as compared to the benchmark quarter (March 31, 2007) declines by 10% or more, we would trigger tests 2(ii)(x) and (y) above. In such a case, we would trigger the ACSM for at least our interest payments on November 17, 2009, of $28 million and January 20, 2010, of $5 million.

If we were required to utilize the ACSM and were successful in selling sufficient common shares or warrants to satisfy the interest payment, we would dilute the current holders of our common stock. Furthermore, while a trigger event is occurring and if we do not pay accrued interest in full, we may not, among other things, pay dividends on or repurchase our capital stock. Our failure to pay interest pursuant to the ACSM will not result in an event of default with respect to the capital securities, nor will a nonpayment of interest, unless it lasts for ten consecutive years, although such breaches may result in monetary damages to the holders of the capital securities.

The calculations of RBC, net income (loss) and adjusted stockholders equity are subject to adjustments and the capital securities are subject to additional terms and conditions as further described in supplemental indentures filed as exhibits to our Forms 8-K filed on March 13, 2007, May 17, 2006, and April 20, 2006.

A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in reserving requirements, such as VACARVM and principles based reserving, our inability to secure capital market solutions to provide reserve relief, such as issuing letters of credit to support captive reinsurance structures, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that do not get hedge accounting, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. The RBC ratio is also affected by the product mix of the in-force book of business (i.e. the amount of business without guarantees is not subject to the same level of reserves as the business with guarantees). Most of these factors are outside of our control. Our credit and insurer financial strength ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. The RBC ratio of LNL is an important factor in the determination of the credit and financial strength ratings of LNC and its subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital we must hold in order to maintain our current ratings. In addition, in extreme scenarios of equity market declines, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees may increase at a rate greater than the rate of change of the markets. Increases in reserves reduce the statutory surplus used in calculating our RBC ratios. To the extent that our statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise additional capital through public or private equity or debt financing, which may be on terms not as favorable as in the past. Alternatively, if we were not to raise additional capital in such a scenario, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies. For more information on risks regarding our ratings, see A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors below.

A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors.

Nationally recognized rating agencies rate the financial strength of our principal insurance subsidiaries and rate our debt. Ratings are not recommendations to buy our securities. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future. In late September and early October of 2008, A.M. Best, Fitch, Moody s and S&P each revised their outlook for the U.S. life insurance sector from stable to negative. We believe that the rating agencies may heighten the level of scrutiny that they apply to such institutions, may increase the frequency and scope of their credit reviews, may request additional information from the companies

that they rate and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. In addition, actions we take to access third-party financing may in turn cause rating agencies to reevaluate our ratings.

Our financial strength ratings, which are intended to measure our ability to meet contract holder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry by making it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings and by leading to increased withdrawals by current customers seeking companies with higher financial strength ratings.

This could lead to a decrease in fees as net outflows of assets increase, and therefore, result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. The interest rates we pay on our borrowings are largely dependent on our credit ratings. The recent downgrades and future downgrades of our debt ratings could affect our ability to raise additional debt, including bank lines of credit, with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, the recent downgrades and future downgrades of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries. Additional future downgrades of one or more of our ratings have become more likely as several of the ratings agencies have negative outlooks on our credit and insurer financial strength ratings. See Item 1. Business Ratings for a complete description of our ratings and ratings outlook.

As a result of S&P s recent downgrade of LNC s short-term credit rating to A-2, we are not currently eligible to issue new commerical paper under the Federal Reserve s Commercial Paper Funding Facility (CPFF), which we believe will make it more expensive to sell additional commercial paper, and it may make it more likely that we will have to utilize other sources of liquidity, including our credit facilities, for liquidity purposes. Prior to the downgrade, we were eligible to sell up to a maximum of $575 million to the CPFF. See Review of Consolidated Financial Condition - Liquidity and Capital Resources Sources of Liquidity and Cash Flow Alternative Sources of Liquidity in the MD&A for more information regarding our participation in the CPFF.

Certain blocks of our insurance business purchased from third-party insurers under indemnity reinsurance agreements may require us to place assets in trust, secure letters of credit or return the business, if the financial strength ratings and/or capital ratios of certain insurance subsidiaries are not maintained at specified levels.

Under certain indemnity reinsurance agreements, one of our insurance subsidiaries, LLANY, provides 100% indemnity reinsurance for the business assumed, however, the third-party insurer (the cedent) remains primarily liable on the underlying insurance business. Under these types of agreements, at December 31, 2008, we held statutory reserves of approximately $3.5 billion. These indemnity reinsurance arrangements require that our subsidiary, as the reinsurer, maintain certain insurer financial strength ratings and capital ratios. If these ratings or capital ratios are not maintained, depending upon the reinsurance agreement, the cedent may recapture the business, or require us to place assets in trust or provide letters of credit at least equal to the relevant statutory reserves. Under the largest indemnity reinsurance arrangement, we held approximately $2.4 billion of statutory reserves at December 31, 2008. LLANY must maintain an A.M. Best financial strength rating of at least B+, an S&P financial strength rating of at least BB+ and a Moody s financial strength rating of at least Ba1, as well as maintain a RBC ratio of at least 160% or an S&P capital adequacy ratio of 100%, or the cedent may recapture the business. Under two other arrangements, by which we established approximately $1 billion of statutory reserves, LLANY must maintain an A.M. Best financial strength rating of at least B++, an S&P financial strength rating of at least BBB- and a Moody s financial strength rating of at least Baa3. One of these arrangements also requires LLANY to maintain an RBC ratio of at least 185% or an S&P capital adequacy ratio of 115%. Each of these arrangements may require LLANY to place assets in trust equal to the relevant statutory reserves. As of December 31, 2008, LLANY s RBC ratio exceeded 500%. See Item 1. Business Ratings for a complete description of LLANY s ratings.

If the cedent recaptured the business, LLANY would be required to release reserves and transfer assets to the cedent. Such a recapture could adversely impact our future profits. Alternatively, if LLANY established a security trust for the cedent, the ability to transfer assets out of the trust could be severely restricted, thus negatively impacting our liquidity.

Our businesses are heavily regulated and changes in regulation may reduce our profitability.

Our insurance subsidiaries are subject to extensive supervision and regulation in the states in which we do business. The supervision and regulation relate to numerous aspects of our business and financial condition. The primary purpose of the supervision and regulation is the protection of our insurance contract holders, and not our investors. The extent of regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments. This system of supervision and regulation covers, among other things:

Standards of minimum capital requirements and solvency, including RBC measurements;
Restrictions of certain transactions between our insurance subsidiaries and their affiliates;
Restrictions on the nature, quality and concentration of investments;
Restrictions on the types of terms and conditions that we can include in the insurance policies offered by our primary insurance operations;
Limitations on the amount of dividends that insurance subsidiaries can pay;
The existence and licensing status of the company under circumstances where it is not writing new or renewal business;
Certain required methods of accounting;
Reserves for unearned premiums, losses and other purposes; and
Assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies.

We may be unable to maintain all required licenses and approvals and our business may not fully comply with the wide variety of applicable laws and regulations or the relevant authority s interpretation of the laws and regulations, which may change from time to time. Also, regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit such authorities to supervise the business and operations of an insurance company. As of December 31, 2008, no state insurance regulatory authority had imposed on us any substantial fines or revoked or suspended any of our licenses to conduct insurance business in any state or issued an order of supervision with respect to our insurance subsidiaries, which would have a material adverse effect on our results of operations or financial condition.

In addition, Lincoln Financial Network and Lincoln Financial Distributors, as well as our variable annuities and variable life insurance products, are subject to regulation and supervision by the SEC and the FINRA. Our Investment Management segment is subject to regulation and supervision by the SEC, the FINRA, the Municipal Securities Rulemaking Board, the Pennsylvania Department of Banking and jurisdictions of the states, territories and foreign countries in which they are licensed to do business. Lincoln UK is subject to regulation by the FSA in the U.K. LNC, as a savings and loan holding company and Newton County Loan and Savings, FSB, are subject to regulation and supervision by the Office of Thrift Supervision. These laws and regulations generally grant supervisory agencies and self-regulatory organizations broad administrative powers, including the power to limit or restrict the subsidiaries from carrying on their businesses in the event that they fail to comply with such laws and regulations. Finally, our radio operations require a license, subject to periodic renewal, from the Federal Communications Commission to operate. While management considers the likelihood of a failure to renew remote, any station that fails to receive renewal would be forced to cease operations.

Many of the foregoing regulatory or governmental bodies have the authority to review our products and business practices and those of our agents and employees. In recent years, there has been increased scrutiny of our businesses by these bodies, which has included more extensive examinations, regular sweep inquiries and more detailed review of disclosure documents. These regulatory or governmental bodies may bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could have a material adverse effect on our business, results of operations or financial condition.

Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations.

The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX or XXX, requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and UL policies with secondary guarantees. In addition, Actuarial Guideline 38 (AG38) clarifies the application of XXX with respect to certain UL insurance policies with secondary guarantees. Virtually all of our newly issued term and the great majority of our newly issued UL insurance products are now affected by XXX and AG38.

As a result of this regulation, we have established higher statutory reserves for term and UL insurance products and changed our premium rates for term life insurance products. We also have implemented reinsurance and capital management actions to mitigate the capital impact of XXX and AG38, including the use of letters of credit to support the reinsurance provided by a captive reinsurance subsidiary. However, we cannot provide assurance that there will not be regulatory, rating agency or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase statutory reserves or incur higher operating and/or tax costs. Any change to or repeal of XXX or AG38 could reduce the competitive advantage of our reinsurance and capital management actions and could adversely affect our market position in the life insurance market. In addition, as a result of current capital market conditions and disruption in the credit markets, our ability to secure additional letters of credit or to secure them at current costs may impact the profitability of term and UL insurance products. See Part II - Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sources of Liquidity and Cash Flow Subsidiaries for a further discussion of our capital management in

connection with XXX.

In light of the current downturn in the credit markets and the increased spreads on asset-backed debt securities, we also cannot provide assurance that we will be able to continue to implement actions to mitigate the impact of XXX or AG38 on future sales of term and UL insurance products. If we are unable to continue to implement those actions, we may be required to increase statutory reserves, incur higher operating costs and lower returns on products sold than we currently anticipate or reduce our sales of these products. We also may have to implement measures that may be disruptive to our business. For example, because term and UL insurance are particularly price-sensitive products, any increase in premiums charged on these products in order to compensate us for the increased statutory reserve requirements or higher costs of reinsurance may result in a significant loss of volume and adversely affect our life insurance operations.

A drop in the rankings of the mutual funds that we manage, as well as a loss of key portfolio managers, could result in lower advisory fees.

While mutual funds are not rated, per se, many industry periodicals and services, such as Lipper, provide rankings of mutual fund performance. These rankings often have an impact on the decisions of customers regarding which mutual funds to invest in. If the rankings of the mutual funds for which we provide advisory services decrease materially, the funds assets may decrease as customers leave for funds with higher performance rankings. Similarly, a loss of our key portfolio managers who manage mutual fund investments could result in poorer fund performance, as well as customers leaving these mutual funds for new mutual funds managed by the portfolio managers. Any loss of fund assets would decrease the advisory fees that we earn from such mutual funds, which are generally tied to the amount of fund assets and performance. This would have an adverse effect on our results of operations.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of GAAP, which is periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards or guidance issued by recognized authoritative bodies, including the Financial Accounting Standards Board. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm our businesses.

We are, and in the future may be, subject to legal actions in the ordinary course of our insurance and investment management operations, both domestically and internationally. Pending legal actions include proceedings relating to aspects of our businesses and operations that are specific to us and proceedings that are typical of the businesses in which we operate. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal or regulatory actions could have a material financial effect or cause significant harm to our reputation, which in turn could materially harm our business prospects. For more information on pending material legal proceedings, see Regulatory and Litigation Matters in Note 14 for a description of our reportable litigation.

Changes in U.S. federal income tax law could increase our tax costs.

Changes to the Internal Revenue Code, administrative rulings or court decisions could increase our effective tax rate and lower our net income. In this regard, on August 16, 2007, the Internal Revenue Service (IRS) issued a revenue ruling which purports, among other things, to modify the calculation of separate account deduction for dividends received by life insurance companies. Subsequently, the IRS issued another revenue ruling that suspended the August 16, 2007, ruling and announced a new regulation project on the issue. Our income tax provision for the year ended December 31, 2008, included a separate account dividend received deduction benefit of $81 million.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our businesses or result in losses.

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully

effective. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate, such as the risk of pandemics causing a large number of deaths. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

We face a risk of non-collectibility of reinsurance, which could materially affect our results of operations.

We follow the insurance practice of reinsuring with other insurance and reinsurance companies a portion of the risks under the policies written by our insurance subsidiaries (known as ceding). As of December 31, 2008, we have ceded approximately $347 billion of life insurance in force to reinsurers for reinsurance protection. Although reinsurance does not discharge our subsidiaries from their primary obligation to pay contract holders for losses insured under the policies we issue, reinsurance does make the assuming reinsurer liable to the insurance subsidiaries for the reinsured portion of the risk. As of December 31, 2008, we had $8.5 billion of reinsurance receivables from reinsurers for paid and unpaid losses, for which they are obligated to reimburse us under our reinsurance contracts. Of this amount, $4.5 billion relates to the sale of our reinsurance business to Swiss Re in 2001 through an indemnity reinsurance agreement. Swiss Re has funded a trust to support this business. The balance in the trust changes as a result of ongoing reinsurance activity and was $1.9 billion as of December 31, 2008. In addition, should Swiss Re s financial strength ratings drop below either S&P AA- or A.M. Best A, or their NAIC RBC ratio fall below 250%, assets equal to the reserves supporting business reinsured must be placed into a trust according to pre-established asset quality guidelines. Furthermore, approximately $2.0 billion of the Swiss Re treaties are funds withheld structures where we have a right of offset on assets backing the reinsurance receivables.

Included in the business sold to Swiss Re through indemnity reinsurance in 2001 was disability income business. See further discussion of this business in Reinsurance in the MD&A.

The balance of the reinsurance is due from a diverse group of reinsurers. The collectibility of reinsurance is largely a function of the solvency of the individual reinsurers. We perform annual credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends and commitment to the reinsurance business. We also require assets in trust, letters of credit or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer s insolvency, inability or unwillingness to make payments under the terms of a reinsurance contract, especially Swiss Re, could have a material adverse effect on our results of operations and financial condition.

Significant adverse mortality experience may result in the loss of, or higher prices for, reinsurance.

We reinsure a significant amount of the mortality risk on fully underwritten, newly issued, individual life insurance contracts. We regularly review retention limits for continued appropriateness and they may be changed in the future. If we were to experience adverse mortality or morbidity experience, a significant portion of that would be reimbursed by our reinsurers. Prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers not willing to offer coverage. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient, we would either have to be willing to accept an increase in our net exposures or revise our pricing to reflect higher reinsurance premiums. If this were to occur, we may be exposed to reduced profitability and cash flow strain or we may not be able to price new business at competitive rates.

Catastrophes may adversely impact liabilities for contract holder claims and the availability of reinsurance.

Our insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic, an act of terrorism or other event that causes a large number of deaths or injuries. Significant influenza pandemics have occurred three times in the last century, but the likelihood, timing or severity of a future pandemic cannot be predicted. In our group insurance operations, a localized event that affects the workplace of one or more of our group insurance customers could cause a significant loss due to mortality or morbidity claims. These events could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our financial condition.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Pandemics, hurricanes, earthquakes and man-made catastrophes, including terrorism, may produce significant damage in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Also, catastrophic events could harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries. Accordingly, our ability to write new business could also be affected.

Consistent with industry practice and accounting standards, we establish liabilities for claims arising from a catastrophe only after assessing the probable losses arising from the event. We cannot be certain that the liabilities we have established or applicable reinsurance will be adequate to cover actual claim liabilities, and a catastrophic event or multiple catastrophic events could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to attract and retain sales representatives and other employees and independent contractors, particularly financial advisors.

We compete to attract and retain financial advisors, wholesalers, portfolio managers and other employees and independent contractors, as well as independent distributors of our products. Intense competition exists for persons and independent distributors with demonstrated ability. We compete with other financial institutions primarily on the basis of our products, compensation, support services and financial position. Sales in our businesses and our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining financial advisors, wholesalers, portfolio managers and other employees, as well as independent distributors of our products.

Our sales representatives are not captive and may sell products of our competitors.

We sell our annuity and life insurance products through independent sales representatives. These representatives are not captive, which means they may also sell our competitors products. If our competitors offer products that are more attractive than ours, or pay higher commission rates to the sales representatives than we do, these representatives may concentrate their efforts in selling our competitors products instead of ours.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon another party s intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, methods, processes or services. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

Intense competition could negatively affect our ability to maintain or increase our profitability.

Our businesses are intensely competitive. We compete based on a number of factors, including name recognition, service, the quality of investment advice, investment performance, product features, price, perceived financial strength and claims-paying and credit ratings. Our competitors include insurers, broker-dealers, financial advisors, asset managers and other financial institutions. A number of our business units face competitors that have greater market share, offer a broader range of products or have higher financial strength or credit ratings than we do.

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. Furthermore, larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. We expect consolidation to continue and perhaps accelerate in the future, thereby increasing competitive pressure on us.

Anti-takeover provisions could delay, deter or prevent our change in control, even if the change in control would be beneficial to LNC shareholders.

We are an Indiana corporation subject to Indiana state law. Certain provisions of Indiana law could interfere with or restrict takeover bids or other change in control events affecting us. Also, provisions in our articles of incorporation, bylaws and other agreements to which we are a party could delay, deter or prevent our change in control, even if a change in control would be beneficial to shareholders. In addition, under Indiana law, directors may, in considering the best interests of a corporation, consider the effects of any action on stockholders, employees, suppliers and customers of the corporation and the communities in which offices and other facilities are located, and other factors the directors consider pertinent. One statutory provision prohibits, except under specified circumstances, LNC from engaging in any business combination with any shareholder who owns 10% or more of our common stock (which shareholder, under the statute, would be considered an interested shareholder) for a period of five years following the time that such shareholder became an interested shareholder, unless such business combination is approved by the board of directors prior to such person becoming an interested shareholder. In addition, our articles of incorporation contain a provision requiring holders of at least three-fourths of our voting shares then outstanding and entitled to vote at an election of directors, voting together, to approve a transaction with an interested shareholder rather than the simple majority required under Indiana law.

In addition to the anti-takeover provisions of Indiana law, there are other factors that may delay, deter or prevent our change in control. As an insurance holding company, we are regulated as an insurance holding company and are subject to the insurance holding company acts of the states in which our insurance company subsidiaries are domiciled. The insurance holding company acts and regulations restrict the ability of any person to obtain control of an insurance company without prior regulatory approval. Under those statutes and regulations, without such approval (or an exemption), no person may acquire any voting security of a domestic insurance company, or an insurance holding company which controls an insurance company, or merge with such a holding company, if as a result of such transaction such person would control the insurance holding company or insurance company. Control is generally defined as the direct or indirect power to direct or cause the direction of the management and policies of a person and is presumed to exist if a person directly or indirectly owns or controls 10% or more of the voting securities of another person. Similarly, as a result of its ownership of Newton County Loan & Savings, FSB, LNC is considered to be a savings and loan holding company. Federal banking laws generally provide that no person may acquire control of LNC, and gain indirect control of Newton County Loan & Savings, FSB, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of LNC would be presumed to constitute control.

***Item 1B.* Unresolved Staff Comments**

None.

***Item 2.* Properties**

As of December 31, 2008, LNC and our subsidiaries owned or leased approximately 3.9 million square feet of office space. As of December 31, 2008, we leased 0.4 million square feet of office space in Philadelphia, Pennsylvania for the Investment Management segment and for LFN. Beginning in the second quarter of 2008, we leased 0.2 million square feet of office space in Radnor, Pennsylvania for our corporate center and for LFD. We owned or leased 0.8 million square feet of office space in Fort Wayne, Indiana, primarily for our Retirement Solutions Annuities and Retirements Solutions Defined Contribution segments. We owned or leased 0.8 million square feet of office space in Greensboro, North Carolina, primarily for our Insurance Solutions Life Insurance segment. We owned or leased 0.3 million square feet of office space in Omaha, Nebraska, primarily for our Insurance Solutions Group Protection segment. An additional 1.4 million square feet of office space is owned or leased in other U.S. cities and the U.K. for branch offices and other operations. As provided in Note 14, the rental expense on operating leases for office space and equipment totaled $63 million for 2008. This discussion regarding properties does not include information on investment properties.

***Item 3.* Legal Proceedings**

For information regarding legal proceedings, see Regulatory and Litigation Matters in Note 14, which is incorporated herein by reference.

***Item 4.* Submission of Matters to a Vote of Security Holders**

During the fourth quarter of 2008, no matters were submitted to security holders for a vote.

Table of Contents

Executive Officers of the Registrant

Executive Officers of the Registrant as of February 20, 2009, were as follows:

Name	Age [2]	Position with LNC and Business Experience During the Past Five Years
Dennis R. Glass	59	President, Chief Executive Officer and Director (since July 2007). President, Chief Operating Officer and Director (April 2006 July 2007). President and Chief Executive Officer, Jefferson-Pilot (2004 April 2006). President and Chief Operating Officer, Jefferson-Pilot (2001 April 2006).
Lisa M. Buckingham	43	Senior Vice President, Chief Human Resources Officer (since December 2008). Senior Vice President, Global Talent, Thomson Reuters, a provider of information and services for businesses and professionals (April 2008 November 2008). Senior Vice President, Human Resources, Thomson Corporation (2002 April 2008).
Charles C. Cornelio	49	Executive Vice President, Chief Administrative Officer (since November 2008). Senior Vice President, Shared Services and Chief Information Officer (April 2006 November 2008). Executive Vice President, Technology and Insurance Services, Jefferson-Pilot (2004 April 2006). Senior Vice President, Jefferson-Pilot (1997 2004).
Patrick P. Coyne	45	President of Lincoln National Investment Companies, Inc. [1] and Delaware Management Holdings, Inc. [1] (since July 2006). Executive Vice President and Chief Investment Officer, Lincoln National Investment Company, Inc. and Delaware Management Holdings, Inc. (2003 July 2006).
Frederick J. Crawford	45	Executive Vice President and Chief Financial Officer (since November 2008). Senior Vice President and Chief Financial Officer (2005 November 2008). Vice President and Treasurer (2001 2004).
Robert W. Dineen	59	Chairman and CEO, Lincoln Financial Advisors [1] (since 2002). Senior Vice President, Managed Asset Group, Merrill Lynch & Co., a diversified financial services company (2001 2002).
Heather C. Dzielak	40	Senior Vice President, Chief Marketing Officer (since January 2009). Senior Vice President, Retirement Income Security Ventures (September 2006 January 2009). Vice President, Lincoln National Life Insurance Company [1] (December 2003 September 2006).
Wilford H. Fuller	38	President and CEO of Lincoln Financial Distributors [1] (since February 2009). Head, Distribution, Global Wealth Management, Merrill Lynch & Co., a diversified financial services company (2007-2009). Head, Distribution, Managed Solutions Group, Merrill Lynch & Co. (2005-2007). National Sales Manager, Merrill Lynch & Co. (2000-2005).
Mark E. Konen	49	President, Insurance Solutions (since July 2008). President, Individual Markets (April 2006 July 2008). Executive Vice President, Life and Annuity

		Manufacturing, Jefferson-Pilot (2004 April 2006). Executive Vice President, Product/Financial Management, Jefferson-Pilot (2002 2004).
Dennis L. Schoff	49	Senior Vice President, LNC and General Counsel (since 2002). Vice President and Deputy General Counsel (2001 2002).
Michael Tallett-Williams	55	President and Managing Director, Lincoln National (UK) [1] (since 2000).

[1] Denotes an affiliate of LNC.

[2] Age shown is based on the officer s age as of February 20, 2009.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Stock Market and Dividend Information

Our common stock is traded on the New York and Chicago stock exchanges under the symbol LNC. As of January 30, 2009, the number of shareholders of record of our common stock was 11,425. The dividend on our common stock is declared each quarter by our Board of Directors if we are eligible to pay dividends and the Board determines that we will pay dividends. In determining dividends, the Board takes into consideration items such as our financial condition, including current and expected earnings, projected cash flows and anticipated financing needs. On February 24, 2009, the Board of Directors approved a reduction in the dividend on our common stock from $0.210 to $0.01 per share. For potential restrictions on our ability to pay dividends, see Part I Item 1A. Risk Factors We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve capital adequacy or net income and stockholders equity levels, Item 7. Management s Discussion and Analysis (MD&A) Review of Consolidated Financial Condition and Note 21 to our consolidated financial statements and the accompanying notes to the consolidated financial statements (Notes) presented in Item 8. Financial Statements and Supplementary Data. The following presents the high and low prices for our common stock on the New York Stock Exchange during the periods indicated and the dividends declared per share during such periods:

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
2008				
High	$ 58.11	$ 56.80	$ 59.99	$ 45.50
Low	45.50	45.18	39.83	4.76
Dividend declared	0.415	0.415	0.415	0.210
2007				
High	$ 71.18	$ 74.72	$ 72.28	$ 70.66
Low	64.29	66.90	54.40	55.84
Dividend declared	0.395	0.395	0.395	0.415

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

The following summarizes our stock repurchases during the quarter ended December 31, 2008 (dollars in millions, except per share data):

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (3)
10/1/08 10/31/08		$		$ 1,204
11/1/08 11/30/08				1,204
12/1/08 12/31/08	1,741(1)	17.45		1,204

(1) Represents shares withheld for taxes on the vesting of restricted stock.

(2) On February 23, 2007, our Board approved a $2 billion increase to our existing securities repurchase authorization, bringing the total authorization at that time to $2.6 billion. At December 31, 2008, our security repurchase authorization was $1.2 billion. The security repurchase authorization does not have an expiration date. However, the amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. In the fourth quarter of 2008, we announced a

suspension of share repurchases under this program. The shares repurchased in connection with the awards described in footnote (1) are not included in our security repurchase.

(3) As of the last day of the applicable month.

Table of Contents

Item 6. **Selected Financial Data**

The following selected financial data (in millions, except per share data) should be read in conjunction with the MD&A and the Notes of this report. Some previously reported amounts have been reclassified to conform to the presentation as of and for the year ended December 31, 2008.

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
Total revenues	$ 9,883	$ 10,475	$ 8,879	$ 5,459	$ 5,351
Income from continuing operations	62	1,321	1,295	831	732
Net income	57	1,215	1,316	831	707
Per share data [1]:					
Income from continuing operations basic	$ 0.24	$ 4.89	$ 5.13	$ 4.80	$ 4.15
Income from continuing operations diluted	0.24	4.82	5.05	4.72	4.09
Net income basic	0.22	4.50	5.21	4.80	4.01
Net income diluted	0.22	4.43	5.13	4.72	3.95
Common stock dividends	1.455	1.600	1.535	1.475	1.415

	As of December 31,				
	2008	2007	2006	2005	2004
Assets	$ 163,136	$ 191,435	$ 178,495	$ 124,860	$ 116,219
Long-term debt	4,731	4,618	3,458	1,333	1,389
Stockholders equity	7,977	11,718	12,201	6,384	6,176
Per share data [1]:					
Stockholders equity including accumulated other comprehensive income [2]	$ 31.15	$ 44.32	$ 44.21	$ 36.69	$ 35.53
Stockholders equity excluding accumulated other comprehensive income [2]	42.10	43.46	41.99	33.66	30.17
Market value of common stock	18.84	58.22	66.40	53.03	46.68

[1] Per share amounts were affected by the issuance of 112.3 million shares for the acquisition of Jefferson-Pilot in 2006 and the retirement of 9.3 million, 15.4 million, 16.9 million, 2.3 million and 7.6 million

shares of common stock during the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

(2) Per share amounts are calculated under the assumption that preferred stock has been converted to common stock.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of Lincoln National Corporation and its consolidated subsidiaries (LNC, Lincoln or the Company which also may be referred to as we, our or us) as of December 31, 2008, compared with December 31, 2007, and the results of operations of LNC in 2008 and 2007, compared with the immediately preceding year. On April 3, 2006, LNC completed its merger with Jefferson-Pilot Corporation (Jefferson-Pilot). Beginning on April 3, 2006, the results of operations and financial condition of Jefferson-Pilot, after being adjusted for the effects of purchase accounting, were consolidated with LNC. The financial information presented herein for the year ended December 31, 2006, reflects the accounts of LNC for the three months ended March 31, 2006, and the consolidated accounts of LNC and Jefferson-Pilot for the remainder of 2006. The MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements (Notes) presented in Item 8. Financial Statements and Supplementary Data, as well as Item 1A. Risk Factors above.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Income (loss) from operations is net income recorded in accordance with United States of America generally accepted accounting principles (GAAP) excluding the after-tax effects of the following items, as applicable:

- Realized gains and losses associated with the following (excluded realized gain (loss)):
  - Sale or disposal of securities;
  - Impairments of securities;
  - Change in the fair value of embedded derivatives within certain reinsurance arrangements and the change in the fair value of related trading securities;
  - Change in the fair value of the embedded derivatives of our guaranteed living benefits (GLB) within our variable annuities net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative;
  - Net difference between the benefit ratio unlocking of Statement of Position (SOP) No. 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1) reserves on our guaranteed death benefit (GDB) riders within our variable annuities and the change in the fair value of the derivatives excluding our expected cost of purchasing the hedging instruments; and
  - Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products as required under Statements of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 157, Fair Value Measurements (SFAS 157).
- Income (loss) from the initial adoption of changes in accounting principles;
- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Losses on early retirement of debt, including subordinated debt;
- Losses from the impairment of intangible assets; and
- Income (loss) from discontinued operations.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable:

- Excluded realized gain (loss);
- Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and
- Revenue adjustments from the initial impact of the adoption of changes in accounting principles.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we report operating revenues and income (loss) from operations by segment in Note 23. Our management and Board of Directors believe that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the

underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Beginning with the quarter ended June 30, 2008, we changed our definitions of segment operating revenues and income from operations to better reflect: the underlying economics of our variable and indexed annuities that employ derivative instruments to hedge policy benefits; and the manner in which management evaluates that business. Our change in the definition of income from operations is primarily the result of our adoption of SFAS 157 during the first quarter of 2008 (See Note 2). Under the fair value measurement provisions of SFAS 157, we are required to measure the fair value of these annuities from an exit price perspective, (i.e., the exchange price between market participants to transfer the liability). We, therefore, must include margins that a market participant buyer would require as well as a factor for non-performance risk (NPR) related to our credit quality. We do not believe that these factors relate to the economics of the underlying business and do not reflect the manner in which management evaluates the business. The items that are now excluded from our operating results that were previously included are as follows: GLB net derivatives results; indexed annuity forward-starting option; and GDB derivatives results. For more information regarding this change, see our current report on Form 8-K dated July 16, 2008.

We continue to exclude the effects of any realized gain (loss) on investments from segment operating revenues and income from operations as we believe that such items are not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments.

We believe that our new definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business. See Realized Gain (Loss) below for more information about these items.

Certain reclassifications have been made to prior periods financial information. Included in these reclassifications is the change in our definition of segment operating revenues and income (loss) from operations as discussed above. In addition, we have reclassified the results of certain derivatives and embedded derivatives to realized gain (loss), which were previously reported within insurance fees, net investment income, interest credited or benefits. The associated amortization expense of deferred acquisition costs (DAC) and value of business acquired (VOBA) (previously reported within underwriting, acquisition, insurance and other expenses), deferred sales inducements (DSI) (previously reported within interest credited), deferred front-end loads (DFEL) (previously reported within insurance fees) and changes in contract holder funds (previously reported within benefits) have also been reclassified to realized gain (loss). See Basis of Presentation in Note 1 for details.

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by LNC or on LNC s behalf are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: believe, anticipate, expect, estimate, project, will, shall and other words or phrases with similar meaning i with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. LNC claims the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

- Continued deterioration in general economic and business conditions, both domestic and foreign, that may affect foreign exchange rates, premium levels, claims experience, the level of pension benefit costs and funding and investment results;
- Continued economic declines and credit market illiquidity could cause us to realize additional impairments on investments and certain intangible assets, including goodwill and a valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;

Uncertainty about the impact of the U.S. Treasury s Troubled Asset Relief Program (TARP) on the economy, and LNC s ability to participate in the program;
Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, LNC s products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital (RBC) requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline 43 (also known as VACARVM); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;
The initiation of legal or regulatory proceedings against LNC or its subsidiaries, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which LNC and its subsidiaries compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and extra-contractual and class action damage cases; new decisions that result in changes in law; and unexpected trial court rulings;

- Changes in interest rates causing a reduction of investment income, the margins of LNC s fixed annuity and life insurance businesses and demand for LNC s products;
- A decline in the equity markets causing a reduction in the sales of LNC s products, a reduction of asset-based fees that LNC charges on various investment and insurance products, an acceleration of amortization of DAC, VOBA, DSI and DFEL and an increase in liabilities related to guaranteed benefit features of LNC s variable annuity products;
- Ineffectiveness of LNC s various hedging strategies used to offset the impact of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from LNC s assumptions used in pricing its products, in establishing related insurance reserves and in the amortization of intangibles that may result in an increase in reserves and a decrease in net income, including as a result of stranger-originated life insurance business;
- Changes in GAAP that may result in unanticipated changes to LNC s net income;
- Lowering of one or more of LNC s debt ratings issued by nationally recognized statistical rating organizations and the adverse impact such action may have on LNC s ability to raise capital and on its liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of LNC s insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability of its insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud or corporate governance issues that may adversely affect the value of certain investments in the portfolios of LNC s companies requiring that LNC realize losses on such investments;
- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including LNC s ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
- The adequacy and collectibility of reinsurance that LNC has purchased;
- Acts of terrorism, war or other man-made and natural catastrophes that may adversely affect LNC s businesses and the cost and availability of reinsurance;
- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that LNC can charge for its products;
- The unknown impact on LNC s business resulting from changes in the demographics of LNC s client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
- Loss of key management, portfolio managers in the Investment Management segment, financial planners or wholesalers.

The risks included here are not exhaustive. Other sections of this report, LNC s quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission (SEC) include additional factors that could impact LNC s business and financial performance, including Item 1A. Risk Factors, Item 7A. Quantitative and Qualitative Disclosures About Market Risk and the risk discussions included in this section under Critical Accounting Policies and Estimates, Consolidated Investments and Reinsurance, which are incorporated herein by reference. Moreover, LNC operates in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the impact of all risk factors on LNC s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, LNC disclaims any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

INTRODUCTION

Executive Summary

We are a holding company that operates multiple insurance and investment management businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include institutional and/or retail fixed and indexed

annuities, variable annuities, universal life insurance (UL), variable universal life insurance (VUL), linked-benefit UL, term life insurance, mutual funds and managed accounts.

On July 21, 2008, we announced the realignment of our segments under our former Employer Markets and Individual Markets businesses into two new businesses Retirement Solutions and Insurance Solutions. For information on our 2008 segment realignment, see Part I Item 1. Business Overview.

Our individual products and services are distributed primarily through brokers, planners, agents and other intermediaries with sales and marketing support provided by approximately 750 wholesalers within Lincoln Financial Distributors (LFD), our wholesaling distributor. Our Insurance Solutions Group Protection segment distributes its products and services primarily through employee benefit brokers, third party administrators (TPAs) and other employee benefit firms with sales support provided by its group and retirement sales specialists. Our retail distributor, Lincoln Financial Network, offers proprietary and non-proprietary products and advisory services through a national network of approximately 7,400 active producers who placed business with us within the last twelve months.
Within our Retirement Solutions Annuities segment, our *Lincoln SmartSecurity*® Advantage, with its one-year reset feature, including the Lifetime withdrawal benefit introduced in 2006, and five-year reset feature, contributed to our growth with elections of these riders totaling 21% of deposits in 2008. We also offer a patented annuity product feature, *i4LIFE*®, which we introduced a few years ago to meet the needs of baby-boomers for retirement income as they enter the retirement phase of their life cycle. The *i4LIFE*® Advantage product offers a guaranteed income benefit (GIB) rider, which can be elected to provide a floor to the amount of income available from the annuity during retirement. In 2008, elections of *i4LIFE*® were $2.3 billion, a decrease of $177 million over 2007. Additionally, in 2006, we introduced 4LATER® to meet the needs of baby-boomers who are not ready for retirement but are ready to plan for it. In 2008, deposits of 4LATER® were approximately $774 million. We also offer a fixed indexed annuity, which offers upside growth from equity markets with fixed return protection.
Our Retirement Solutions Defined Contribution segment provides us the platform to benefit from the movement in the marketplace by employees away from the traditional defined benefit pension plans towards voluntary defined contribution plans, such as 401(k)s and 403(b)s, and the increase in voluntary group life and disability has also provided for a convergence of distribution strategies. We also believe that the Pension Protection Act of 2006 (PPA) will benefit the Retirement Solutions business. Our oldest block of business in our Retirement Solutions Defined Contribution segment is experiencing significant negative net flows, and a substantial increase in new deposit production will be necessary to maintain earnings at current levels.
In our Insurance Solutions Life Insurance segment, we are in a competitive marketplace, especially related to life insurance products with secondary guarantees. This product requires us to maintain risk management and pricing discipline, which is especially important in the competitive environment. Sales of insurance products with such guarantees comprised 68% of our life insurance sales in 2008. The statutory reserving requirements for these products are such that it is necessary for us to utilize capital market solutions to manage the level of reserves held in our domestic life insurance companies. As a result, as discussed in Review of Consolidated Financial Condition Liquidity and Capital Resources Sources of Liquidity and Cash Flow below, we completed transactions that enabled us to release approximately $300 million of capital in 2007 and approximately $240 million in the fourth quarter of 2008 from one of our insurance subsidiaries under Actuarial Guideline 38 (AG38).
As our businesses and products are complex, so is the manner in which we derive income. For a discussion on how we derive our revenues, see our discussion in results of operations by segment below.

Current Market Conditions

During 2008, the capital markets continued to experience high volatility that affected both equity market returns and interest rates. In addition, credit spreads widened across asset classes and reduced liquidity in the credit markets. October 2008 marked the worst equity market returns in 21 years. The price of our common stock declined during the fourth quarter of 2008 to close at $18.84 on December 31, 2008, as compared to $42.81 on September 30, 2008, and during that time it traded at a low of $4.76. The National Bureau of Economic Research, a panel of economists charged with officially designating business cycles, announced that a U.S. recession began in December of 2007. Analysts expect the downturn to last through the first half of 2009 and unemployment to continue to increase until early 2010. Earnings in 2009 will continue to be unfavorably impacted by the significant decline in the equity markets during 2008. Due to these challenges, the capital markets had a significant effect on our segment income (loss) from operations and consolidated net income for 2008. Furthermore, although the fourth quarter is normally the strongest in terms of sales for our Insurance Solutions Life Insurance segment, it was somewhat muted in 2008. In the face of these capital market challenges, we continue to focus on building our businesses through these difficult markets and beyond by developing and introducing high quality products, expanding distribution in new and existing key accounts

and channels and targeting market segments that have high growth potential while maintaining a disciplined approach to managing our expenses. The markets impacted primarily the following areas:

Earnings from Assets Under Management

Our asset-gathering segments Retirement Solutions Annuities, Retirement Solutions Defined Contribution and Investment Management are the most sensitive to the equity markets. We discuss the earnings impact of the equity markets on account values, assets under management and the related asset-based fees below in Item 7A. Quantitative and Qualitative Disclosures About Market Risk Equity Market Risk Impact of Equity Market Sensitivity. From the end of 2007 to December 31, 2008, the daily average value of the Standard & Poor s (S&P) 500 Index® (S&P 500) decreased 17%. Solely as a result of the equity markets, our assets under management as of December 31, 2008, were down $52 billion from December 31, 2007. Strong deposits over the last year have only helped to partially offset this impact for 2008, compared to 2007. The effect of the negative equity markets on our assets under management in 2008 will continue to dampen our earnings throughout 2009 even if the equity market returns become consistent with our long-term assumptions. Accordingly, we may continue to report lower asset-based fees relative to expectations or prior periods.

Investment Income on Alternative Investments

We believe that overall market conditions in both the equity and credit markets caused our alternative investments portfolio, which consists mostly of hedge funds and various limited partnership investments, to under-perform relative to our long-term expectations, and we expect these assets to under-perform at least in the short term. These investments impact primarily our Insurance Solutions Life Insurance, Retirement Solutions Annuities and Retirement Solutions - Defined Contribution segments. See Consolidated Investments Alternative Investments for additional information on our investment portfolio.

Variable Annuity Hedge Program Results

We offer variable annuity products with living benefit guarantees. As described below in Critical Accounting Policies and Estimates Derivatives Guaranteed Living Benefits, we use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the embedded derivatives for living benefits in certain of our variable annuity products. The change in fair value of these instruments tends to move in the opposite direction of the change in fair value of the embedded derivatives. For 2008, the market conditions noted above negatively affected the net result of the change in the fair value of the living benefit embedded derivative, excluding the effect of our NPR factor, and the change in fair value of the hedging derivatives. The NPR factor used in the calculation of the embedded derivative liability relates to the change in the spreads of our credit default swaps and had a favorable effect on the overall result. These results are excluded from operating revenues and income (loss) from operations.

We also offer variable products with death benefit guarantees. As described below in Critical Accounting Policies and Estimates Future Contract Benefits and Other Contract Holder Obligations - Guaranteed Death Benefits, we use derivative instruments to attempt to hedge in the opposite direction of the impact to our associated reserves for movements in equity markets. These results are excluded from income (loss) from operations.

Credit Losses, Impairments and Unrealized Losses

Related to our investments in fixed income and equity securities, we experienced net realized losses of $1.0 billion for 2008, which included gross write-downs of securities for other-than-temporary impairments of $1.1 billion. Widening spreads during 2008 was the primary cause of a $6.1 billion increase in gross unrealized losses on the available-for-sale fixed maturity securities in our general account. These unrealized losses were concentrated in the investment grade category of investments and demonstrate how reduced liquidity in the credit markets have resulted in a decline in asset values as investors shift their investments to safer government securities, such as U.S. Treasuries. In addition, continued weakness in the economic environment could lead to increased credit defaults, resulting in additional write-downs of securities for other-than-temporary impairments.

Capital Preservation

On October 10, 2008, the Board of Directors approved a decrease in the quarterly dividend on our common stock from $0.415 per share to $0.21 per share for the dividend payable February 1, 2009. On February 24, 2009, the Board of Directors approved a further reduction of the dividend on our common stock from $0.21 to $0.01 per share, which, along with the prior reduction, is expected to add approximately $100 million to capital each quarter. Additionally, we have suspended stock repurchase activity. Both of these changes will favorably impact our capital position prospectively.

As a result of shrinking revenues due to the impact of unfavorable equity markets on our asset management businesses and a reduction in sales volumes caused by the unfavorable economic environment, we have launched initiatives to reduce expenses, including layoffs of staff, that we believe will improve our capital position and preserve profits. See Results of Other Operations below for more information on our expense actions.

Stimulus Legislation

In reaction to the recession, credit market illiquidity and global financial crisis experienced during the latter part of 2008 and into 2009, Congress enacted the Emergency Economic Stabilization Act of 2008 (EESA) on October 3, 2008, and the American Recovery and Reinvestment Act of 2009 (ARRA) which was signed into law on February 17, 2009, in an effort to restore liquidity to the U.S. credit markets and stimulate the U.S. economy. The EESA defines financial institutions to include insurance companies and contains the TARP. The ARRA and TARP authorized the purchase of troubled assets from financial institutions, including insurance companies. Pursuant to the authority granted under the TARP, the U.S. Treasury also adopted the Capital Purchase Program (CPP), the Generally

Available Capital Access Program and the Exceptional Financial Recovery Assistance Program. Under the CPP, as currently adopted, bank and thrift holding companies may apply to the U.S. Treasury for the direct sale of preferred stock and warrants to the U.S. Treasury. It remains unclear at this point, if and when the EESA and ARRA will restore sustained liquidity and confidence in the markets and its affect on the fair value of our invested assets.

On January 8, 2009, the Office of Thrift Supervision approved our application to become a savings and loan holding company and our acquisition of Newton County Loan & Savings, FSB, a federally regulated savings bank, located in Indiana. We agreed to contribute $10 million to the capital of Newton County Loan & Savings, FSB, and closed on the purchase on January 15, 2009. We also previously filed an application to participate in the CPP. Our application to participate in the CPP is subject to approval from the U.S. Treasury. Accordingly, there can be no assurance that we will participate in the CPP or any of the other programs.

New Products and Distribution Channels

Product development and strong distribution are important to our ability to meet the challenges of the competitive marketplace. In the third quarter of 2008, our Insurance Solutions Life Insurance segment launched *Lincoln AssetEdge*SM VUL, a variable life insurance product offering clients the ability to align their portfolio to match investment goals, while retaining the flexibility to change allocations as needs change. In February 2008, our Retirement Solutions - Annuities segment launched a new guaranteed withdrawal benefit (GWB), *Lincoln Lifetime Income*SM Advantage, which includes features such as: a reduced minimum age for lifetime income eligibility; a 5% benefit enhancement in each year an owner does not take a withdrawal; a health care benefit; and a guaranteed minimum accumulation benefit. Due to this and other activities, we were able to expand our distribution breadth for variable annuities into three large banks during 2008. Within the mid-sized market of our Retirement Solutions Defined Contribution segment, we launched our *Lincoln SmartFuture*SM retirement program in the first quarter of 2008 to fill the gap between our LINCOLN ALLIANCE® program and our group variable annuities.

In the third quarter of 2008, we updated our LINCOLN DIRECTORSM product that now offers more than 80 investment options and will be positioned as our primary product in the micro-to small 401(k) plan marketplace. This product includes fiduciary support for plan sponsors, accumulation strategies and tools for plan participants and will also offer our patented distribution option, *i4LIFE*® Advantage.

Industry Trends

We continue to be influenced by a variety of trends that affect the industry.

Financial Environment

The level of long-term interest rates and the shape of the yield curve can have a negative impact on the demand for and the profitability of spread-based products such as fixed annuities and UL. A flat or inverted yield curve and low long-term interest rates will be a concern if new money rates on corporate bonds are lower than overall life insurer investment portfolio yields. Equity market performance can also impact the profitability of life insurers, as product demand and fee revenue from variable annuities and fee revenue from pension products tied to separate account balances often reflect equity market performance. A steady economy is important as it provides for continuing demand for insurance and investment-type products. Insurance premium growth, with respect to life and disability products, for example, is closely tied to employers total payroll growth. Additionally, the potential market for these products is expanded by new business creation. See Current Market Conditions above for further discussion of the current impact of volatility in the capital markets.

Economic Environment

The National Bureau of Economic Research, a panel of economists charged with officially designating business cycles, announced that a U.S. recession began in December of 2007. Analysts expect the downturn to last through the first half of 2009 and unemployment to continue to increase until early 2010. The deterioration of the U.S. economy is likely to result in businesses and consumers spending less, including the products the insurance industry markets and sells.

Demographics

In the coming decade, a key driver shaping the actions of the insurance industry will be the escalation of income protection and wealth accumulation goals and needs of the retiring baby-boomers. As a result of increasing longevity, retirees will need to accumulate sufficient savings to finance retirements that may span 30 or more years. Helping the baby-boomers to accumulate assets for retirement and subsequently to convert these assets into retirement income represents an opportunity for the insurance industry.

Insurers are well positioned to address the baby-boomers rapidly increasing need for savings tools and for income protection. We believe that, among insurers, those with strong brands, high financial strength ratings and broad distribution, are best positioned to capitalize on the opportunity to offer income protection products to baby-boomers. Moreover, the insurance industry s products and the needs they are designed to address are complex. We believe that individuals approaching retirement age will need to seek information to plan for and manage their retirements. In the workplace, as employees take greater responsibility for their benefit options and retirement planning, they will need information about their possible individual needs. One of the challenges for the insurance industry will be the delivery of this information in a cost effective manner.

Competitive Pressures

The insurance industry remains highly competitive, especially in this recessionary environment. The product development and product life cycles have shortened in many product segments, leading to more intense competition with respect to product features. Larger companies have the ability to invest in brand equity, product development, technology and risk management, which are among the fundamentals for sustained profitable growth in the life insurance industry. In addition, several of the industry s products can be quite homogeneous and subject to intense price competition. Sufficient scale, financial strength and financial flexibility are becoming prerequisites for sustainable growth in the life insurance industry. Larger market participants tend to have the capacity to invest in additional distribution capability and the information technology needed to offer the superior customer service demanded by an increasingly sophisticated industry client base.

Regulatory Changes

The insurance industry is regulated at the state level, with some products and services also subject to federal regulation. As life insurers introduce new and often more complex products, regulators refine capital requirements and introduce new reserving standards for the life insurance industry. Regulations recently adopted or currently under review can potentially impact the reserve and capital requirements of the industry.

Challenges and Outlook

Going into 2009, we expect major challenges to include:

- Continuation of volatility in the equity markets, resulting in hedge breakage and possible additional erosion in variable account values;
- Continuation of illiquid credit markets and impact on spreads and on other-than-temporary securities impairments;
- Continuation of the current credit and capital markets, restricting our ability to access capital;
- Continuation of the low interest rate environment, which creates a challenge for our products that generate investment margin profits, such as fixed annuities and UL;
- Possible additional intangible asset impairments, such as goodwill, if the financial performance of our reporting units does not improve, our market capitalization remains below book value for a prolonged period of time or business valuation assumptions (such as discount rates and equity market volatility) deteriorate further;
- Continuation of the recession and other challenges in the economy;
- Achieving success in our portfolio of products, marketplace acceptance of new variable annuity features and maintaining management and wholesalers that will help maintain our competitive position; and
- Continuation of focus by the government on tax reform including potential changes in company dividends-received deduction (DRD) calculations, which may impact our products and overall earnings.

In the face of these challenges, we expect to focus on the following throughout 2009:

- Continue near term product development in our manufacturing units and future product development initiatives, with particular focus on further reducing risk related to guaranteed benefit riders offered with certain variable annuities;
- Evaluate and potentially pursue the sale of non-core businesses and other options to raise additional capital;
- Manage our expenses aggressively and utilize cost reduction initiatives and continue embedding financial and execution discipline throughout our operations by using technology and making other investments to improve operating effectiveness and lower unit costs; and

Substantially complete the remaining platform and system consolidations necessary to achieve the final portion of integration cost saves as well as prepare us for more effective customer interaction in the future.

For additional factors that could cause actual results to differ materially from those set forth in this section, see Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language above.

Critical Accounting Policies and Estimates

We have identified the accounting policies below as critical to the understanding of our results of operations and our financial position. In applying these critical accounting policies in preparing our financial statements, management must use significant assumptions, estimates and judgments concerning future results or other developments, including the likelihood, timing or amount of one or more future events. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, we evaluate our assumptions, estimates and judgments based upon historical experience and various other information that we believe to be reasonable under the circumstances. For a detailed discussion of other significant accounting policies, see Note 1.

DAC, VOBA, DSI and DFEL

Accounting for intangible assets requires numerous assumptions, such as estimates of expected future profitability for our operations and our ability to retain existing blocks of life and annuity business in force. Our accounting policies for DAC, VOBA, DSI and DFEL impact the Retirement Solutions Annuities, Retirement Solutions Defined Contribution, Insurance Solutions Life Insurance, Insurance Solutions Group Protection and Lincoln UK segments.

Acquisition costs for variable annuity and deferred fixed annuity contracts and UL and VUL policies, which are accounted for under SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (SFAS 97), are amortized over the lives of the contracts in relation to the incidence of estimated gross profits (EGPs) derived from the contracts. Acquisition costs are those costs that vary with and are related primarily to new or renewal business. These costs include commissions and other expenses that vary with new business volume. The costs that we defer are recorded as an asset on our Consolidated Balance Sheets as DAC for products we sold or VOBA for books of business we acquired. In addition, we defer costs associated with DSI and revenues associated with DFEL. DSI is included within other assets on our Consolidated Balance Sheets and, when amortized, increases interest credited and reduces income. DFEL is a liability included within other contract holder funds on our Consolidated Balance Sheets, and when amortized, increases product expense charge revenues and income.

EGPs vary based on a number of sources including policy persistency, mortality, fee income, investment margins, expense margins and realized gains and losses on investments, including assumptions about the expected level of credit-related losses. Each of these sources of profit is, in turn, driven by other factors. For example, assets under management and the spread between earned and credited rates drive investment margins; net amount at risk (NAR) drives the level of cost of insurance (COI) charges and reinsurance premiums. The level of separate account assets under management is driven by changes in the financial markets (equity and bond markets, hereafter referred to collectively as equity markets) and net flows. Realized gains and losses on investments include amounts resulting from differences in the actual level of impairments and the levels assumed in calculating EGPs.

Our DAC, VOBA, DSI and DFEL balances (in millions) by business segment as of December 31, 2008, were as follows:

	Retirement Solutions		Insurance Solutions				
	Annuities	Defined Contribution	Life Insurance	Group Protection	Lincoln UK	Other Operations	Total
DAC and VOBA	$ 2,977	$ 883	$ 7,383	$ 146	$ 534	$ 13	$ 11,936
DSI	261	2					263
Total	3,238	885	7,383	146	534	13	12,199
DFEL	130		890		262		1,282
Net total	$ 3,108	$ 885	$ 6,493	$ 146	$ 272	$ 13	$ 10,917

Note: The above table includes DAC and VOBA amortized in accordance with SFAS No. 60, Accounting and Reporting by Insurance Enterprises (SFAS 60). Under SFAS 60, acquisition costs for traditional life insurance

and Insurance Solutions Group Protection s products, which include whole life and term life insurance policies and group life, dental and disability policies, are amortized over periods of 10 to 30 years for life products and up to 15 years for group products on either a straight-line basis or as a level percent of premium of the related policies depending on the block of business. No DAC is being amortized under SFAS 60 for fixed and variable payout annuities.

The adoption of SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1) on January 1, 2007, increased DAC and VOBA amortization, net of deferrals by approximately $11 million. The adoption of this new guidance impacted primarily our Retirement Solutions Annuities and Insurance Solutions Group Protection segments and our accounting policies regarding the assumptions for lapsation used in the amortization of DAC and VOBA. For a detailed discussion of SOP 05-1, see Note 2.

On a quarterly basis, we may record an adjustment to the amounts included within our Consolidated Balance Sheets for DAC, VOBA, DSI and DFEL with an offsetting benefit or charge to revenue or expense for the impact of the difference between the estimates of future gross profits used in the prior quarter and the emergence of actual and updated estimates of future gross profits in the current quarter (retrospective unlocking). In addition, in the third quarter of each year, we conduct our annual comprehensive review of the assumptions and the projection models used for our estimates of future gross profits underlying the amortization of DAC, VOBA, DSI and DFEL and the calculations of the embedded derivatives and reserves for annuity and life insurance products with living benefit and death benefit guarantees. These assumptions include investment margins, mortality, retention, rider utilization and maintenance expenses (costs associated with maintaining records relating to insurance and individual and group annuity contracts and with the processing of premium collections, deposits, withdrawals and commissions). Based on our review, the cumulative balances of DAC, VOBA, DSI and DFEL, included on our Consolidated Balance Sheets, are adjusted with an offsetting benefit or charge to revenue or amortization expense to reflect such change (prospective unlocking assumption changes). We may also identify and implement actuarial modeling refinements (prospective unlocking model refinements) that result in increases or decreases to the carrying values of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for annuity and life insurance products with living benefit and death benefit guarantees. The primary distinction between retrospective and prospective unlocking is that retrospective unlocking is driven by the emerging experience period-over-period, while prospective unlocking is driven by changes in assumptions or projection models related to estimated future gross profits.

In discussing our results of operations below in this MD&A, we refer to favorable and unfavorable unlocking. With respect to DAC, VOBA and DSI, favorable unlocking refers to an increase in the carrying value of the asset on our Consolidated Balance Sheets and an equal and offsetting decrease to expenses on our Consolidated Statements of Income. With respect to DFEL, favorable unlocking refers to a decrease in the carrying value of the liability on our Consolidated Balance Sheets and an equal and offsetting increase to revenue on our Consolidated Statements of Income. With respect to the calculations of the embedded derivatives and reserves for annuity and life insurance products with living benefit and death benefit guarantees, favorable unlocking refers to a decrease in future contract benefits on our Consolidated Balance Sheets and an equal and offsetting decrease to benefit expense on our Consolidated Statements of Income. Unfavorable unlocking has the opposite impacts on our consolidated financial statements of what is described above.

Details underlying our prospective unlocking as a result of our annual comprehensive review (in millions) were as follows:

	For the Years Ended December 31,		
	2008	2007	2006
Insurance fees:			
Retirement Solutions Annuities	$ (1)	$ (1)	$ (3)
Insurance Solutions Life Insurance	(28)	26	(1)
Lincoln UK	(1)	5	(12)
Total insurance fees	(30)	30	(16)
Realized gain (loss):			
Indexed annuity forward-starting option		1	
GLB	48	2	
Total realized gain (loss)	48	3	
Total revenues	18	33	(16)
Interest credited:			
Retirement Solutions Annuities		(1)	(1)
Total interest credited		(1)	(1)
Benefits:			
Retirement Solutions Annuities		2	(3)
Insurance Solutions Life Insurance	85		15
Total benefits	85	2	12
Underwriting, acquisition, insurance and other expenses:			
Retirement Solutions Annuities	(2)	(12)	(1)
Retirement Solutions Defined Contribution		3	(7)
Insurance Solutions Life Insurance	(81)	21	14
Lincoln UK	4	2	(3)
Total underwriting, acquisition, insurance and other expenses	(79)	14	3
Total benefits and expenses	6	15	14
Income (loss) from continuing operations before taxes	12	18	(30)
Federal income taxes	4	6	(11)
Income (loss) from continuing operations	$ 8	$ 12	$ (20)

Note: The 2006 amounts reflect our harmonization of several assumptions and related processes as a result of our merger with Jefferson-Pilot. The effects varied by segment and are discussed further in the respective segment

discussions below.

Because equity market movements have a significant impact on the value of variable annuity, VUL and unit-linked accounts (contracts written in the U.K. similar to U.S. produced variable life and annuity products) and the fees earned on these accounts, EGPs could increase or decrease with movements in the equity markets; therefore, significant and sustained changes in equity markets have had and could in the future have an impact on DAC, VOBA, DSI and DFEL amortization for our variable annuity, annuity-based 401(k) business, VUL and unit-linked business. The table above excludes the impact of our prospective unlocking that we recognized in the fourth quarter of 2008, which is described below.

As equity markets do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean (RTM) process. Under our current RTM process, on each valuation date, future EGPs are projected using stochastic modeling of a large number of future equity market scenarios in conjunction with best estimates of lapse rates, interest rate spreads and mortality to develop a statistical distribution of the present value of future EGPs for our variable annuity, annuity-based 401(k), VUL and unit-linked product blocks of business. Because future equity market returns are unpredictable, the underlying premise of this process is that best estimate projections of future EGPs, as required by SFAS 97, need not be affected by random short-term and insignificant deviations from expectations in equity market returns. However, long-term or significant deviations from expected equity market returns require a change to best estimate projections of EGPs and prospective unlocking of DAC, VOBA, DSI, DFEL and changes in future contract benefits. The statistical distribution is designed to identify when the equity market return deviations from expected returns have become significant enough to warrant a change of the future equity return EGP assumption.

The stochastic modeling performed for our variable annuity blocks of business as described above is used to develop a range of reasonably possible future EGPs. We compare the range of the present value of the future EGPs from the stochastic modeling to that used in our amortization model. A set of intervals around the mean of these scenarios is utilized to calculate two separate statistical ranges of reasonably possible EGPs. These intervals are then compared again to the present value of the EGPs used in the amortization model. If the present value of EGP assumptions utilized for amortization were to exceed the margin of the reasonable range of statistically calculated EGPs, a revision of the EGPs used to calculate amortization would occur. If a revision is deemed necessary, future EGPs would be re-projected using the current account values at the end of the period during which the revision occurred along with a revised long-term annual equity market gross return assumption such that the reprojected EGPs would be our best estimate of EGPs.

Notwithstanding these intervals, if a severe decline or advance in equity markets were to occur or should other circumstances, including contract holder behavior, suggest that the present value of future EGPs no longer represents our best estimate, we could determine that a revision of the EGPs is necessary.

Our practice is not necessarily to unlock immediately after exceeding the first of the two statistical ranges, but, rather, if we stay between the first and second statistical range for several quarters, we would likely unlock. Additionally, if we exceed the ranges as a result of a short-term market reaction, we would not necessarily unlock. However, if the second statistical range is exceeded for more than one quarter, it is likely that we would unlock. While this approach reduces adjustments to DAC, VOBA, DSI and DFEL due to short-term equity market fluctuations, significant changes in the equity markets that extend beyond one or two quarters could result in a significant favorable or unfavorable unlocking.

Our long-term equity market growth assumption rate is 9%, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, as this component is related primarily to underlying investments in equity funds within the separate accounts. This variable appreciation rate is before the deduction of our contract fees. The actual variable appreciation rate in 2008 was significantly lower than the assumed rate with October of 2008 representing the worst returns in 21 years. The negative returns in the fourth quarter of 2008 resulted in the piercing of the outer corridor in our Retirement Solutions businesses and our Insurance Solutions Life Insurance segment. Although the piercing of the outer corridor does not automatically result in a resetting of our RTM assumption, we determined that the significance of unfavorable equity markets experienced during 2008 and the recessionary economic environment required a prospective unlocking related to RTM in the fourth quarter. If unfavorable economic conditions persist and the equity markets trend down further from the

December 31, 2008, levels, additional unlocking of our RTM assumptions is possible in future periods.

As we did not pierce the corridor in our Lincoln UK segment in relation to our unit-linked accounts, we did not record prospective unlocking related to RTM in the fourth quarter of 2008. If the Financial Time Stock Exchange (FTSE) declines by approximately 31% from its level as of December 31, 2008, we believe it would result in approximately $50 million, after-tax, unfavorable RTM prospective unlocking.

Table of Contents

Details underlying our fourth quarter prospective unlocking related to RTM and the impact of the volatile capital market conditions on our annuity reserves (in millions) were as follows:

	For the Three Months Ended December 31, 2008
Insurance fees:	
Retirement Solutions Annuities	$ 26
Insurance Solutions Life Insurance	16
Total insurance fees	42
Realized gain (loss):	
GLB	70
Total realized gain (loss)	70
Total revenues	112
Interest credited:	
Retirement Solutions Annuities	37
Total interest credited	37
Benefits:	
Retirement Solutions Annuities	8
Retirement Solutions Defined Contribution	1
Total benefits	9
Underwriting, acquisition, insurance and other expenses:	
Retirement Solutions Annuities	305
Retirement Solutions Defined Contribution	39
Insurance Solutions Life Insurance	65
Total underwriting, acquisition, insurance and other expenses	409
Total benefits and expenses	455
Income (loss) from continuing operations before taxes	(343)
Federal income taxes	(120)
Income (loss) from continuing operations	$ (223)

Table of Contents

For illustrative purposes, the following presents the hypothetical impacts to EGPs and DAC [1] amortization attributable to changes in assumptions from those our model projections assume:

Actual Experience Differs From Those Our Model Projections Assume	Hypothetical Impact to Net Income for EGPs	Hypothetical Impact to Net Income for DAC[1] Amortization	Description of Expected Impact
Higher equity markets	Favorable	Favorable	Increase to fee income and decrease to changes in reserves.
Lower equity markets	Unfavorable	Unfavorable	Decrease to fee income and increase to changes in reserves.
Higher investment margins	Favorable	Favorable	Increase to interest rate spread on our fixed product line, including fixed portion of variable.
Lower investment margins	Unfavorable	Unfavorable	Decrease to interest rate spread on our fixed product line, including fixed portion of variable.
Higher credit losses	Unfavorable	Unfavorable	Decrease to realized gains on investments.
Lower credit losses	Favorable	Favorable	Increase to realized gains on investments.
Higher lapses	Unfavorable	Unfavorable	Decrease to fee income, partially offset by decrease to benefits due to shorter contract life.
Lower lapses	Favorable	Favorable	Increase to fee income, partially offset by increase to benefits due to longer contract life.
Higher death claims	Unfavorable	Unfavorable	Decrease to fee income and increase to changes in reserves due to shorter contract life.
Lower death claims	Favorable	Favorable	Increase to fee income and decrease to changes in reserves due to longer contract life.

[1] DAC refers to the associated amortization of expense of DAC, VOBA, DSI and DFEL and changes in future contract benefits.

Goodwill and Other Intangible Assets

Under SFAS No. 142, Goodwill and Other Intangible Assets, (SFAS 142) goodwill and intangible assets with indefinite lives are not amortized, but are subject to impairment tests conducted at least annually. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. SFAS 142 requires that we perform a two-step

test in our evaluation of the carrying value of goodwill. In Step 1 of the evaluation, the fair value of each reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value is greater than the carrying value, then the carrying value is deemed to be sufficient and Step 2 is not required. If the fair value estimate is less than the carrying value, it is an indicator that impairment may exist and Step 2 is required to be performed. In Step 2, the implied fair value of the reporting unit s goodwill is determined by allocating the reporting unit s fair value as determined in Step 1 to all of its net assets (recognized and unrecognized) as if the reporting unit had been acquired in a business combination at the date of the impairment test. If the implied fair value of the reporting unit s goodwill is lower than its carrying amount, goodwill is impaired and written down to its fair value. Refer to Note 10 of our consolidated financial statements for a table of our goodwill and intangible assets by reporting unit.

The valuation techniques we have historically used to estimate the fair value of the group of assets comprising the different reporting units has varied based on the characteristics of each reporting unit s business and operations. A market-based valuation technique that focused on a price-to-earnings multiplier and segment-level operating income was used prior to 2008 for our Retirement Solutions and Insurance Solutions businesses and the remaining media business that is now reported in Other Operations. For the Lincoln UK segment, a discounted cash flow model has been historically utilized to determine the fair value. A valuation technique combining multiples of revenues, earnings before interest, taxes, depreciation and amortization and assets under management has been historically used to assess the goodwill in our Investment Management segment. We use October 1 as the annual review date for goodwill and other intangible assets impairment testing. The results of the tests performed as of October 1, 2007 and 2006, indicated that we did not have impaired goodwill or other intangibles.

Table of Contents

For our tests performed as of October 1, 2008, we did not limit our analysis to reviewing market-based valuation information such as price-to-earnings multiples or recent transactions. There have been very few merger or acquisition transactions in the life insurance industry for the prior 18 months. Additionally, stock prices for the broad market, especially the insurance sector, declined dramatically in the fourth quarter reducing our market capitalization and that of our peers below book value. Therefore, a more thorough analysis was required to determine the fair value of our businesses.

We performed a Step 1 goodwill impairment analysis on all of our reporting units. The Step 1 analysis for our Insurance Solutions and Retirement Solutions segments utilized primarily a discounted cash flow valuation technique. The discounted cash flow analysis required us to make judgments about revenues, earnings projections, growth rates and discount rates. We also considered other valuation techniques such as an analysis of peer companies and market participants. The key assumptions used in the analysis to determine the fair value of the reporting units reported within our Insurance Solutions and Retirement Solutions businesses included: cash flow periods of 10 years; terminal values based upon terminal growth rates ranging from 3.0% to 4.6%; and discount rates ranging from 10.5% to 14.0%, which were based on the weighted average cost of capital for each of our reporting units adjusted for the risks associated with the operations. Assumptions about revenues, earnings and growth rates were based on our budgets and financial plans. Assumptions were also made for varying perpetual growth rates for periods beyond the long-term business plan period. For our other reporting units, we used other available information including market data obtained through strategic reviews and other analysis to support our Step 1 conclusions. All of our reporting units passed the Step 1 analysis, except for our Media and Lincoln UK reporting units, which required a Step 2 analysis to be completed. Additionally, while the Step 1 analysis of our Insurance Solutions Life reporting unit indicated that its fair value exceeded its carrying value, the margin above carrying value was relatively small. Therefore, we concluded that we should perform additional analysis for our Insurance Solutions Life reporting unit under the Step 2 requirements of SFAS 142.

In the valuation process, we gave consideration to the current economic and market conditions, which are discussed above in Introduction Executive Summary Current Market Conditions. We also updated our October 1 analysis of goodwill impairment to reflect fourth quarter results and forecasts as of December 31, 2008, due to sharp declines in the equity markets and our stock price in the fourth quarter. In determining the estimated fair value of our reporting units, we incorporated consideration of discounted cash flow calculations, peer company price-to-earnings multiples, the level of our own share price and assumptions that market participants would make in valuing our reporting units. Our fair value estimations were based primarily on an in-depth analysis of future cash flows and relevant discount rates, which considered market participant inputs (income approach). In our Step 2 analysis, we estimated the implied fair value of the reporting units goodwill as determined by allocating the reporting units fair value determined in Step 1 to all of its net assets (recognized and unrecognized) as if the reporting unit had been acquired in a business combination at the date of the impairment test. We utilized forecasts of cash flows and market observable inputs in determining a fair value for each of these reporting units similar to what would be estimated in a business combination between market participants.

Based upon our annual analysis, we recorded goodwill impairment of $81 million and Federal Communications Commission (FCC) license intangible impairment of $125 million for our Media reporting unit, which was attributable primarily to rapid deterioration in the radio market from declines in advertising revenues for the entire radio market that was above what we expected. In addition, we also recorded goodwill impairment on our Lincoln UK segment of $12 million, which was primarily the result of the deterioration of the economic and business conditions for the insurance industry in the United Kingdom. The implied fair value for our goodwill impairment of Lincoln UK was based upon market observable data about the industry and previous transactions.

Table of Contents

After consideration of the analysis performed, management concluded that the goodwill of the reporting units within our Retirement Solutions and Insurance Solutions businesses as of October 1, 2008, and December 31, 2008, was not impaired. The estimated fair value of each reporting unit based upon future earnings and cash flows continued to be in excess of the respective reporting unit s carrying value.

If current market conditions persist during 2009, and, in particular, if our share price remains below book value per share, we will need to reassess goodwill impairment at the end of each quarter. We expect to perform interim tests of goodwill impairment in addition to our annual test during 2009, especially if our market capitalization remains below our book value. Subsequent reviews of goodwill could result in impairment of goodwill during 2009, as early as the first quarter. Factors that could result in an impairment include, but are not limited to, the following:

- Prolonged period of our book value exceeding our market capitalization;
- Valuations of mergers or acquisitions of companies or blocks of business that would provide relevant market-based inputs for our impairment assessment that could support different conclusions than our income approach;
- Deterioration in key assumptions used in our income approach estimates of fair value, such as higher discount rates from higher stock market volatility, widening credit spreads or a further decline in interest rates;
- Lower earnings projections due to spread compression, lower account values from unfavorable equity markets and significantly lower expectations for future sales which would reduce future earnings expectations;
- Higher than expected impairments of invested assets; and
- Prolonged inability to execute future valuation of Life Insurance Policies Model Regulation (XXX) or AG38 reinsurance transactions for our life insurance business due to unavailability of financing resulting in higher capital requirements.

To illustrate the impact that changes in valuation assumptions could have on our estimated of our reporting units fair values, the following presents the hypothetical impact to segment implied fair value (in millions, except where otherwise noted) associated with specified sensitivities:

	Retirement Solutions - Annuities	Insurance Solutions Life Insurance	Insurance Solutions Group Protection
Carrying value as of December 31, 2008:			
Goodwill	$ 1,040	$ 2,188	$ 274
Net assets [(1)]	4,043	7,395	894
Estimated fair value as of December 31, 2008 (in billions)	4.5 to 5.0	8.4 to 9.3	1.3 to 1.5
Hypothetical estimated reduction in implied fair value attributable to:			
100 basis point increase in discount rate	600	1,000	200
100 basis point decline in long term growth rate	300	400	100
10% decline in forecasted operating earnings growth rate	100	300	100

(1) Includes unrealized gains and losses included in accumulated other comprehensive income.

During the second quarter of 2008, as a result of declines in current and forecasted advertising revenues for the radio market, we performed an impairment review outside of our annual process for our media business. This review resulted in $83 million of goodwill impairment and $92 million of FCC licenses impairment.

Investments

Our primary investments are in fixed maturity securities, including corporate and government bonds, asset and mortgage-backed securities and redeemable preferred stock, and equity securities, mortgage loans and policy loans. All our fixed maturity and equity securities are classified as available-for-sale as defined in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, except for those securities supporting certain reinsurance transactions that are classified as trading securities. Available-for-sale securities are carried at fair value with the difference from amortized cost included in stockholders equity as a component of accumulated other comprehensive income. The difference is net of related DAC, VOBA, DSI and DFEL and amounts that would be credited to contract holders, if realized, and taxes.

Table of Contents

Investment Valuation

We adopted SFAS 157 for all our financial instruments effective January 1, 2008. For detailed discussions of the methodologies and assumptions used to determine the fair value of our financial instruments and a summary of our financial instruments carried at fair value as of December 31, 2008, see Notes 1, 2 and 22 of this report.

Subsequent to the adoption of SFAS 157, we did not make any material changes to the valuation techniques or models used to determine the fair value of the assets we carry at fair value. As part of our on-going valuation process, we assess the reasonableness of all our valuation techniques or models and make adjustments as necessary.

Fixed maturity, equity, trading securities and short-term investments, which are reported at fair value on the Consolidated Balance Sheets, represented the majority of our total cash and invested assets. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, unrelated willing parties using inputs, including assumptions and estimates, a market participant would use. Pursuant to SFAS 157, we have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability s classification within the fair value hierarchy is based of the lowest level of significant input to its valuation. SFAS 157 defines the input levels as follows:

Level 1 inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. Blockage discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market are prohibited;

Level 2 inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability, including assumptions regarding risk.

The following summarizes our investments carried at fair value by pricing source and SFAS 157 hierarchy level (in millions):

	As of December 31, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Priced by third party pricing services	$ 317	$ 42,550	$	$ 42,867
Priced by independent broker quotations			3,750	3,750
Priced by matrices		6,497		6,497
Priced by other methods[1]			1,839	1,839
Total	$ 317	$ 49,047	$ 5,589	$ 54,953
Percent of total	1%	89%	10%	100%

[1] Represents primarily securities for which pricing models were used to compute the fair values.

The Level 1 securities primarily consist of certain U.S. Treasury and agency fixed maturity securities and exchange-traded common stock.

The Level 2 assets include fixed maturity securities priced principally through independent pricing services including most U.S. Treasury and agency securities as well as the majority of U.S. and foreign corporate securities, residential mortgage-backed securities, commercial mortgage-backed securities, state and political subdivision securities, foreign government securities, and asset-backed securities as well as equity securities, including non-redeemable preferred stock, priced by independent pricing services. Management reviews the valuation methodologies used by the pricing services on an ongoing basis and ensures that any valuation methodologies are justified.

Level 3 assets include fixed maturity securities priced principally through independent broker quotes or market standard valuation methodologies. This level consists of less liquid fixed maturity securities with very limited trading activity or where less price transparency exists around the inputs to the valuation methodologies including: U.S. and foreign corporate securities (including below investment grade private placements); residential mortgage-backed securities; asset-backed securities; and other fixed maturity securities such as structured securities. Equity securities classified as Level 3 securities consist principally of common stock of privately held companies and non-redeemable preferred stock where there has been very limited trading activity or where less price transparency exists around the inputs to the valuation. For the categories and associated fair value of our available-for-sale fixed maturity securities classified within Level 3 of the fair value hierarchy as of December 31, 2008 and 2007, see Note 22.

Our investment securities are valued using market inputs, including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored, and further market data is acquired if certain triggers are met. Credit risk is also incorporated and considered in the valuation of our investment securities as we incorporate the issuer s credit rating and a risk premium, if warranted, due to the issuer s industry and the security s time to maturity. The credit rating is based upon internal and external analysis of the issuer s financial strength. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker/dealer quotes, we employ, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with senior business leaders and brokers as well as observations of general market movements for those asset classes. The broker/dealer quotes are non-binding. Our broker-quoted only securities are generally classified as Level 3 in the SFAS 157 hierarchy. It is possible that different valuation techniques and models, other than those described above, could produce materially different estimates of fair values.

Changes of our investments carried at fair value and classified within Level 3 of the fair value hierarchy result from changes in market conditions, as well as changes in our portfolio mix and increases and decreases in fair values as a result of those classifications. During 2008, there were no material changes in investments classified as Level 3 of the fair value hierarchy. For further detail, see Note 22.

See Consolidated Investments below for a summary of our investments in available-for-sale securities backed by pools of residential mortgages.

Write-Downs for Other-Than-Temporary Impairments and Allowance for Losses

The criteria for determining whether a security is impaired is based upon an other-than-temporary impairment standard. Under the other-than-temporary criteria, we could have a security that we believe is likely to recover its value over time, but we would still be required to record an impairment write-down under GAAP. Determining whether or not a decline in current fair values for securities classified as available-for-sale is other-than-temporary can frequently involve a variety of assumptions and estimates, particularly for investments that are not actively traded on established markets. For instance, assessing the value of some investments requires an analysis of expected future cash flows. Some investment structures, such as collateralized debt obligations, often represent selected tranches collateralized by underlying investments in a wide variety of issuers and security types.

Factors we consider in determining whether declines in the fair value of fixed maturity securities are other-than-temporary include: the significance of the decline; our ability and intent to retain the investment for a sufficient period of time for it to recover to an amount at least equal to its carrying value; the time period during which there has been a significant decline in value; and fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer. Based upon these factors, securities that have indications of potential impairment are subject to intensive review. Where such analysis results in a conclusion that declines in fair values are other-than-temporary, the security is written down to fair value. The fixed maturity securities to which these write-downs apply were generally of investment grade at the time of purchase, but were subsequently downgraded by rating agencies to below-investment grade. Another key factor in whether a write-down for impairment is necessary is our intent or ability to hold to recovery or maturity. In the event that we determine that we do not have the intent or ability to hold to recovery or maturity, we are required to write down the security. A write-down is necessary even in situations where the unrealized loss is not due to an underlying credit issue, but may be solely related to the impact of changes in interest rates on the fair value of the security. See Note 22 for a general discussion of the methodologies and assumptions used to determine estimated fair values. Each quarter, the Company asserts its intent and ability to retain until recovery those securities judged to be temporarily impaired. Upon making this assertion we are limited in our ability to sell these securities as it could raise concerns over the validity of our assertion and our ability to use such assertion in the future. Subsequent to making the assertion, we may authorize the sale of these securities if facts and circumstances change that relate to events that could not have been reasonably foreseen. Examples of such changes include, but are not limited to, the deterioration of the issuer s creditworthiness, a change in regulatory requirements or a major business combination or disposition.

For certain securitized fixed maturity securities with contractual cash flows, including asset-backed securities, we use our best estimate of cash flows for the life of the security to determine whether there is an other-than-temporary impairment of the security as required under Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets and Financial Accounting Standards Board (FASB) Staff Position (FSP) EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. In addition, we review for other indicators of impairment as required by FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.

Table of Contents

Based on our evaluation of securities with an unrealized loss as of December 31, 2008, we do not believe that any additional other-than-temporary impairment losses, other than those already reflected in the financial statements, are necessary. As of December 31, 2008, there were available-for-sale securities with unrealized losses totaling $7.3 billion, pre-tax, and prior to the impact on DAC, VOBA, DSI and other contract holder funds.

As the discussion above indicates, there are risks and uncertainties associated with determining whether declines in the fair value of investments are other-than-temporary. These include subsequent significant changes in general overall economic conditions, as well as specific business conditions affecting particular issuers, future financial market effects such as interest rate spreads, stability of foreign governments and economies, future rating agency actions and significant accounting, fraud or corporate governance issues that may adversely affect certain investments. In addition, there are often significant estimates and assumptions that we use to estimate the fair values of securities, including projections of expected future cash flows and pricing of private securities. We continually monitor developments and update underlying assumptions and financial models based upon new information.

Write-downs and allowances for losses on select mortgage loans, real estate and other investments are established when the underlying value of the property is deemed to be less than the carrying value. All mortgage loans that are impaired have an established allowance for credit loss. Changing economic conditions impact our valuation of mortgage loans. Increasing vacancies, declining rents and the like are incorporated into the discounted cash flow analysis that we perform for monitored loans and may contribute to the establishment of (or an increase in) an allowance for credit losses. In addition, we continue to monitor the entire commercial mortgage loan portfolio to identify risk. Areas of current emphasis are the hotel mortgage loan portfolio and retail, office and industrial properties that have deteriorating credits or have experienced debt coverage reduction. Where warranted, we have established or increased loss reserves based upon this analysis.

Derivatives

To protect us from a variety of equity market and interest rate risks that are inherent in many of our life insurance and annuity products, we use various derivative instruments. Assessing the effectiveness of these hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. We use derivatives to hedge equity market risks, interest rate risk and foreign currency exposures that are embedded in our annuity and life insurance product liabilities or investment portfolios. Derivatives held as of December 31, 2008, contain industry standard terms. Our accounting policies for derivatives and the potential impact on interest spreads in a falling rate environment are discussed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk. See Note 6 for additional information on our accounting for derivatives.

The adoption of SFAS 157 decreased income from continuing operations by $16 million. The impact to revenue is reported in realized gain (loss) and such amount along with the associated federal income taxes is excluded from income (loss) from operations of our segments. For a detailed description of the impact of adoption of SFAS 157 on our consolidated financial statements, see Note 2.

Subsequent to the adoption of SFAS 157, we did not make any material changes to valuation techniques or models used to determine the fair value of the liabilities we carry at fair value. As part of our on-going valuation process, we assess the reasonableness of all our valuation techniques or models and make adjustments as necessary.

Our insurance liabilities that contain embedded derivatives are valued based on a stochastic projection of scenarios of the embedded derivative fees, benefits and expenses. The scenario assumptions, at each valuation date, are those we view to be appropriate for a hypothetical market participant and include assumptions for capital markets, actuarial lapse, benefit utilization, mortality, risk margin, administrative expenses and a margin for profit. In addition, an NPR component is determined at each valuation date that reflects our risk of not fulfilling the obligations of the underlying liability. The spread for the NPR is added to the discount rates used in determining the fair value from the net cash flows. We believe these assumptions are consistent with those that would be used by a market participant; however, as the related markets develop we will continue to reassess our assumptions. It is possible that different valuation techniques and assumptions could produce a materially different estimate of fair value.

The adoption of SFAS 157 increased our exposure to earnings fluctuations from period to period due to volatility of the fair value inputs in the current economic environment, including the inclusion of the NPR into the calculation of the GLB embedded derivative liability. For additional information, see our discussion in Realized Gain (Loss) below

and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Table of Contents

The following summarizes the percentages of our future contract benefits (embedded derivatives) carried at fair value on a recurring basis by the SFAS 157 hierarchy levels:

	As of December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Future contract benefits (embedded derivatives)	0%	0%	100%	100%

Changes of our future contract benefits carried at fair value and classified within Level 3 of the fair value hierarchy result from changes in market conditions, as well as changes in mix and increases and decreases in fair values as a result of those classifications. During 2008, there were no material changes in future contract benefits classified as Level 3 of the fair value hierarchy. For further detail, see Note 22.

Guaranteed Living Benefits

We have a dynamic hedging strategy designed to mitigate selected risk and income statement volatility caused by changes in the equity markets, interest rates and market implied volatilities associated with the *Lincoln SmartSecurity*® Advantage GWB feature and our *i4LIFE*® Advantage and 4LATER® Advantage GIB features that are available in our variable annuity products. In early January 2008, we added the GLB features that are available in our variable annuity products in our New York insurance subsidiary, Lincoln Life & Annuity Company of New York (LLANY), to our hedge program. In February 2008, we also added our new GWB *Lincoln Lifetime Income*SM Advantage to our hedging program. Our GIB and 4LATER® features have elements of both insurance benefits accounted for under SOP 03-1 and embedded derivatives accounted for under SFAS 133 and SFAS 157. We weight these features and their associated reserves accordingly based on their hybrid nature. In addition to mitigating selected risk and income statement volatility, the hedge program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits, recognizing that such claims are likely to begin no earlier than approximately a decade in the future.

The hedging strategy is designed such that changes in the value of the hedge contracts move in the opposite direction of changes in the value of the embedded derivative portion of the GLB features. This dynamic hedging strategy utilizes options on U.S.-based equity indices, futures on U.S.-based and international equity indices and variance swaps on U.S.-based equity indices, as well as interest rate futures and swaps. The notional amounts of the underlying hedge instruments are such that the magnitude of the change in the value of the hedge instruments due to changes in equity markets, interest rates and implied volatilities is designed to offset the magnitude of the change in the fair value of the GLB guarantees caused by those same factors. As of December 31, 2008, the fair value of the embedded derivative liability, before adjustment for the NPR factor required by SFAS 157, for GWB, the *i4LIFE*® Advantage GIB and the 4LATER® Advantage GIB were valued at $2.6 billion, $745 million and $233 million, respectively.

As part of our current hedging program, equity market, interest rate and market implied volatility conditions are monitored on a daily basis. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, our hedge positions may not be totally effective to offset changes in the fair value embedded derivative liability caused by movements in these factors due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets, interest rates and market implied volatilities, realized market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices, divergence between the actual and expected performance of the hedge instruments or our ability to purchase hedging instruments at prices consistent with our desired risk and return trade-off. This hedging strategy is managed on a combined basis with the hedge for our GDB features.

For more information on our GDB hedging strategy, see the discussion in Future Contract Benefits and Other Contract Holder Obligations below.

As of December 31, 2008, the fair value of our derivative assets, which hedge both our GLB and GDB features, and including margins generated by futures contracts, was $4.0 billion. As of December 31, 2008, the sum of all GLB liabilities at fair value and GDB reserves was $3.9 billion, comprised of $3.6 billion for GLB liabilities and

$0.3 billion for the GDB reserves. The fair value of the hedge assets exceeded the liabilities by $0.1 billion, which we believe indicates that the hedge strategy has performed well by providing funding for our best estimate of the present value of the liabilities related to our GLB and GDB features. However, the relationship of hedge assets to the liabilities for the guarantees may vary in any given reporting period due to market conditions, hedge performance and/or changes to the hedging strategy.

Table of Contents

Approximately 36% of our variable annuity account values contain a GWB rider. Declines in the equity markets increase our exposure to potential benefits under the GWB contracts, leading to an increase in our existing liability for those benefits. For example, a GWB contract is in the money if the contract holder s account balance falls below the guaranteed amount. As of December 31, 2008, and December 31, 2007, 88% and 20%, respectively, of all GWB in-force contracts were in the money, and our exposure to the guaranteed amounts, after reinsurance, as of December 31, 2008, and December 31, 2007, was $5.0 billion and $84 million respectively. However, the only way the GWB contract holder can monetize the excess of the guaranteed amount over the account value of the contract is upon death or through a series of withdrawals that do not exceed a specific percentage of the premiums paid per year. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for our lifetime GWB products, the annuity payments can continue beyond the guaranteed amount. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the guaranteed amount over account value.

As a result of these factors, the ultimate amount to be paid by us related to GWB guarantees is uncertain and could be significantly more or less than $5.0 billion. Our fair value estimates of the GWB liabilities, which are based on detailed models of future cash flows under a wide range of market-consistent scenarios, reflect a more comprehensive view of the related factors and represent our best estimate of the present value of these potential liabilities.

For information on our GLB hedging results, see our discussion in Realized Gain (Loss) below.

The following table presents our estimates of the potential instantaneous impact to excluded realized gain (loss), which could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities (in millions) at the levels indicated in the table and excludes the net cost of operating the hedging program. The amounts represent the estimated difference between the change in the portion of GLB reserves that is calculated on a fair value basis and the change in the value of the underlying hedge instruments after the amortization of DAC, VOBA, DSI and DFEL and taxes. These impacts do not include any estimate of retrospective or prospective unlocking that could occur. These estimates are based upon the recorded reserves as of January 8, 2009, and the related hedge instruments in place as of that date, along with additional implied volatility (vega) hedges that have been implemented to further close the vega shortfall that existed as of January 8, 2009. The impacts presented below are not representative of the aggregate impacts that could result if a combination of such changes to equity market returns, interest rates and implied volatilities occurred.

	In-Force Sensitivities			
	-20%	**-10%**	**-5%**	**5%**
Equity market return	$ (36)	$ (8)	$ (2)	$ (2)
	-50 bps	**-25 bps**	**+25 bps**	**+50 bps**
Interest rates	$ (4)	$	$ (3)	$ (10)
	-4%	**-2%**	**2%**	**4%**
Implied volatilities	$	$	$	$ (1)

The following table shows the effect (dollars in millions) of indicated changes in instantaneous shifts in equity market returns, interest rate scenarios and market implied volatilities:

	Assumptions of Changes In			Hypothetical Impact to Net Income
	Equity Market Return	**Interest Rate Yields**	**Market Implied Volatilities**	
Scenario 1	-5%	-12.5 bps	+1%	$ (3)
Scenario 2	-10%	-25.0 bps	+2%	(13)
Scenario 3	-20%	-50.0 bps	+4%	(60)

The actual effects of the results illustrated in the two tables above could vary depending on a variety of factors, many of which are out of our control and consideration should be given to the following:

- The analysis is only valid as of this particular business day, due to changing market conditions, contract holder activity, hedge positions and other factors;
- The analysis assumes instantaneous shifts in the capital market factors and no ability to rebalance hedge positions prior to the market changes;

Assumptions regarding shifts in the market factors, such as assuming parallel shifts in interest rate and implied volatility term structures, may be overly simplistic and not indicative of actual market behavior in stress scenarios;

It is very unlikely that one capital market sector (e.g. equity markets) will sustain such a large instantaneous movement without affecting other capital market sectors; and

The analysis assumes that there is no tracking or basis risk between the funds and/or indices affecting the GLBs and the instruments utilized to hedge these exposures.

S&P 500 Benefits

We also have in place a hedging program for our indexed annuities and indexed UL. These contracts permit the holder to elect a fixed interest rate return or a return where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to rebalance among the various accounts within the product at renewal dates, either annually or biannually. At the end of each 1-year or 2-year indexed term we have the opportunity to re-price the indexed component by establishing different caps, spreads or specified rates, subject to contractual guarantees. We purchase options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity, both of which are recorded as a component of realized gain (loss) on our Consolidated Statements of Income. SFAS 133 requires that we calculate fair values of index options we may purchase in the future to hedge contract holder index allocations in future reset periods. These fair values represent an estimate of the cost of the options we will purchase in the future, discounted back to the date of the balance sheet, using current market indicators of volatility and interest rates. Changes in the fair values of these liabilities are included as a component of realized gain (loss) on our Consolidated Statements of Income. For information on our S&P 500 benefits hedging results, see our discussion in Realized Gain (Loss) below.

Future Contract Benefits and Other Contract Holder Obligations

Reserves

Reserves are the amounts that, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. Establishing adequate reserves for our obligations to contract holders requires assumptions to be made regarding mortality and morbidity. The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding contracts. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates, and methods of valuation.

The reserves reported in our financial statements contained herein are calculated in accordance with GAAP and differ from those specified by the laws of the various states and carried in the statutory financial statements of the life insurance subsidiaries. These differences arise from the use of mortality and morbidity tables, interest, persistency and other assumptions that we believe to be more representative of the expected experience for these contracts than those required for statutory accounting purposes and from differences in actuarial reserving methods.

The assumptions on which reserves are based are intended to represent an estimation of experience for the period that policy benefits are payable. If actual experience is better than or equal to the assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is worse than the assumptions, additional reserves may be required. This would result in a charge to our net income during the period the increase in reserves occurred. The key experience assumptions include mortality rates, policy persistency and interest rates. We periodically review our experience and update our policy reserves for new issues and reserve for all claims incurred, as we believe appropriate.

Guaranteed Death Benefits

The reserves related to the GDB features available in our variable annuity products are based on the application of a benefit ratio (the present value of total expected benefit payments over the life of the contract divided by the present value of total expected assessments over the life of the contract) to total variable annuity assessments received in the period. The level and direction of the change in reserves will vary over time based on the emergence of the benefit

ratio and the level of assessments associated with the variable annuity.

We utilize a delta hedging strategy for variable annuity products with a GDB feature, which uses futures on U.S.-based equity market indices to hedge against movements in equity markets. The hedging strategy is designed such that changes in the value of the hedge contracts move in the opposite direction of equity market driven changes in the reserve for GDB contracts subject to the hedging strategy. Because the GDB reserves are based upon projected long-term equity market return assumptions, and because the value of the hedging contracts will reflect current capital market conditions, the quarterly changes in values for the GDB reserves and the hedging contracts may not offset each other on an exact basis. Despite these short-term fluctuations in values, we intend to continue to hedge our long-term GDB exposure in order to mitigate the risk associated with falling equity markets. Account balances covered in this hedging program represent approximately 93% of total account balances for variable annuities with a guaranteed death benefit other than account value at time of death. As of December 31, 2008, the GDB reserves were $277 million.

For information on our GDB hedging results, see our discussion in Realized Gain (Loss) below.

Deferred Gain on Sale of the Reinsurance Segment

In 2001, we sold our reinsurance operation to Swiss Re Life & Health America Inc. (Swiss Re). The transaction involved a series of indemnity reinsurance transactions combined with the sale of certain stock companies that comprised our reinsurance operation. The gain related to the indemnity reinsurance transactions was recorded as deferred gain in the liability section of our Consolidated Balance Sheets in accordance with the requirements of SFAS No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts (SFAS 113). The deferred gain is being amortized into income at the rate that earnings on the reinsured business are expected to emerge, over a period of 15 years. In addition, because we have not been relieved of our legal liabilities to the underlying ceding companies with respect to the portion of the business indemnity reinsured by Swiss Re, under SFAS 113, the reserves for the underlying reinsurance contracts as well as a corresponding reinsurance recoverable from Swiss Re will continue to be carried on our Consolidated Balance Sheets during the run-off period of the underlying reinsurance business. This is particularly relevant in the case of the exited personal accident reinsurance lines of business where the underlying reserves are based upon various estimates that are subject to considerable uncertainty.

Because of ongoing uncertainty related to the personal accident business, the reserves related to these exited business lines carried on our Consolidated Balance Sheets as of December 31, 2008, may ultimately prove to be either excessive or deficient. For instance, in the event that future developments indicate that these reserves should be increased, we would record a current period non-cash charge to record the increase in reserves. Because Swiss Re is responsible for paying the underlying claims to the ceding companies, we would record a corresponding increase in reinsurance recoverable from Swiss Re. However, SFAS 113 does not permit us to take the full benefit in earnings for the recording of the increase in the reinsurance recoverable in the period of the change. Rather, we would increase the deferred gain recognized upon the closing of the indemnity reinsurance transaction with Swiss Re and would report a cumulative amortization catch-up adjustment to the deferred gain balance as increased earnings recognized in the period of change. Any amount of additional increase to the deferred gain above the cumulative amortization catch-up adjustment must continue to be deferred and will be amortized into income in future periods over the remaining period of expected run-off of the underlying business. No cash would be transferred between Swiss Re and us as a result of these developments.

Pension and Other Postretirement Benefit Plans

Pursuant to the accounting rules for our obligations to employees under our various pension and other postretirement benefit plans, we are required to make a number of assumptions to estimate related liabilities and expenses. Our most significant assumptions are those for the weighted-average discount rate on our benefit obligation liability and expected return on plan assets. The discount rate assumptions are determined using an analysis of current market information and the projected benefit flows associated with these plans. The expected long-term rate of return on plan assets is initially established at the beginning of the plan year based on historical and projected future rates of return and is the average rate of earnings expected on the funds invested or to be invested in the plan. See Note 1 and Note 18 for more information on our accounting for employee benefit plans.

67

The following presents our estimates of the hypothetical impact to net income (in millions) for the year ended December 31, 2008, associated with sensitivities related to these significant assumptions:

	U.S. Pension Plans	U.S. Other Postretirement Benefits
The Effect of Changes in the Rate of Return on Plan Assets		
Increase (decrease) by 100 basis points	$ 6	$
The Effect of Changes in the Discount Rate on Net Periodic Benefit Expense		
Increase (decrease) by 100 basis points	3	1

Due to the unfavorable equity markets experienced during 2008, especially during the fourth quarter of 2008, as well as a decrease in our discount rate assumption on benefit obligations for 2009, we expect the U.S. net periodic pension benefit recovery we experienced in 2008 will be replaced by an expense in 2009. To illustrate the potential unfavorable impact, the following provides our actual benefit recovery for 2008 and our current assumption for expense (in millions) for 2009 by segment:

	Retirement Solutions		Insurance Solutions				
	Annuities	Defined Contribution	Life Insurance	Group Protection	Investment Management	Other Operations	Total
2008	$ (3)	$ (1)	$ (3)	$ (1)	$ (1)	$ (2)	$ (11)
2009	11	7	12	7	(1)	1	37
Expected increase	$ 14	$ 8	$ 15	$ 8	$	$ 3	$ 48

See Review of Consolidated Financial Condition Liquidity and Capital Resources Uses of Capital - Pension Contributions below for discussion of the PPA and the law s effect on required future contributions.

Contingencies

Management establishes separate reserves for each contingent matter when it is deemed probable and can be reasonably estimated. The outcomes of contingencies, which relate to corporate litigation and regulatory matters, are inherently difficult to predict, and the reserves that have been established for the estimated settlement are subject to significant changes. It is possible that the ultimate cost to LNC, including the tax-deductibility of payments, could exceed the reserve by an amount that would have a material adverse effect on our consolidated results of operations or cash flows in a particular quarterly or annual period. See Note 14 for more information on our contingencies.

Stock-Based Incentive Compensation

Determining the fair value of stock options at the grant date requires judgment, including estimates for the average risk-free interest rate, expected volatility, expected exercise behavior, expected dividend yield and expected forfeitures. If any of those assumptions differ significantly from actual, stock-based compensation expense could be impacted, which could have a material effect on our consolidated results of operations in a particular quarterly or annual period. See Note 20 for more information on our stock-based incentive compensation plans.

Because of the volatility of our share price in the second half of 2008, the historical volatility that we will use to calculate future stock option values for new awards will increase, partially offsetting the decline in our stock price.

Income Taxes

Management uses certain assumptions and estimates in determining the income taxes payable or refundable for the current year, the deferred income tax liabilities and assets for items recognized differently in its financial statements from amounts shown on its income tax returns, and the federal income tax expense. Determining these amounts requires analysis and interpretation of current tax laws and regulations. Management exercises considerable judgment

in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are re-evaluated on a continual basis as regulatory and business factors change.

Changes to the Internal Revenue Code of 1986, as amended, administrative rulings or court decisions could increase our effective tax rate. In this regard, on August 16, 2007, the Internal Revenue Service (IRS) issued a revenue ruling that purports, among other things, to modify the calculation of separate account deduction for dividends received by life insurance companies. Subsequently, the IRS issued another revenue ruling that suspended the August 16 ruling and announced a new regulation project on the issue.
We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 (FIN 48) effective January 1, 2007, and recorded an increase in the liability for unrecognized tax benefits of $15 million in our Consolidated Balance Sheets, offset by a reduction to the beginning balance of retained earnings with no impact on net income. FIN 48 established criteria for recognizing or continuing to recognize only more-likely-than-not tax positions, which may result in federal income tax expense volatility in future periods. While we believe we have adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than our accrued position. Accordingly, additional provisions on federal and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved. For a detailed discussion of FIN 48, see Notes 2 and 7.

Acquisitions and Dispositions

For information about acquisitions and divestitures, see Part I Item 1. Business Acquisitions and Dispositions and Note 3.

RESULTS OF CONSOLIDATED OPERATIONS

Net Income

Details underlying the consolidated results and assets under management (in millions) were as follows:

	For the Years Ended December 31,			**Change Over Prior Year**	
	2008	**2007**	**2006**	**2008**	**2007**
Revenues					
Insurance premiums	$ 2,096	$ 1,947	$ 1,406	8%	38%
Insurance fees	3,229	3,190	2,564	1%	24%
Investment advisory fees	268	360	328	-26%	10%
Net investment income	4,208	4,378	3,923	-4%	12%
Realized gain (loss)	(537)	(169)	13	NM	NM
Amortization of deferred gain on business sold through reinsurance	76	83	76	-8%	9%
Other revenues and fees	543	686	569	-21%	21%
Total revenues	9,883	10,475	8,879	-6%	18%
Benefits and Expenses					
Interest credited	2,501	2,435	2,191	3%	11%
Benefits	3,157	2,562	1,906	23%	34%
Underwriting, acquisition, insurance and other expenses	3,576	3,320	2,776	8%	20%
Interest and debt expense	281	284	228	-1%	25%
Impairment of intangibles	393			NM	NM
Total benefits and expenses	9,908	8,601	7,101	15%	21%
Income from continuing operations before taxes	(25)	1,874	1,778	NM	5%
Federal income tax expense (benefit)	(87)	553	483	NM	14%

Income from continuing operations		62		1,321		1,295	-95%	2%
Income (loss) from discontinued operations, net of federal income tax expense (benefit)		(5)		(106)		21	95%	NM
Net income	$	57	$	1,215	$	1,316	-95%	-8%

Table of Contents

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Revenues					
Operating revenues:					
Retirement Solutions:					
Annuities	$ 2,610	$ 2,533	$ 2,060	3%	23%
Defined Contribution	936	986	988	-5%	0%
Total Retirement Solutions	3,546	3,519	3,048	1%	15%
Insurance Solutions:					
Life Insurance	4,250	4,189	3,470	1%	21%
Group Protection	1,640	1,500	1,032	9%	45%
Total Insurance Solutions	5,890	5,689	4,502	4%	26%
Investment Management	438	590	564	-26%	5%
Lincoln UK	327	370	308	-12%	20%
Other Operations	439	473	444	-7%	7%
Excluded realized gain (loss), pre-tax	(760)	(175)	12	NM	NM
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	3	9	1	-67%	NM
Total revenues	$ 9,883	$ 10,475	$ 8,879	-6%	18%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Income					
Income (loss) from operations:					
Retirement Solutions:					
Annuities	$ 193	$ 485	$ 399	-60%	22%
Defined Contribution	123	181	204	-32%	-11%
Total Retirement Solutions	316	666	603	-53%	10%
Insurance Solutions:					
Life Insurance	541	719	531	-25%	35%
Group Protection	104	114	99	-9%	15%
Total Insurance Solutions	645	833	630	-23%	32%
Investment Management	28	76	55	-63%	38%
Lincoln UK	50	46	39	9%	18%
Other Operations	(180)	(173)	(38)	-4%	NM

Excluded realized gain (loss), after-tax		(494)		(120)		9	NM	NM
Early extinguishment of debt						(4)	NM	100%
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax		2		(7)		1	129%	NM
Impairment of intangibles, after-tax		(305)					NM	NM
Income from continuing operations, after-tax		62		1,321		1,295	-95%	2%
Income (loss) from discontinued operations, after-tax		(5)		(106)		21	95%	NM
Net income	$	57	$	1,215	$	1,316	-95%	-8%

Table of Contents

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Deposits					
Retirement Solutions:					
Annuities	$ 11,730	$ 13,457	$ 10,756	-13%	25%
Defined Contribution	5,547	5,550	4,585	0%	21%
Insurance Solutions Life Insurance	4,493	4,413	3,632	2%	22%
Investment Management	15,997	23,752	28,094	-33%	-15%
Consolidating adjustments [1]	(4,637)	(4,015)	(3,838)	-15%	-5%
Total deposits	$ 33,130	$ 43,157	$ 43,229	-23%	0%
Net Flows					
Retirement Solutions:					
Annuities	$ 4,090	$ 4,991	$ 2,665	-18%	87%
Defined Contribution	781	337	342	132%	-1%
Insurance Solutions Life Insurance	2,822	2,645	2,080	7%	27%
Investment Management	(9,270)	(1,372)	9,368	NM	NM
Consolidating adjustments [1]	338	820	114	-59%	NM
Total net flows	$ (1,239)	$ 7,421	$ 14,569	NM	-49%

(1) Consolidating adjustments represents the elimination of deposits and net flows on products affecting more than one segment.

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2007	2006
Assets Under Management by Advisor					
Investment Management:					
External assets	$ 46,574	$ 75,686	$ 83,577	-38%	-9%
Inter-segment assets	73,648	77,088	81,166	-4%	-5%
Lincoln UK (excluding policy loans)	5,978	10,243	10,104	-42%	1%
Policy loans	2,923	2,886	2,811	1%	3%
	48,885	70,824	55,916	-31%	27%

Assets administered through unaffiliated third parties					
Total assets under management	$ 178,008	$ 236,727	$ 233,574	-25%	1%

Comparison of 2008 to 2007

Net income decreased due primarily to the following:

- Write-downs for other-than-temporary impairments on our available-for-sale securities increased by $411 million and were attributable primarily to unfavorable changes in credit quality and increases in credit spreads;
- Impairment of goodwill and our FCC license intangible assets on our media business attributable primarily to declines in advertising revenues for the entire radio market and impairment of our Lincoln UK goodwill due to deterioration in the market; however, these non-cash impairments will not impact our future liquidity;
- A $215 million unfavorable prospective unlocking (a $168 million decrease from assumption changes and a $47 million decrease from model refinements) of DAC, VOBA, DSI, DFEL and the reserves for annuity and life insurance products with living benefit and death benefit guarantees due primarily to significantly unfavorable equity markets in 2008 compared to a $12 million favorable prospective unlocking (a $28 million increase from assumption changes due primarily to lower lapses and expenses and higher interest rates than our model projections assumed net of a $16 million decrease from model refinements) in 2007 (see Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL for more information);
- A $108 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for annuity and life insurance products with living benefit and death benefit guarantees in 2008 due primarily to the impact of lower equity market performance and premiums received and higher death claims and future GDB claims than our model projections assumed compared to a $40 million favorable retrospective unlocking in 2007 due primarily to the impact of higher equity market performance and persistency and lower expenses than our model projections assumed;

Higher benefits due primarily to an increase in the change in GDB reserves from an increase in our expected GDB benefit payments attributable primarily to the decline in account values from the unfavorable equity markets and the increase in reserves for products with secondary guarantees from continued growth of business in force and the effects of model refinements along with higher mortality experience due to an increase in the average attained age of the in-force block and lower benefits in the first quarter of 2007 related to a purchase accounting adjustment to the opening balance sheet of Jefferson-Pilot;

Lower earnings from our variable annuity and mutual fund products as a result of declines in assets under management caused by decreases in the equity markets;

Lower net investment income attributable primarily to less favorable investment income on surplus and alternative investments and prepayment and bond makewhole premiums due primarily to deterioration of the capital markets (see Consolidated Investments Alternative Investments below for additional information on our alternative investments); and

A $16 million impact of the initial adoption of SFAS 157 on January 1, 2008.

The decrease in net income was partially offset by the following:

Favorable GLB net derivatives results due primarily to the inclusion in 2008 of an NPR adjustment as required under SFAS 157 attributable primarily to our widening credit spreads;

Lower DAC and VOBA amortization, net of interest and excluding unlocking, due primarily to declines in variable account values from unfavorable equity markets during 2008;

The loss on disposition of our discontinued operations in 2007;

Growth in insurance fees driven by increases in life insurance in force as a result of new sales and favorable persistency partially offset by unfavorable equity markets and adjustments during the second quarter of 2007 resulting from adjusting account values for certain of our life insurance policies and modifying the accounting for certain of our life insurance policies;

A reduction in federal income tax expense due primarily to lower income from continuing operations, favorable tax audit adjustments, and favorable tax return true-ups driven primarily by the separate account DRD and other items; and

Lower broker-dealer expenses due primarily to lower sales of non-proprietary products, lower merger expenses as many of our integration efforts related to our acquisition of Jefferson-Pilot have been completed and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals.

Comparison of 2007 to 2006

Net income decreased due primarily to the following:

Write-downs for other-than-temporary impairments on our available-for-sale securities attributable primarily to unfavorable changes in credit quality and interest rates;

An increase to realized loss due to the ineffectiveness of our GLB hedge program driven by significant volatility in the capital markets along with a modification of the structure of some of our hedges in an effort to better match the sensitivities of the embedded derivative liability going forward;

The loss on disposition of our discontinued operations in 2007;

An increase to underwriting, acquisition, insurance and other expenses due primarily to growth in account values from sales and favorable equity markets and an increase in broker-dealer expenses, driven by an increase in incentive compensation attributable to stronger sales performance and an increase in legal expenses for pending cases;

An increase in the effective tax rate to 30% from 27% attributable to a $25 million favorable tax return true-up in 2006 associated primarily with the separate account DRD;

The impact of adjustments during the second quarter of 2007 resulting from account value adjustments for certain of our life insurance policies and modifying the accounting for certain of our life insurance policies; and

The adoption of SOP 05-1 on January 1, 2007, which increased DAC and VOBA amortization, net of deferrals by approximately $11 million.

The decrease in net income was partially offset by the following:

Including the results of operations from Jefferson-Pilot for twelve months in 2007 compared to only nine months in 2006;
Growth in insurance fees driven by increases in life insurance in force as a result of new sales and favorable persistency along with increases in variable account values from favorable equity markets and positive net flows;
Growth in insurance premiums driven by increases in our Insurance Solutions Group Protection non-medical group business in force as a result of new sales and favorable persistency;

Table of Contents

- Higher investment income from stronger results from our alternative investments and growth in fixed account values, including fixed portion of variable, driven by positive net flows and favorable equity markets (see Consolidated Investments Alternative Investments below for additional information on our alternative investments);
- A $12 million favorable prospective unlocking (a $28 million increase from assumption changes net of a $16 million decrease from model refinements) of DAC, VOBA, DSI, DFEL and the reserves for annuity and life insurance products with living benefit and death benefit guarantees (discussed above) in 2007 compared to a $19 million unfavorable prospective unlocking (an $18 million decrease from assumption changes due primarily to higher increase in reserves on products with secondary guarantees, partially offset by improved mortality experience and expenses than our model projections assumed and a $1 million decrease from model refinements) in 2006 (see Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL for more information); and
- Growth in investment advisory fees driven by higher external average assets under management and favorable equity markets.

The foregoing items are discussed in further detail in results of operations by segment discussions and Realized Gain (Loss) below. In addition, for a discussion of the earnings impact of the equity markets, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk Equity Market Risk Impact of Equity Market Sensitivity.

RESULTS OF RETIREMENT SOLUTIONS

The Retirement Solutions business provides its products through two segments: Annuities and Defined Contribution. The Retirement Solutions Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities, and variable annuities. The Retirement Solutions Defined Contribution segment provides employer-sponsored variable and fixed annuities and mutual-fund based programs in the 401(k), 403(b) and 457 marketplaces.

Retirement Solutions Annuities

Income from Operations

Details underlying the results for Retirement Solutions Annuities (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Operating Revenues					
Insurance premiums	$ 136	$ 118	$ 47	15%	151%
Insurance fees	963	998	751	-4%	33%
Net investment income	972	1,032	976	-6%	6%
Operating realized gain	219	6	1	NM	NM
Other revenues and fees [1]	320	379	285	-16%	33%
Total operating revenues	2,610	2,533	2,060	3%	23%
Operating Expenses					
Interest credited	698	659	624	6%	6%
Benefits	452	170	92	166%	85%
Underwriting, acquisition, insurance and other expenses	1,322	1,060	855	25%	24%
Total operating expenses	2,472	1,889	1,571	31%	20%
Income from operations before taxes	138	644	489	-79%	32%
Federal income tax expense (benefit)	(55)	159	90	NM	77%

Income from operations	$	193	$	485	$	399	-60%	22%

(1) Other revenues and fees consists primarily of broker-dealer earnings that are subject to market volatility.

Comparison of 2008 to 2007

Income from operations for this segment decreased due primarily to the following:

- A $210 million unfavorable prospective unlocking from assumption changes of DAC, VOBA, DSI, DFEL and reserves for our GDB riders in 2008 due primarily to significantly unfavorable equity markets, compared to a $7 million favorable prospective unlocking (an $18 million favorable unlocking from assumption changes due primarily to favorable interest rates, maintenance expenses and persistency, partially offset by less favorable asset-based fees than our model projections assumed, net of an $11 million unfavorable unlocking from model refinements) in 2007 (see Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL for more information);
- A $50 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders in 2008 due primarily to the impact of lower equity market performance than our model projections assumed, compared to a $21 million favorable retrospective unlocking in 2007 due primarily to lower lapses and higher equity market performance than our model projections assumed;
- Higher benefits from an increase in the change in GDB reserves due to an increase in our expected GDB benefit payments attributable primarily to the decline in account values due to the unfavorable equity markets;
- Lower net investment income attributable primarily to less favorable investment income on surplus and alternative investments due to deterioration of the capital markets (see Consolidated Investments Alternative Investments below for additional information on our alternative investments);
- Lower insurance fees driven primarily by lower average daily variable account values due to unfavorable equity markets, partially offset by increased surrender charges and higher average expense assessment rates due to continued growth in rider elections that have incremental charges associated with them; and
- A less favorable net broker-dealer margin attributable primarily to lower sales of non-proprietary products and lower earnings due to the unfavorable equity markets.

The decrease in income from operations was partially offset by the following:

- Lower underwriting, acquisition, insurance and other expenses, excluding unlocking, due primarily to lower DAC and VOBA amortization, net of interest, driven by the declines in our variable account values from unfavorable equity markets during 2008 and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals; and
- A reduction in federal income tax expense related to a $21 million favorable tax return true-up driven primarily by the separate account DRD and other items in 2008, compared to a $2 million unfavorable tax return true-up and other items in 2007.

Future Expectations

We expect lower earnings for this segment in 2009 than we experienced in 2008, when excluding the impact of unlocking. The expected decline is attributable to the following:

- Lower expense assessments and higher changes in reserves related to our GDB features, partially offset by lower asset-based expenses, due to the variable account value erosion from unfavorable equity market returns experienced during the fourth quarter of 2008 resulting in lower account values at the end of 2008;
- Lower investment income on the segment s alternative investments due to the market conditions in both the equity and credit markets (see Consolidated Investments Alternative Investments below for additional information on our alternative investments); and
- Higher expenses attributable to our U.S. pension plans (see Critical Accounting Policies and Estimates Pension and Other Postretirement Benefit Plans above for additional information).

Although the segment s results in 2008 were unfavorably impacted by declining account values and the economic environment, its overall net flows were relatively strong in a challenging economic environment. New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly impact current period income from operations, they are an important indicator of future profitability.

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity products was 9%, 10% and 12% for 2008, 2007 and 2006, respectively. The segment s lapse rates remained

relatively flat when comparing 2008 to 2007 during a time of increasingly negative customer sentiment.

See Note 11 below for information on contractual guarantees to contract holders related to GDB features.

We expect to manage the effect of changing market investment returns by managing interest rate spreads for near-term income from operations through a combination of crediting rate actions and portfolio management. Our expectation includes the assumption that there are no significant changes in net flows in or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectation. For information on interest rate spreads and the interest rate risk due to falling interest rates, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our fixed annuity business includes products with crediting rates that are reset on an annual basis and are not subject to surrender charges. Account values for these products were $4.9 billion as of December 31, 2008, with 41% already at their minimum guaranteed rates. The average crediting rates for these products were approximately 51 basis points in excess of average minimum guaranteed rates. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset.

For factors that could cause actual results to differ materially from those set forth in this section, see Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language above.

Comparison of 2007 to 2006

Income from operations for this segment increased due primarily to the following:

- Including the results of operations from Jefferson-Pilot for twelve months in 2007 compared to only nine months in 2006;
- Growth in insurance fees driven by higher average daily variable account values from favorable equity markets and positive net flows and an increase in average expense assessment rates driven by the increase in account values with our guarantee riders that have incremental charges associated with them; and
- A $7 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our GDB riders (discussed above) in 2007 compared to a $1 million favorable prospective unlocking from assumption changes for 2006.

The increase in income from operations was partially offset by the following:

- Increases to underwriting, acquisition, insurance and other expenses attributable primarily to growth in account values from sales and favorable equity markets and an increase in our broker-dealer expenses, driven by increases in incentive compensation attributable to the strong sales performance and increases in legal expenses for pending cases;
- The adoption of SOP 05-1 on January 1, 2007, which increased DAC and VOBA amortization, net of deferrals, by approximately $6 million; and
- An increase in the effective tax rate to 25% from 18% attributable to a $2 million unfavorable tax return true-up and other items in 2007, compared to a $33 million favorable tax return true-up associated primarily with the separate account DRD in 2006.

Table of Contents

We provide information about this segment s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain, see Realized Gain (Loss) below.

Insurance Fees

Details underlying insurance fees, account values and net flows (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Insurance Fees					
Mortality, expense and other assessments	$ 935	$ 989	$ 747	-5%	32%
Surrender charges	45	39	35	15%	11%
DFEL:					
Deferrals	(50)	(45)	(40)	-11%	-13%
Prospective unlocking assumption changes	25	(1)	(3)	NM	67%
Retrospective unlocking	13		(1)	NM	100%
Other amortization, net of interest	(5)	16	13	NM	23%
Total insurance fees	$ 963	$ 998	$ 751	-4%	33%

	As of December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Account Values					
Variable portion of variable annuities	$ 40,925	$ 58,643	$ 48,169	-30%	22%
Fixed portion of variable annuities	3,617	3,470	3,613	4%	-4%
Total variable annuities	44,542	62,113	51,782	-28%	20%
Fixed annuities, including indexed	14,038	14,352	14,932	-2%	-4%
Fixed annuities ceded to reinsurers	(1,125)	(1,352)	(1,812)	17%	25%
Total fixed annuities	12,913	13,000	13,120	-1%	-1%
Total account values	$ 57,455	$ 75,113	$ 64,902	-24%	16%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Averages					
Daily variable account values, excluding the fixed portion of variable	$ 52,111	$ 54,210	$ 42,359	-4%	28%

Daily S&P 500	1,220.72	1,476.71	1,310.58	-17%	13%

Table of Contents

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Flows on Account Values					
Variable portion of variable annuity deposits	$ 6,690	$ 9,135	$ 7,251	-27%	26%
Variable portion of variable annuity withdrawals	(4,813)	(5,089)	(4,080)	5%	-25%
Variable portion of variable annuity net flows	1,877	4,046	3,171	-54%	28%
Fixed portion of variable annuity deposits	3,433	2,795	2,090	23%	34%
Fixed portion of variable annuity withdrawals	(549)	(644)	(697)	15%	8%
Fixed portion of variable annuity net flows	2,884	2,151	1,393	34%	54%
Total variable annuity deposits	10,123	11,930	9,341	-15%	28%
Total variable annuity withdrawals	(5,362)	(5,733)	(4,777)	6%	-20%
Total variable annuity net flows	4,761	6,197	4,564	-23%	36%
Fixed indexed annuity deposits	1,078	755	717	43%	5%
Fixed indexed annuity withdrawals	(441)	(245)	(175)	-80%	-40%
Fixed indexed annuity net flows	637	510	542	25%	-6%
Other fixed annuity deposits	529	772	698	-31%	11%
Other fixed annuity withdrawals	(1,837)	(2,488)	(3,139)	26%	21%
Other fixed annuity net flows	(1,308)	(1,716)	(2,441)	24%	30%
Total annuity deposits	11,730	13,457	10,756	-13%	25%
Total annuity withdrawals	(7,640)	(8,466)	(8,091)	10%	-5%
Total annuity net flows	$ 4,090	$ 4,991	$ 2,665	-18%	87%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Other Changes to Account Values					
Interest credited and change in market value on variable,	$ (22,187)	$ 3,988	$ 5,203	NM	-23%

excluding the fixed portion of variable					
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	2,798	2,440	1,890	15%	29%

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and the equity markets. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Insurance fees include charges on both our variable and fixed annuity products, but exclude the attributed fees on our GLB products; see Realized Gain (Loss) Operating Realized Gain GLB below for discussion of these attributed fees.

77

Table of Contents

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	**2007**	**2006**	**2008**	**2007**
Net Investment Income					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 901	$ 914	$ 886	-1%	3%
Commercial mortgage loan prepayment and bond makewhole premiums [1]	3	10	7	-70%	43%
Alternative investments [2]	(2)	1	2	NM	-50%
Surplus investments [3]	67	101	81	-34%	25%
Internal default charges [4]			(4)	NM	100%
Broker-dealer	3	6	4	-50%	50%
Total net investment income	$ 972	$ 1,032	$ 976	-6%	6%
Interest Credited					
Amount provided to contract holders	$ 727	$ 746	$ 691	-3%	8%
Opening balance sheet adjustment [5]		(4)		100%	NM
DSI deferrals	(95)	(116)	(86)	18%	-35%
Interest credited before DSI amortization	632	626	605	1%	3%
DSI amortization:					
Prospective unlocking assumption changes	37	(2)	(1)	NM	-100%
Prospective unlocking model refinements		1		-100%	NM
Retrospective unlocking	13	(1)	(3)	NM	67%
Other amortization	16	35	23	-54%	52%
Total interest credited	$ 698	$ 659	$ 624	6%	6%

(1) See Consolidated Investments Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums

below for additional information.

(2) See Consolidated Investments Alternative Investments below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment.

(4) See Results of Other Operations below for information on this methodology discontinued in the third quarter of 2006.

(5) Net adjustment to the opening balance sheet of Jefferson-Pilot finalized in 2007.

Table of Contents

	For the Years Ended December 31,			Basis Point Change Over Prior Year	
	2008	2007	2006	2008	2007
Interest Rate Spread					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.79%	5.87%	5.82%	(8)	5
Commercial mortgage loan prepayment and bond make whole premiums	0.02%	0.06%	0.05%	(4)	1
Alternative investments	-0.01%	0.00%	0.01%	(1)	(1)
Internal default charges	0.00%	0.00%	-0.03%		3
Net investment income yield on reserves	5.80%	5.93%	5.85%	(13)	8
Amount provided to contract holders	3.84%	3.74%	3.82%	10	(8)
Opening balance sheet adjustment	0.00%	-0.02%	0.00%	2	(2)
Interest rate credited to contract holders	3.84%	3.72%	3.82%	12	(10)
Interest rate spread	1.96%	2.21%	2.03%	(25)	18

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Other Information					
Average invested assets on reserves	$ 15,784	$ 15,924	$ 15,386	-1%	3%
Average fixed account values, including the fixed portion of variable	17,263	17,560	16,525	-2%	6%
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(2,798)	(2,440)	(1,890)	-15%	-29%
Net flows for fixed annuities, including the fixed portion of variable	2,213	945	(506)	134%	287%

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders accounts, including the fixed portion of variable annuity contracts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment

income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management account interest expense and interest on collateral divided by average invested assets on reserves. The average invested assets on reserves is calculated based upon total invested assets, excluding hedge derivatives and collateral. The average crediting rate is calculated as interest credited before DSI amortization, plus the immediate annuity reserve change (included within benefits) divided by the average fixed account values, including the fixed portion of variable annuity contracts, net of coinsured account values. Fixed account values reinsured under modified coinsurance agreements are included in account values for this calculation. Changes in commercial mortgage loan prepayments and bond makewhole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Benefits for this segment include changes in reserves on immediate annuity account values driven by premiums, death benefits paid and changes in reserves on GDBs.

The changes in reserves attributable to the segment s benefit ratio unlocking of its SOP 03-1 reserves for GDB riders is offset in operating realized gain. See Realized Gain (Loss) - Operating Realized Gain GDB below for additional information.

Table of Contents

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Underwriting, Acquisition, Insurance and Other Expenses					
Total expenses incurred, excluding broker-dealer	$ 1,002	$ 1,083	$ 878	-7%	23%
DAC and VOBA deferrals	(686)	(774)	(612)	11%	-26%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	316	309	266	2%	16%
DAC and VOBA amortization, net of interest:					
Prospective unlocking assumption changes	303	(28)	(1)	NM	NM
Prospective unlocking model refinements		16		-100%	NM
Retrospective unlocking	154	(32)	(19)	NM	-68%
Other amortization, net of interest	218	417	322	-48%	30%
Broker-dealer expenses incurred	331	378	287	-12%	32%
Total underwriting, acquisition, insurance and other expenses	$ 1,322	$ 1,060	$ 855	25%	24%

	2008	2007	2006
DAC and VOBA Deferrals			
As a percentage of sales/deposits	5.8%	5.8%	5.7%

Commissions and other costs that vary with and are related primarily to the production of new business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. We have certain trail commissions that are based upon account values that are expensed as incurred rather than deferred and amortized. Broker-dealer expenses that vary with and are related to sales are expensed as incurred and not deferred and amortized. These expenses are more than offset by increases to other income.

Table of Contents

Retirement Solutions Defined Contribution

Income from Operations

Details underlying the results for Retirement Solutions Defined Contribution (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Operating Revenues					
Insurance fees	$ 222	$ 259	$ 230	-14%	13%
Net investment income	695	709	738	-2%	-4%
Operating realized gain	4			NM	NM
Other revenues and fees	15	18	20	-17%	-10%
Total operating revenues	936	986	988	-5%	0%
Operating Expenses					
Interest credited	430	418	411	3%	2%
Benefits	14			NM	NM
Underwriting, acquisition, insurance and other expenses	340	315	297	8%	6%
Total operating expenses	784	733	708	7%	4%
Income from operations before taxes	152	253	280	-40%	-10%
Federal income taxes	29	72	76	-60%	-5%
Income from operations	$ 123	$ 181	$ 204	-32%	-11%

Comparison of 2008 to 2007

Income from operations for this segment decreased due primarily to the following:

A $26 million unfavorable prospective unlocking from assumption changes of DAC, VOBA, DSI and reserves for our GDB riders in 2008 due primarily to continued significantly unfavorable equity markets, compared to a $2 million unfavorable prospective unlocking from assumption changes in 2007 due primarily to higher lapse rates and lower asset-based fees, partially offset by lower expenses than our model projections assumed (see Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL for more information);

Lower insurance fees driven primarily by lower average daily variable account values resulting from the unfavorable equity markets and an overall shift in business mix toward products with lower expense assessment rates;

Lower net investment income attributable primarily to less favorable investment income on surplus and alternative investments due to deterioration of the capital markets partially offset by higher average fixed account values (see Consolidated Investments Alternative Investments below for additional information on our alternative investments);

Higher interest credited driven primarily by higher average fixed account values, including the fixed portion of variable annuity contracts, driven by transfers from variable to fixed;

Higher benefits from an increase in the change in GDB reserves due to an increase in our expected GDB benefit payments attributable primarily to the decline in account values due to the unfavorable equity markets; and

A $9 million unfavorable retrospective unlocking of DAC, VOBA and DSI in 2008 due primarily to higher lapses, maintenance expenses and future GDB claims than our model projections assumed compared to a $4 million unfavorable retrospective unlocking in 2007 due primarily to higher lapses and less favorable

asset-based fees than our model projections assumed.

The decrease in income from operations was partially offset by the following:

- Lower underwriting, acquisition, insurance and other expenses, excluding unlocking, due primarily to lower DAC and VOBA amortization, net of interest, driven by the declines in our variable account values from unfavorable equity markets during 2008, the implementation of several expense management controls and practices that are focused on aggressively managing expenses and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals; and
- A reduction in federal income tax expense related to a favorable tax return true up in 2008.

Table of Contents

Future Expectations

We expect lower earnings for this segment in 2009 than we experienced in 2008, when excluding the impacts of unlocking. The expected decline is attributable to the following:

- Lower expense assessments and higher changes in reserves related to our GDB features, partially offset by lower asset-based expenses, due to the variable account value erosion from unfavorable equity market returns experienced during the fourth quarter of 2008 resulting in lower account values at the end of 2008;
- Lower investment income on the segment s alternative investments due to the market conditions in both the equity and credit markets (see Consolidated Investments Alternative Investments below for additional information on our alternative investments);
- Lower insurance fees driven by a continuing overall shift in business mix toward products with lower expense assessments and lower margins.; and
- Higher expenses attributable to our U.S. pension plans (see Critical Accounting Policies and Estimates Pension and Other Postretirement Benefit Plans above for additional information).

Although the segment s results in 2008 were unfavorably impacted by declining account values and the economic environment, its overall net flows were relatively strong in a challenging economic environment.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly impact current period income from operations, they are an important indicator of future profitability.

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity products was 15%, 15% and 13% for 2008, 2007 and 2006, respectively. The segment s lapse rates remained flat when comparing 2008 to 2007.

Due to an expected overall shift in business mix towards products with lower expense assessment rates, a substantial increase in new deposit production will be necessary to maintain earnings at current levels.

See Note 11 below for information on contractual guarantees to contract holders related to GDB features.

We expect to manage the effect of changing market investment returns by managing interest rate spreads for near-term income from operations through a combination of crediting rate actions and portfolio management. Our expectation includes the assumption that there are no significant changes in net flows in or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectation. For information on interest rate spreads and the interest rate risk due to falling interest rates, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

For factors that could cause actual results to differ materially from those set forth in this section, see Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language above.

Comparison of 2007 to 2006

Income from operations for this segment decreased due primarily to the following:

- Lower net investment income driven by net outflows for fixed annuities, including the fixed portion of variable annuity contracts and less favorable results from our investment income on alternative investments and prepayment and bond makewhole premiums (see Consolidated Investments Alternative Investments below for additional information on our alternative investments);
- Higher interest credited to contract holders attributable to an increase in crediting rates;
- A $2 million unfavorable prospective unlocking of DAC, VOBA and DSI from assumption changes (discussed above) in 2007 compared to a $4 million favorable prospective unlocking from assumption changes in 2006 due primarily to lower long-term interest rates and favorable margins, partially offset by lower persistency than our model projections assumed; and
- Higher costs of investments in strategic initiatives associated with changes to and expansion of our wholesaling structure in 2007.

The decrease in income from operations was partially offset by growth in insurance fees driven by higher average daily variable account values from favorable equity markets and positive net flows.

Table of Contents

We provide information about this segment s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain, see Realized Gain (Loss) below.

Insurance Fees

Details underlying insurance fees, account values and net flows (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Insurance Fees					
Annuity expense assessments	$ 197	$ 234	$ 210	-16%	11%
Mutual fund fees	19	17	12	12%	42%
Total expense assessments	216	251	222	-14%	13%
Surrender charges	6	8	8	-25%	0%
Total insurance fees	$ 222	$ 259	$ 230	-14%	13%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Averages					
Daily variable account values, excluding the fixed portion of variable	$ 14,935	$ 18,043	$ 16,432	-17%	10%
Daily S&P 500	1,220.72	1,476.71	1,310.58	-17%	13%

	As of December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Account Values					
Variable portion of variable annuities	$ 10,588	$ 17,876	$ 17,476	-41%	2%
Fixed portion of variable annuities	6,037	5,893	6,210	2%	-5%
Total variable annuities	16,625	23,769	23,686	-30%	0%
Fixed annuities	5,601	4,996	4,796	12%	4%
Total annuities	22,226	28,765	28,482	-23%	1%
Mutual funds	6,652	7,293	5,174	-9%	41%
Total annuities and mutual funds	$ 28,878	$ 36,058	$ 33,656	-20%	7%

Table of Contents

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Account Value Roll Forward By Product					
Total Micro Small Segment:					
Balance at beginning-of-period	$ 7,798	$ 7,535	$ 6,506	3%	16%
Gross deposits	1,531	1,594	1,840	-4%	-13%
Withdrawals and deaths	(1,740)	(1,931)	(1,540)	10%	-25%
Net flows	(209)	(337)	300	38%	NM
Transfers between fixed and variable accounts	(8)	(5)		-60%	NM
Inter-product transfer [1]	(653)			NM	NM
Investment increase and change in market value	(2,040)	605	729	NM	-17%
Balance at end-of-period	$ 4,888	$ 7,798	$ 7,535	-37%	3%
Total Mid Large Segment:					
Balance at beginning-of-period	$ 9,463	$ 6,975	$ 5,271	36%	32%
Gross deposits	2,933	2,771	1,544	6%	79%
Withdrawals and deaths	(871)	(724)	(434)	-20%	-67%
Net flows	2,062	2,047	1,110	1%	84%
Transfers between fixed and variable accounts	(55)	(17)	(4)	NM	NM
Inter-product transfer [1]	653			NM	NM
Investment increase and change in market value	(2,583)	458	598	NM	-23%
Balance at end-of-period	$ 9,540	$ 9,463	$ 6,975	1%	36%
Total *Multi-Fund*® and Other Variable Annuities:					
Balance at beginning-of-period	$ 18,797	$ 19,146	$ 18,697	-2%	2%
Gross deposits	1,083	1,185	1,201	-9%	-1%
Withdrawals and deaths	(2,155)	(2,558)	(2,269)	16%	-13%
Net flows	(1,072)	(1,373)	(1,068)	22%	-29%
Transfers between fixed and variable accounts	(2)	(6)	(6)	67%	0%
Inter-segment transfer	295			NM	NM
Investment increase and change in market value	(3,568)	1,030	1,523	NM	-32%
Balance at end-of-period	$ 14,450	$ 18,797	$ 19,146	-23%	-2%

Total Annuities and Mutual Funds:					
Balance at beginning-of-period	$ 36,058	$ 33,656	$ 30,474	7%	10%
Gross deposits	5,547	5,550	4,585	0%	21%
Withdrawals and deaths	(4,766)	(5,213)	(4,243)	9%	-23%
Net flows	781	337	342	132%	-1%
Transfers between fixed and variable accounts	(65)	(28)	(10)	NM	NM
Inter-segment transfer	295			NM	NM
Investment increase and change in market value	(8,191)	2,093	2,850	NM	-27%
Balance at end-of-period [2]	$ 28,878	$ 36,058	$ 33,656	-20%	7%

(1) The Lincoln Employee 401(k) Plan transferred from LINCOLN DIRECTOR℠ to *LINCOLN ALLIANCE®* effective September 30, 2008.

(2) Includes mutual fund account values. Mutual funds are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

Table of Contents

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Flows on Account Values					
Variable portion of variable annuity deposits	$ 2,170	$ 2,355	$ 2,525	-8%	-7%
Variable portion of variable annuity withdrawals	(2,708)	(3,212)	(2,557)	16%	-26%
Variable portion of variable annuity net flows	(538)	(857)	(32)	37%	NM
Fixed portion of variable annuity deposits	369	351	441	5%	-20%
Fixed portion of variable annuity withdrawals	(991)	(912)	(938)	-9%	3%
Fixed portion of variable annuity net flows	(622)	(561)	(497)	-11%	-13%
Total variable annuity deposits	2,539	2,706	2,966	-6%	-9%
Total variable annuity withdrawals	(3,699)	(4,124)	(3,495)	10%	-18%
Total variable annuity net flows	(1,160)	(1,418)	(529)	18%	NM
Fixed annuity deposits	812	754	506	8%	49%
Fixed annuity withdrawals	(557)	(724)	(501)	23%	-45%
Fixed annuity net flows	255	30	5	NM	NM
Total annuity deposits	3,351	3,460	3,472	-3%	0%
Total annuity withdrawals	(4,256)	(4,848)	(3,996)	12%	-21%
Total annuity net flows	(905)	(1,388)	(524)	35%	NM
Mutual fund deposits	2,196	2,090	1,113	5%	88%
Mutual fund withdrawals	(510)	(365)	(247)	-40%	-48%
Mutual fund net flows	1,686	1,725	866	-2%	99%
Total annuity and mutual fund deposits	5,547	5,550	4,585	0%	21%
Total annuity and mutual fund withdrawals	(4,766)	(5,213)	(4,243)	9%	-23%
Total annuity and mutual fund net flows	$ 781	$ 337	$ 342	132%	-1%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Other Changes to Account Values					
Interest credited and change in market value on variable, excluding the fixed portion of variable	$ (5,942)	$ 1,287	$ 1,899	NM	-32%
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(461)	(29)	(84)	NM	65%

We charge expense assessments to cover insurance and administrative expenses. Expense assessments are generally equal to a percentage of the daily variable account values. Average daily account values are driven by net flows and the equity markets. Our expense assessments include fees we earn for the services that we provide to our mutual fund programs. In addition, for both our fixed and variable annuity contracts, we collect surrender charges when contract holders surrender their contracts during the surrender charge periods to protect us from premature withdrawals.

Table of Contents

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Investment Income					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 655	$ 646	$ 659	1%	-2%
Commercial mortgage loan prepayment and bond makewhole premiums [1]	7	6	17	17%	-65%
Alternative investments [2]	(6)	2	8	NM	-75%
Surplus investments [3]	39	55	54	-29%	2%
Total net investment income	$ 695	$ 709	$ 738	-2%	-4%
Interest Credited	$ 430	$ 418	$ 411	3%	2%

(1) See Consolidated Investments Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums below for additional information.

(2) See Consolidated Investments Alternative Investments below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment.

	For the Years Ended December 31,			Basis Point Change Over Prior Year	
	2008	2007	2006	2008	2007
Interest Rate Spread					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.89%	6.03%	6.11%	(14)	(8)
Commercial mortgage loan prepayment and bond makewhole premiums	0.06%	0.06%	0.16%		(10)
Alternative investments	-0.05%	0.02%	0.07%	(7)	(5)
Net investment income yield on reserves	5.90%	6.11%	6.34%	(21)	(23)
Interest rate credited to contract holders	3.79%	3.83%	3.73%	(4)	10
Interest rate spread	2.11%	2.28%	2.61%	(17)	(33)

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Other Information					
Average invested assets on reserves	$ 11,113	$ 10,712	$ 10,785	4%	-1%
Average fixed account values, including the fixed portion of variable	11,330	10,935	11,016	4%	-1%
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	461	29	84	NM	-65%
Net flows for fixed annuities, including the fixed portion of variable	(367)	(531)	(492)	31%	-8%

Table of Contents

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders accounts, including the fixed portion of variable annuity contracts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management account interest expense and interest on collateral, divided by average invested assets on reserves. The average invested assets on reserves are calculated based upon total invested assets, excluding hedge derivatives. The average crediting rate is calculated as interest credited before DSI amortization, divided by the average fixed account values, including the fixed portion of variable annuity contracts. Commercial mortgage loan prepayments and bond makewhole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Benefits for this segment include changes in reserves on GDBs and death benefits paid.

The changes in reserves attributable to the segment s benefit ratio unlocking of its SOP 03-1 reserves for GDB riders is offset in operating realized gain. See Realized Gain (Loss) Operating Realized Gain GDB below for additional information.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Underwriting, Acquisition, Insurance and Other Expenses					
Total expenses incurred	$ 305	$ 313	$ 311	-3%	1%
DAC deferrals	(94)	(92)	(88)	-2%	-5%
Total expenses recognized before amortization	211	221	223	-5%	-1%
DAC and VOBA amortization, net of interest:					
Prospective unlocking assumption changes	39	3	(7)	NM	143%
Retrospective unlocking	15	6	6	150%	0%
Other amortization, net of interest	75	85	75	-12%	13%
Total underwriting, acquisition, insurance and other expenses	$ 340	$ 315	$ 297	8%	6%
DAC Deferrals					
As a percentage of annuity sales/deposits	2.8%	2.7%	2.5%		

Commissions and other costs, that vary with and are related primarily to the sale of annuity contracts, are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. For certain annuity contracts, trail commissions that are based upon account values are expensed as incurred rather than deferred and

amortized. We do not pay commissions on sales of our mutual fund products, and distribution expenses associated with the sale of these mutual fund products are not deferred and amortized.

Table of Contents

RESULTS OF INSURANCE SOLUTIONS

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Insurance Solutions Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single and survivorship versions of UL and VUL, including corporate-owned UL and VUL (COLI) and bank-owned UL and VUL (BOLI) products. The Insurance Solutions Group Protection segment offers group life, disability and dental insurance to employers, and its products are marketed primarily through a national distribution system of regional group offices. These offices develop business through employee benefit brokers, TPAs and other employee benefit firms.

For factors that could cause actual results to differ materially from those set forth in this section, see Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language above.

Insurance Solutions Life Insurance

Income from Operations

Details underlying the results for Insurance Solutions Life Insurance (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Operating Revenues					
Insurance premiums	$ 360	$ 351	$ 322	3%	9%
Insurance fees	1,871	1,734	1,421	8%	22%
Net investment income	1,988	2,069	1,685	-4%	23%
Other revenues and fees	31	35	42	-11%	-17%
Total operating revenues	4,250	4,189	3,470	1%	21%
Operating Expenses					
Interest credited	1,202	1,173	1,007	2%	16%
Benefits	1,363	1,089	901	25%	21%
Underwriting, acquisition, insurance and other expenses	877	842	765	4%	10%
Total operating expenses	3,442	3,104	2,673	11%	16%
Income from operations before taxes	808	1,085	797	-26%	36%
Federal income tax expense	267	366	266	-27%	38%
Income from operations	$ 541	$ 719	$ 531	-25%	35%

Comparison of 2008 to 2007

Income from operations for this segment decreased due primarily to the following:

- A $53 million unfavorable prospective unlocking of DAC, VOBA, DFEL and secondary guarantee life insurance product reserves (a $34 million unfavorable unlocking from model refinements and a $19 million unfavorable unlocking from assumption changes due primarily to the impact of significantly unfavorable equity markets on our VUL block of business, partially offset by adjustments to reserves for products with secondary guarantees) in 2008 compared to a $4 million favorable prospective unlocking (a $12 million favorable unlocking from assumption changes due primarily to lower lapses and expenses and higher interest rates than our model projections assumed, net of an $8 million unfavorable unlocking from model refinements) in 2007 (see Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL for more information);

A $24 million unfavorable retrospective unlocking of DAC, VOBA, and DFEL in 2008 due primarily to lower premiums received, higher death claims and lower investment income on alternative investments and prepayment and bond makewhole premiums than our model projections assumed, compared to a $28 million favorable retrospective unlocking in 2007 due primarily to higher persistency, higher investment income on alternative investments and prepayment and bond makewhole premiums and lower expenses than our model projections assumed, partially offset by the impact of a correction to account values;

Table of Contents

An increase in benefits due primarily to an increase in reserves for products with secondary guarantees from continued growth of business in force and the effects of model refinements along with higher mortality due to an increase in the average attained age of the in-force block (discussed below) and lower benefits in the first quarter of 2007 related to a purchase accounting adjustment to the opening balance sheet of Jefferson-Pilot, discussed below; and

Lower net investment income due primarily to unfavorable results from our investment income on alternative investments (see Consolidated Investments Alternative Investments below for additional information on our alternative investments) and prepayment and bond makewhole premiums due to deterioration of the financial markets and reductions in statutory reserves for products with secondary guarantees as a result of executing on a capital transaction to provide AG38 relief (see Review of Consolidated Financial Condition Liquidity and Capital Resources Sources of Liquidity and Cash Flow for details), the merger of several of our insurance subsidiaries and certain assumption changes in the fourth quarter of 2007.

The decrease in income from operations was partially offset by growth in insurance fees driven by an increase in business in force as a result of new sales and favorable persistency and an increase in the average attained age of the in-force block (discussed below) and the correction in the second quarter of 2007 discussed below.

A portion of the retrospective and prospective unlocking of DAC, VOBA, DFEL and secondary guarantee life insurance product reserves in 2008 discussed above resulted in an additional unfavorable earnings impact of $7 million in both the third and fourth quarters of 2008 that will recur in future quarters.

UL and VUL products with secondary guarantees represented approximately 34% of interest-sensitive life insurance in force as of December 31, 2008, and approximately 68% of sales for these products for 2008. AG38 imposes additional statutory reserve requirements for these products.

At June 30, 2007, we reduced statutory reserves related to our secondary guarantee UL products by approximately $150 million, which has reduced the amount of net investment income allocated to this segment by $2 million per quarter. This statutory reserve reduction related to modifying the accounting for certain of our life insurance policies. In October 2007, we released approximately $300 million of capital that had previously supported our UL products with secondary guarantees as a result of executing on a reinsurance transaction to release statutory reserves related to AG38. This reduction in capital lowered the level of assets supporting this business, as assets were transferred to Other Operations, and has reduced net investment income by approximately $5 million per quarter. As of December 31, 2007, we reduced statutory reserves related primarily to legal entity consolidation by $344 million, which has reduced the amount of net investment income allocated to this segment by approximately $5 million per quarter in 2008. This reduction in statutory reserves was primarily a result of the merger of several of our insurance subsidiaries. As of December 31, 2008, we released approximately $240 million of capital that had previously supported our UL products with secondary guarantees as a result of executing on a reinsurance transaction to release statutory reserves related to AG38. This reduction in capital will lower the level of assets supporting this business, as assets were transferred to Other Operations, and will reduce net investment income by approximately $4 million per quarter beginning in 2009.

On June 1, 2007, we implemented a 10 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which has increased spreads approximately 5 basis points. On June 1, 2008, we implemented a 10 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which has increased spreads approximately 5 basis points. On March 1, 2009, we expect to implement a 15 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which is expected to increase spreads approximately 5 basis points.

At the end of 2008, the portfolio rate exceeded new money rates by roughly 15 basis points. We significantly reduced our level of investment activity at year end in response to volatile capital markets and instead held higher levels of cash and short-term investments. At the end of 2007, the portfolio rates exceeded new money rates by roughly 28 basis points. As of December 31, 2008, 47% of interest-sensitive account values have crediting rates at contract guaranteed levels, and 37% have crediting rates within 50 basis points of contractual guarantees. Going forward, we expect to be able to manage the effects of spreads on near-term income from operations through a combination of rate actions and portfolio management, which assumes no significant changes in net flows into or out of our fixed accounts

or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and the interest rate risk due to falling interest rates, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Although the segment s results in 2008 were unfavorably impacted by the U.S. recession, which began in December of 2007, its new business products, as represented by sales, deposits and in-force face amount, were relatively strong.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant impact on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the second half of the year with the fourth quarter being our strongest; however, results for 2008 were muted given the economic conditions.

The average issue age on new policies has increased in recent years as a result of targeting higher net worth individuals, which has increased the average attained age of the in-force block. We have screening procedures to identify sales that we believe have characteristics associated with stranger-originated life insurance in order to prevent policies with these characteristics from being issued. However, accurate identification of these policies can be difficult, and we continue to modify our screening procedures. We believe that our sales of UL products include some sales with stranger-originated life insurance characteristics. We expect no significant impact to our profitability; however, returns on UL business sold as part of stranger-originated designs are believed to be lower than traditional estate planning UL sales due in part to no expected lapses.

We expect higher expenses attributable to our U.S. pension plans (see Critical Accounting Policies and Estimates Pension and Other Postretirement Benefit Plans above for additional information) during 2009.

Comparison of 2007 to 2006

Income from operations for this segment increased due primarily to the following:

- Including the results of operations from Jefferson-Pilot for twelve months in 2007 compared to only nine months in 2006;
- Growth in insurance fees driven by increase in business in force as a result of new sales and favorable persistency, partially offset by a $41 million reduction related to the impact of the correction to account values and modifications of accounting related to certain insurance contracts during the second quarter of 2007;
- Higher investment income from growth in fixed product account values driven by positive net flows, higher statutory reserves on products with secondary guarantees and stronger results from our investment income on alternative investments (see Consolidated Investments - Alternative Investments below for additional information on our alternative investments);
- A $28 million favorable retrospective unlocking of DAC, VOBA, and DFEL (discussed above) in 2007 compared to an $11 million favorable retrospective unlocking in 2006 due primarily to higher persistency, higher investment income on alternative investments and prepayment and bond makewhole premiums and lower expenses than our model projections assumed, partially offset by the impact of a correction to account values; and
- A $4 million favorable prospective unlocking of DAC, VOBA, DFEL and secondary guarantee life insurance product reserves (discussed above) in 2007 compared to a $20 million unfavorable prospective unlocking (a $19 million decrease from assumption changes due primarily to higher increases in reserves on products with secondary guarantees, partially offset by lower mortality and expenses than our model projections assumed and a $1 million decrease from model refinements) in 2006.

The increase in income from operations was partially offset by the following:

- The adjustments to account values and modification of accounting related to certain life insurance policies with secondary guarantees during the second quarter of 2007; and
- Other increases to benefits due to growth in business in force, higher mortality and an increase in reserves for products with secondary guarantees, partially offset by $14 million in the first quarter of 2007 related to adjustments to the opening balance sheet of Jefferson-Pilot.

We provide information about this segment s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

Insurance Premiums

Insurance premiums relate to traditional products and are a function of the rates priced into the product and the level of insurance in force. Insurance in force, in turn, is driven by sales, persistency and mortality experience.

Table of Contents

Insurance Fees

Details underlying insurance fees, sales, net flows, account values and in-force face amount (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Insurance Fees					
Mortality assessments	$ 1,321	$ 1,223	$ 998	8%	23%
Expense assessments	707	653	474	8%	38%
Surrender charges	60	59	60	2%	-2%
DFEL:					
Deferrals	(379)	(364)	(206)	-4%	-77%
Amortization, net of interest:					
Prospective unlocking assumption changes	12		(2)	NM	100%
Prospective unlocking model refinements	(25)	26	1	NM	NM
Retrospective unlocking	35	(9)	(7)	NM	-29%
Other amortization, net of interest	140	146	103	-4%	3%
Total insurance fees	$ 1,871	$ 1,734	$ 1,421	8%	22%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Sales by Product					
UL:					
Excluding *MoneyGuard* ®	$ 525	$ 597	$ 436	-12%	37%
MoneyGuard ®	50	40	31	25%	29%
Total UL	575	637	467	-10%	36%
VUL	54	77	61	-30%	26%
COLI and BOLI	84	91	83	-8%	10%
Term/whole life	28	32	43	-13%	-26%
Total sales	$ 741	$ 837	$ 654	-11%	28%
Net Flows					
Deposits	$ 4,493	$ 4,413	$ 3,632	2%	22%
Withdrawals and deaths	(1,671)	(1,768)	(1,552)	5%	-14%
Net flows	$ 2,822	$ 2,645	$ 2,080	7%	27%
Contract holder assessments	$ 2,791	$ 2,521	$ 2,037	11%	24%

	As of December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007

Account Values							
UL	$	25,199	$	24,223	$	23,106	4%	5%
VUL		4,251		6,040		5,432	-30%	11%
Interest-sensitive whole life		2,303		2,295		2,257	0%	2%
Total account values	$	31,753	$	32,558	$	30,795	-2%	6%
In-Force Face Amount								
UL and other	$	310,198	$	299,598	$	282,874	4%	6%
Term insurance		235,023		235,919		234,148	0%	1%
Total in-force face amount	$	545,221	$	535,517	$	517,022	2%	4%

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality and expense assessments are deducted from our contract holders account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Insurance in force, in turn, is driven by sales, persistency and mortality experience. In-force growth should be considered independently with respect to term products versus UL and other products, as term products have a lower profitability relative to face amount compared to whole life and interest-sensitive products.

Sales in the table above and as discussed above were reported as follows:

- UL (excluding linked-benefit products) and VUL (including COLI and BOLI) first year commissionable premiums plus 5% of excess premiums received, including an adjustment for internal replacements at approximately 50% of target;
- *MoneyGuard*® (our linked-benefit product) 15% of premium deposits; and
- Whole life and term 100% of first year paid premiums.

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Investment Income					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 1,902	$ 1,873	$ 1,583	2%	18%
Commercial mortgage loan prepayment and bond makewhole premiums [1]	16	36	25	-56%	44%
Alternative investments [2]	(11)	54	6	NM	NM
Surplus investments [3]	81	106	77	-24%	38%
Internal default charges [4]			(6)	NM	100%
Total net investment income	$ 1,988	$ 2,069	$ 1,685	-4%	23%
Interest Credited	$ 1,202	$ 1,173	$ 1,007	2%	16%

(1) See Consolidated Investments Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums below for additional information.

(2) See Consolidated

Investments Alternative Investments below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the impact of investment income on alternative investments for such assets that are held in the surplus portfolios versus the product portfolios.

(4) See Results of Other Operations below for information on this methodology, which was discontinued in the third quarter of 2006.

	For the Years Ended December 31,			Basis Point Change Over Prior Year	
	2008	2007	2006	2008	2007
Interest Rate Yields and Spread					
Attributable to interest-sensitive products:					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.91%	6.06%	6.15%	(15)	(9)
Commercial mortgage loan prepayment and bond makewhole premiums	0.05%	0.13%	0.09%	(8)	4
Alternative investments	-0.03%	0.21%	0.02%	(24)	19
Internal default charges	0.00%	0.00%	-0.03%		3
Net investment income yield on reserves	5.93%	6.40%	6.23%	(47)	17
Interest rate credited to contract holders	4.35%	4.44%	4.51%	(9)	(7)
Interest rate spread	1.58%	1.96%	1.72%	(38)	24
Attributable to traditional products:					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	6.13%	6.25%	6.45%	(12)	(20)
Commercial mortgage loan prepayment and bond makewhole premiums	0.03%	0.07%	0.11%	(4)	(4)
Alternative investments	-0.03%	0.01%	0.04%	(4)	(3)
Net investment income yield on reserves	6.13%	6.33%	6.60%	(20)	(27)

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Averages					
Attributable to interest-sensitive products:					
Invested assets on reserves	$ 27,003	$ 25,787	$ 21,202	5%	22%
Account values universal and whole life	27,136	25,900	21,838	5%	19%
Attributable to traditional products:					

Invested assets on reserves	5,058	5,063	4,446	0%	14%

A portion of the investment income earned for this segment is credited to contract holder accounts. Invested assets will typically grow at a faster rate than account values because of the AG38 reserve requirements, which cause statutory reserves to grow at an accelerated rate. Invested assets are based upon the statutory reserve liabilities and are therefore affected by various reserve adjustments, primarily the result of the merger of several of our insurance subsidiaries, the modification of accounting for certain of our life insurance policies, and by capital transactions providing relief from AG38 reserve requirements, which leads to a transfer of invested assets from this segment to Other Operations for use in other corporate purposes. We expect to earn a spread between what we earn on the underlying general account investments and what we credit to our contract holders accounts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate on interest-sensitive products. The yield on invested assets on reserves is calculated as net investment income, excluding amounts attributable to our surplus investments and reverse repurchase agreement interest expense, divided by average invested assets on reserves. In addition, we exclude the impact of earnings from affordable housing tax credit securities, which is reflected as a reduction to federal income tax expense, from our spread calculations. Traditional products use interest income to build the policy reserves. Commercial mortgage loan prepayments and bond makewhole premiums and investment income on alternative investments can vary significantly from period to period due to a number of factors, and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Table of Contents

Benefits

Details underlying benefits (dollars in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Benefits					
Death claims direct and assumed	$ 2,177	$ 1,944	$ 1,644	12%	18%
Death claims ceded	(966)	(810)	(714)	-19%	-13%
Reserves released on death	(357)	(339)	(312)	-5%	-9%
Net death benefits	854	795	618	7%	29%
Change in reserves for products with secondary guarantees:					
Prospective unlocking assumption changes	8	(3)	15	NM	NM
Prospective unlocking model refinements	76	3		NM	NM
Other	134	60	39	123%	54%
Other benefits [1]	291	234	229	24%	2%
Total benefits	$ 1,363	$ 1,089	$ 901	25%	21%
Death claims per $1,000 of inforce	1.59	1.52	1.31	5%	16%

[1] Other benefits includes primarily traditional product changes in reserves and dividends.

Benefits for this segment include claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits include the change in reserves for our products with secondary guarantees. The reserve for secondary guarantees is impacted by changes in expected future trends of expense assessments causing unlocking adjustments to this liability similar to DAC, VOBA and DFEL.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Underwriting, Acquisition, Insurance and Other Expenses					
Total expenses incurred	$ 1,338	$ 1,458	$ 1,154	-8%	26%
DAC and VOBA deferrals	(1,016)	(1,134)	(839)	10%	-35%
Total expenses recognized before amortization	322	324	315	-1%	3%

DAC and VOBA amortization, net of interest:					
Prospective unlocking assumption changes	34	(15)	12	NM	NM
Prospective unlocking model refinements	(49)	36	2	NM	NM
Retrospective unlocking	71	(51)	(25)	239%	NM
Other amortization, net of interest	495	544	458	-9%	19%
Other intangible amortization	4	4	3	0%	33%
Total underwriting, acquisition, insurance and other expenses	$ 877	$ 842	$ 765	4%	10%

DAC and VOBA Deferrals

As a percentage of sales	137.1%	135.5%	128.3%

Commissions and other general and administrative expenses that vary with and are related primarily to the production of new business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

Table of Contents

Insurance Solutions Group Protection

Income from Operations

Details underlying the results for Insurance Solutions Group Protection (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Operating Revenues					
Insurance premiums	$ 1,517	$ 1,380	$ 949	10%	45%
Net investment income	117	115	80	2%	44%
Other revenues and fees	6	5	3	20%	67%
Total operating revenues	1,640	1,500	1,032	9%	45%
Operating Expenses					
Interest credited	2			NM	NM
Benefits	1,107	999	663	11%	51%
Underwriting, acquisition, insurance and other expenses	371	326	217	14%	50%
Total operating expenses	1,480	1,325	880	12%	51%
Income from operations before taxes	160	175	152	-9%	15%
Federal income taxes	56	61	53	-8%	15%
Income from operations	$ 104	$ 114	$ 99	-9%	15%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Income from Operations by Product Line					
Life	$ 34	$ 41	$ 37	-17%	11%
Disability	64	64	53	0%	21%
Dental	2	4	6	-50%	-33%
Total non-medical	100	109	96	-8%	14%
Medical	4	5	3	-20%	67%
Total income from operations	$ 104	$ 114	$ 99	-9%	15%

Comparison of 2008 to 2007

Income from operations for this segment decreased due to the following:

- Less favorable total non-medical loss ratio experience, although still on the low end of our expected range; and
- An increase to underwriting, acquisition, insurance and other expenses due primarily to growth in our business in force, higher 401(k) expenses, higher costs of investments in strategic initiatives associated with realigning our marketing and distribution structure and an increase in the allocation of expenses to this segment.

The decrease in income from operations was partially offset by a growth in insurance premiums driven by normal, organic business growth in our non-medical products and favorable persistency.

Although results for this segment were less favorable, new business production for this segment, as measured by sales, was relatively strong. Sales relate to long-duration contracts sold to new contract holders and new programs sold to existing contract holders. We believe that the trend in sales is an important indicator of development of business in force over time.

Management focuses on trends in loss ratios to compare actual experience with pricing expectations because group-underwriting risks change over time. We believe that loss ratios in the 71-74% range are more representative of longer-term expectations for the composite non-medical portion of this segment. We expect normal fluctuations in this range, as claim experience is inherently uncertain, and there can be no assurance that experience will fall inside this expected range.

We expect higher expenses attributable to our U.S. pension plans during 2009. See Critical Accounting Policies and Estimates Pension and Other Postretirement Benefit Plans above for additional information.

Comparison of 2007 to 2006

Income from operations for this segment increased due to the following:

- Growth in sales as a result of sales strength in our core, small case markets; and
- This segment was added as a result of the merger with Jefferson-Pilot; therefore, the results of operations reflect twelve months of activity in 2007 compared to only nine months in 2006.

The increase in income from operations was partially offset by the following:

- Loss ratios in 2007 were not as favorable as the loss ratios in 2006 due primarily to the exceptional claims experience on all our non-medical products during 2006; and
- The adoption of SOP 05-1 on January 1, 2007, which increased DAC and VOBA amortization, net of deferrals, by approximately $5 million.

We provide information about this segment s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

Insurance Premiums

Details underlying insurance premiums (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Insurance Premiums by Product Line					
Life	$ 541	$ 494	$ 334	10%	48%
Disability	672	601	407	12%	48%
Dental	150	136	95	10%	43%
Total non-medical	1,363	1,231	836	11%	47%
Medical	154	149	113	3%	32%
Total insurance premiums	$ 1,517	$ 1,380	$ 949	10%	45%
Sales	$ 316	$ 326	$ 209	-3%	56%

Our cost of insurance and policy administration charges are embedded in the premiums charged to our customers. The premiums are a function of the rates priced into the product and our business in force. Business in force, in turn, is driven by sales and persistency experience. Sales in the table above are the combined annualized premiums for our life, disability and dental products.

The business represented as medical consists primarily of our non-core EXEC-U-CARE® product. This product provides an insured medical expense reimbursement vehicle to executives for non-covered health plan costs. This product produces significant revenues and benefits expenses for this segment but only a limited amount of income. Discontinuance of this product would significantly impact segment revenues, but not income from operations.

Net Investment Income

We use our interest income to build the associated policy reserves, which is a function of our insurance premiums and the yields on our invested assets.

Table of Contents

Benefits and Interest Credited

Details underlying benefits and interest credited (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Benefits and Interest Credited by Product Line					
Life	$ 401	$ 360	$ 233	11%	55%
Disability	456	406	262	12%	55%
Dental	117	104	68	13%	53%
Total non-medical	974	870	563	12%	55%
Medical	135	129	100	5%	29%
Total benefits and interest credited	$ 1,109	$ 999	$ 663	11%	51%
Loss Ratios by Product Line					
Life	73.9%	73.0%	69.7%		
Disability	67.9%	67.5%	64.4%		
Dental	78.3%	76.6%	72.2%		
Total non-medical	71.4%	70.7%	67.4%		
Medical	87.6%	87.0%	88.2%		

Note: Loss ratios presented above are calculated using whole dollars instead of dollars rounded to millions.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Underwriting, Acquisition, Insurance and Other Expenses					
Total expenses incurred	$ 393	$ 349	$ 238	13%	47%
DAC and VOBA deferrals	(58)	(54)	(37)	-7%	-46%
Total expenses recognized before amortization	335	295	201	14%	47%
DAC and VOBA amortization, net of interest	36	31	16	16%	94%
Total underwriting, acquisition, insurance and other expenses	$ 371	$ 326	$ 217	14%	50%
DAC and VOBA Deferrals					
As a percentage of insurance premiums	3.8%	3.9%	3.9%		

Expenses, excluding broker commissions, that vary with and are related primarily to the production of new business are deferred to the extent recoverable and are amortized on either a straight-line basis or as a level percent of premium

of the related contracts depending on the block of business. Broker commissions, which vary with and are related to paid premiums, are expensed as incurred. The level of expenses is an important driver of profitability for this segment as group insurance contracts are offered within an environment that competes on the basis of price and service.

Table of Contents

RESULTS OF INVESTMENT MANAGEMENT

The Investment Management segment, through Delaware Investments, provides a broad range of managed account portfolios, mutual funds, sub-advised funds and other investment products to individual investors and to institutional investors such as private and public pension funds, foundations and endowment funds. Delaware Investments is the marketing name for Delaware Management Holdings, Inc. and its affiliates.

Income from Operations

Details underlying the results for Investment Management (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Operating Revenues					
Investment advisory fees external	$ 268	$ 360	$ 328	-26%	10%
Investment advisory fees inter-segment	82	87	97	-6%	-10%
Other revenues and fees	88	143	139	-38%	3%
Total operating revenues	438	590	564	-26%	5%
Operating Expenses					
Underwriting, acquisition, insurance and other expenses	393	471	480	-17%	-2%
Income from operations before taxes	45	119	84	-62%	42%
Federal income taxes	17	43	29	-60%	48%
Income from operations	$ 28	$ 76	$ 55	-63%	38%
Pre-tax operating margin [1]	10%	20%	15%		

[1] The pre-tax operating margin is determined by dividing pre-tax income from operations by operating revenues.

Comparison of 2008 to 2007

Income from operations decreased due primarily to the following:

A reduction in investment advisory fees due to lower assets under management resulting primarily from continued significant unfavorable equity markets, an increase in negative net flows, the sale of certain institutional fixed income business in 2007 (discussed below) and the transition of the investment advisory role for the Lincoln Variable Insurance Trust product to another internal advisor within Retirement Solutions (discussed below); and

A reduction in other revenues and fees due primarily to negative returns on seed capital driven by continued significant unfavorable equity markets.

The decrease in income from operations was partially offset by the elimination of expenses as a result of the transfer of assets under management in 2007 discussed below, lower asset-based expenses, transitioning the investment accounting function to a third party, the implementation of several expense management controls and practices that are focused on prudently managing expenses and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals.

On October 31, 2007, we sold certain institutional taxable fixed income business to an unaffiliated investment management company. As a result of this transaction, assets under management decreased by $12.3 billion, which resulted in a $16 million decrease to investment advisory fees external in 2008.

Effective May 1, 2007, the investment advisory role for the Lincoln Variable Insurance Trust product transitioned to Retirement Solutions. In the role of investment advisor, Investment Management provided investment performance and compliance oversight on third-party investment managers in exchange for a fee. Investment Management will continue to manage certain of the assets as a sub-advisor. As a result of this change, Investment Management s assets under management decreased by $3.2 billion; however, there was no impact to our consolidated assets under management or consolidated net income.

Table of Contents

Future Expectations

We expect lower earnings for this segment in 2009 than we experienced in 2008 due primarily to lower investment advisory fees, partially offset by lower asset-based expenses, due to the asset under management erosion from unfavorable equity market returns and negative net flows experienced during 2008.

The level of net flows may vary considerably from period to period, and, therefore, results in one period are not indicative of net flows in subsequent periods.

For factors that could cause actual results to differ materially from those set forth in this section, see Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language above.

Comparison of 2007 to 2006

Income from operations increased due primarily to an increase in investment advisory fees - external due to higher third-party average assets under management as a result of positive equity market returns.

The increase in income from operations was partially offset by a decrease in investment advisory fees inter-segment, net of related operating expenses, due to the transfer of assets to an internal advisor within Retirement Solutions, mentioned above, higher one-time expenses in 2007 associated with a legal expense accrual for existing cases and the launch of Delaware Enhanced Global Dividend and Income Fund, a new closed-end fund.

We provide information about certain of this segment s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

Investment Advisory Fees

Details underlying assets under management and net flows (in millions) were as follows:

	As of December 31,			Change Over Prior Year	
	2008	**2007**	**2006**	**2008**	**2007**
Assets Under Management					
Retail equity	$ 15,222	$ 31,598	$ 31,705	-52%	0%
Retail fixed	10,453	10,801	8,790	-3%	23%
Total retail	25,675	42,399	40,495	-39%	5%
Institutional equity	11,203	21,751	21,977	-48%	-1%
Institutional fixed	9,696	11,536	21,105	-16%	-45%
Total institutional	20,899	33,287	43,082	-37%	-23%
Inter-segment assets retail and institutional	7,968	9,671	13,729	-18%	-30%
Inter-segment assets general account	65,680	67,417	67,437	-3%	0%
Total inter-segment assets	73,648	77,088	81,166	-4%	-5%
Total assets under management	$ 120,222	$ 152,774	$ 164,743	-21%	-7%
Total Sub-Advised Assets, Included Above					
Retail	$ 8,047	$ 16,219	$ 18,023	-50%	-10%

Institutional	2,180	4,570	4,648	-52%	-2%
Total sub-advised assets	$ 10,227	$ 20,789	$ 22,671	-51%	-8%

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Flows External[1] [2]					
Retail equity sales	$ 4,033	$ 6,916	$ 8,058	-42%	-14%
Retail equity redemptions and transfers	(9,470)	(8,942)	(6,894)	-6%	-30%
Retail equity net flows	(5,437)	(2,026)	1,164	NM	NM
Retail fixed income sales	4,901	4,390	2,966	12%	48%
Retail fixed income redemptions and transfers	(4,466)	(2,898)	(2,389)	-54%	-21%
Retail fixed income net flows	435	1,492	577	-71%	159%
Total retail sales	8,934	11,306	11,024	-21%	3%
Total retail redemptions and transfers	(13,936)	(11,840)	(9,283)	-18%	-28%
Total retail net flows	(5,002)	(534)	1,741	NM	NM
Institutional equity inflows	2,972	4,369	5,409	-32%	-19%
Institutional equity withdrawals and transfers	(5,229)	(6,515)	(4,580)	20%	-42%
Institutional equity net flows	(2,257)	(2,146)	829	-5%	NM
Institutional fixed income inflows	1,357	5,582	8,760	-76%	-36%
Institutional fixed income withdrawals and transfers	(2,879)	(3,500)	(1,477)	18%	NM
Institutional fixed income net flows	(1,522)	2,082	7,283	NM	-71%
Total institutional inflows	4,329	9,951	14,169	-56%	-30%
Total institutional redemptions and transfers	(8,108)	(10,015)	(6,057)	19%	-65%
Total institutional net flows	(3,779)	(64)	8,112	NM	NM
Total sales/inflows	13,263	21,257	25,193	-38%	-16%
Total redemptions and transfers	(22,044)	(21,855)	(15,340)	-1%	-42%
Total net flows	$ (8,781)	$ (598)	$ 9,853	NM	NM

[1] Includes Delaware Variable Insurance

Product funds. Our insurance subsidiaries, as well as unaffiliated insurers, participate in these funds. In addition, sales/inflows includes contributions, dividend reinvestments and transfers in kind, and redemptions/transfers includes dividends and capital gain distributions.

(2) Excludes $12.3 billion in institutional fixed income business sold to an unaffiliated investment management company in 2007 and $201 million and $190 million of 529 Plan assets transferred to an unaffiliated 529 Plan provider in 2007 and 2006, respectively, because we do not consider these to be net flows.

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Net Flows Inter-Segment [1]					
Total sales/inflows [2]	$ 2,734	$ 2,495	$ 2,901	10%	-14%
Total redemptions and transfers [3]	(3,223)	(3,269)	(3,386)	1%	3%
Total net flows	$ (489)	$ (774)	$ (485)	37%	-60%

(1) Includes net flows from retail and institutional. Excludes net flows from the general account

and the transfer in of $709 million in assets primarily from another internal advisor in Retirement Solutions during 2008 and the transfer of $3.2 billion in assets to another internal advisor and $780 million in assets to Other Operations during 2007 because we do not consider these to be net flows.

(2) Includes contributions, dividend reinvestments and transfers in kind.

(3) Includes dividends and capital gains distributions.

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Other Information					
Average daily S&P 500	1,220.72	1,476.71	1,310.58	-17%	13%
Reinvested dividends and interest and change in market value	$ (22,281)	$ 5,966	$ 10,496	NM	-43%

Table of Contents

Investment advisory fees are generally a function of the rates priced into the product and our average assets under management, which are driven by net flows and capital markets. Investment advisory fees external include amounts that are ultimately paid to sub-advisors for managing the sub-advised assets. The amounts paid to sub-advisors are generally included in the segment s expenses.

Investment advisory fees inter-segment consists of fees for asset management services this segment provides to Retirement Solutions and Insurance Solutions for managing general account assets supporting fixed income products, surplus and separate account assets. These inter-segment amounts are not reported on our Consolidated Statements of Income as they are eliminated along with the associated expenses incurred by Retirement Solutions and Insurance Solutions. Retirement Solutions and Insurance Solutions report the cost as a reduction to net investment income, which is the same methodology that would be used if these services were provided by an external party.

Other Revenues and Fees

Other revenues and fees consists primarily of revenues generated from shareholder and administrative services, 12b-1 fees and the results from seed capital investments. Seed capital investments are important to establishing a track record for products that will later be sold to investors. These investments are valued at market value each reporting period and the change in market value impacts other revenues.

RESULTS OF LINCOLN UK

Lincoln UK is headquartered in Barnwood, Gloucester, England, and is licensed to do business throughout the United Kingdom. Lincoln UK focuses primarily on protecting and enhancing the value of its existing customer base. The segment accepts new deposits from existing relationships and markets a limited range of life and retirement income products. Lincoln UK s product portfolio principally consists of unit-linked life and pension products, which are similar to U.S. produced variable life and annuity products, where the risk associated with the underlying investments is borne by the contract holders. The segment is sensitive to changes in the foreign currency exchange rate between the U.S. dollar and the British pound sterling. A significant increase in the value of the U.S. dollar relative to the British pound would have a significant adverse effect on the segment s operating results.

Income from Operations

Details underlying the results for Lincoln UK (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	**2007**	**2006**	**2008**	**2007**
Operating Revenues					
Insurance premiums	$ 78	$ 95	$ 79	-18%	20%
Insurance fees	171	194	158	-12%	23%
Net investment income	78	81	71	-4%	14%
Total operating revenues	327	370	308	-12%	20%
Operating Expenses					
Benefits	107	137	108	-22%	27%
Underwriting, acquisition, insurance and other expenses	143	163	140	-12%	16%
Total operating expenses	250	300	248	-17%	21%
Income from operations before taxes	77	70	60	10%	17%
Federal income taxes	27	24	21	13%	14%
Income from operations	$ 50	$ 46	$ 39	9%	18%

Exchange Rate Ratio-U.S. Dollars to Pounds Sterling					
Average for the period	1.865	2.007	1.847	-7%	9%
End-of-period	1.459	1.987	1.958	-27%	1%

Comparison of 2008 to 2007

Excluding the effect of the exchange rate, income from operations for this segment increased 17% due primarily the recording of a value added tax refund based on approval of our claim by U.K. tax authorities in 2008.

The increase in income from operations was partially offset by the following:

- A decline in insurance fees driven by lower average unit-linked account values resulting primarily from unfavorable markets as the average value of the Financial Time Stock Exchange (FTSE) 100 index was 16% lower;
- A reduction in premiums due primarily to declines in the annuitization of vesting pension policies and the face amount of our insurance in force attributable to the maturity of the block of business; and
- A $3 million unfavorable prospective unlocking of DAC, VOBA and DFEL (a $13 million unfavorable unlocking from model refinements net of a $10 million favorable unlocking from assumption changes related primarily to lower maintenance expenses and higher persistency than our model projections assumed) in 2008 compared to a $2 million favorable prospective unlocking (a $4 million favorable unlocking from assumption changes related primarily to higher investment income, lower maintenance expenses and lower mortality than our model projections assumed, net of a $2 million unfavorable unlocking from model refinements) in 2007.

Future Expectations

We expect lower earnings for this segment in 2009 than we experienced in 2008, when excluding the impacts of unlocking. The expected decline is attributable to the following:

- Continued deterioration in general economic and business conditions that we believe will result in lower investment fee income and less favorable foreign exchange rates;
- Lower net investment income on the segment s fixed deposits from the continuation of the low interest rate environment; and
- Lower net flows on unit-linked assets due to the current economic challenges, including the current expectation by analysts for the economic downturn to last through the first half of 2009 and unemployment to continue to increase until early 2010.

For factors that could cause actual results to differ materially from those set forth in this section, see Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language above.

Comparison of 2007 to 2006

Excluding the effect of the exchange rate, income from operations for this segment increased 9% due primarily to the following:

- Growth in insurance fees driven by higher average unit-linked account values resulting primarily from favorable markets as the average value of the FTSE 100 index was 8% higher, an increase in linked-taxes deducted from unit-linked funds due to increasing bond values, partially offset by surrender penalties and declines in older blocks of business; and
- A $2 million favorable prospective unlocking of DAC, VOBA and DFEL (discussed above) in 2007 compared to a $6 million unfavorable prospective unlocking (a $5 million unfavorable unlocking from assumption changes related primarily to lower retention rates for our pension business than our model projections assumed and a $1 million unfavorable unlocking from model refinements) in 2006.

The increase in income from operations was partially offset by an increase in our mis-selling reserves.

We provide information about this segment s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

Table of Contents

Insurance Premiums

Excluding the effect of the exchange rate, insurance premiums are primarily a function of the rates priced into the product and face amount of our insurance in force.

Our annualized policy lapse rate was 6.3%, 6.4% and 6.7% for 2008, 2007 and 2006, respectively, as measured by the number of policies in force.

Insurance Fees

Details underlying insurance fees, business in force and unit-linked assets (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Insurance Fees					
Mortality assessments	$ 34	$ 37	$ 34	-8%	9%
Expense assessments	116	125	115	-7%	9%
DFEL:					
Deferrals	(3)	(3)	(3)	0%	0%
Amortization, net of interest:					
Prospective unlocking assumption changes	(1)	(3)	(15)	67%	80%
Prospective unlocking model refinements		8	3	-100%	167%
Retrospective unlocking			(1)	NM	100%
Other amortization, net of interest	25	30	25	-17%	20%
Total insurance fees	$ 171	$ 194	$ 158	-12%	23%

	As of December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Individual life insurance in force	$ 12,284	$ 19,022	$ 19,345	-35%	-2%

Excluding the effect of the exchange rate, individual life insurance in force decreased 12% in 2008 and 3% in 2007.

	For the Years Ended December 31,			Change Over Prior Year	
	2008	2007	2006	2008	2007
Unit-Linked Assets					
Balance at beginning-of-period	$ 8,850	$ 8,757	$ 7,320	1%	20%
Deposits	299	323	318	-7%	2%
Withdrawals and deaths	(767)	(969)	(838)	21%	-16%
Net flows	(468)	(646)	(520)	28%	-24%
Investment income and change in market value	(1,524)	601	911	NM	-34%
Foreign currency adjustment	(1,880)	138	1,046		