

LINCOLN NATIONAL CORP  
Form 10-K  
February 23, 2012

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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2011  
OR

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  
(State or other jurisdiction of incorporation or  
organization)

35-1140070  
(I.R.S. Employer Identification No.)

150 N. Radnor Chester Road, Suite A305, Radnor,  
Pennsylvania  
(Address of principal executive offices)

19087  
(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
\$3.00 Cumulative Convertible Preferred Stock, Series A	New York
6.75% Capital Securities	New York
Warrants, each to purchase one share of common stock	New York

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  No

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  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

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

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 \$8.8 billion.

As of February 17, 2012, 291,330,818 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 24, 2012, have been incorporated by reference into Part III of this Form 10-K.

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## Lincoln National Corporation

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## 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 company, which operates multiple insurance and retirement 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 fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental. LNC was organized under the laws of the state of Indiana in 1968. We currently maintain our principal executive offices in Radnor, Pennsylvania. “Lincoln Financial Group” is the marketing name for LNC and its subsidiary companies. As of December 31, 2011, LNC had consolidated assets of \$202.9 billion and consolidated stockholders’ equity of \$14.2 billion.

We provide products and services and report results through four segments as follows:

#### Business Segments

##### Annuities

Retirement Plan Services (formerly known as the “Defined Contribution Segment”)

##### Life Insurance

##### Group Protection

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments.

As a result of entering agreements of sale for Lincoln National (UK) plc (“Lincoln UK”) and Delaware Management Holdings, Inc. (“Delaware”) during 2009, we have reported the results of these businesses as discontinued operations on our Consolidated Statements of Income (Loss) for all periods presented and the assets and liabilities, prior to the sale, as held for sale on our Consolidated Balance Sheets. 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 products and services, defined contribution plans and corporate-owned UL and VUL (“COLI”) and bank-owned UL and VUL (“BOLI”) products and services. The distribution occurs primarily through consultants, 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, 2011, LFD had approximately 560 internal and external wholesalers (including sales managers). As of December 31, 2011, LFN offered LNC and non-proprietary products and advisory services through a national network of approximately 8,150 active producers who placed business with us within the last 12 months.

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 in Note 22. Assets, revenues and earnings attributable to foreign activities were not material in the periods presented.

#### 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 ("NCLS"), a federally regulated savings bank located in Indiana. We closed on our purchase of NCLS on January 15, 2009. On July 25, 2011, NCLS submitted a voluntary plan of dissolution with the Officer of the Comptroller of the Currency ("OCC"). The OCC approved NCLS's voluntary dissolution effective November 30, 2011.

On August 18, 2009, we entered into a purchase and sale agreement with Macquarie Bank Limited (“MBL”), pursuant to which we agreed to sell to MBL all of the outstanding capital stock of Delaware, our former subsidiary, which provided investment products and services to individuals and institutions. This transaction closed on January 4, 2010, with net of tax proceeds of approximately \$405 million.

In addition, certain of our subsidiaries, including The Lincoln National Life Insurance Company (“LNL”), our primary insurance subsidiary, entered into investment advisory agreements with Delaware dated January 4, 2010, pursuant to which Delaware will continue to manage the majority of the general account insurance assets of the subsidiaries. The investment advisory agreements will have 10-year terms, and we may terminate them without cause, subject to a purchase price adjustment of up to \$67 million in the event that all of the agreements with our subsidiaries are terminated. The amount of the potential adjustment declines on a pro rata basis over the 10-year term of the advisory agreements.

On October 1, 2009, we completed the sale of the capital stock of Lincoln UK to SLF of Canada UK Limited for net of tax proceeds of \$325 million. We retained Lincoln UK’s pension plan assets and liabilities. The former Lincoln UK segment primarily focused on providing life and retirement income products in the United Kingdom.

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 LFMC 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.

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.

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

## BUSINESS SEGMENTS AND OTHER OPERATIONS

### ANNUITIES

#### Overview

The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering fixed (including indexed) and variable annuities. The “fixed” and “variable” classifications describe 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 on 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.

#### 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 or as requested. Periodic payments can begin within 12 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.

#### 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.

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 (Loss). 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.

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.

The GDB features offered in 2011 included those where we contractually guarantee to the contract holder that upon death, depending on the particular product, we will return no less than: the current contract value; the total deposits made to the contract, adjusted to reflect any partial withdrawals; the highest contract value on a specified anniversary date adjusted to reflect any partial withdrawals following the contract anniversary; or the current contract value plus a specified percentage of contract earnings, not to exceed a covered earnings limit.

In 2011, we offered product riders including the Lincoln Lifetime Income<sup>SM</sup> Advantage, Lincoln Lifetime Income<sup>SM</sup> Advantage 2.0 and Lincoln Lifetime Income<sup>SM</sup> Advantage Plus, which are hybrid benefit riders combining aspects of GWB and GIB. These benefit riders allow the contract holder the ability to take income at a maximum rate of 4% or 5% of the guaranteed amount when they are above the lifetime income age or income through i4LIFE<sup>®</sup> Advantage with the GIB. Lincoln Lifetime Income<sup>SM</sup> Advantage, Lincoln Lifetime Income<sup>SM</sup> Advantage 2.0 and Lincoln Lifetime Income<sup>SM</sup> 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 an annual step-up of the guaranteed amount to the current contract value. The Lincoln Lifetime Income<sup>SM</sup> 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 Lincoln Lifetime Income<sup>SM</sup> Advantage, Lincoln Lifetime Income<sup>SM</sup> Advantage 2.0 and Lincoln Lifetime Income<sup>SM</sup> Advantage Plus are subject to restrictions on the allocation of their account value within the various investment choices.

We also offered the i4LIFE<sup>®</sup> Advantage and 4LATER<sup>®</sup> Advantage. The i4LIFE<sup>®</sup> Advantage 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. In general, GIB is an optional feature available with i4LIFE<sup>®</sup> Advantage that guarantees regular income payments will not fall below the greater of a minimum income floor set at benefit issue, or 75% of the highest income payment on a specified anniversary date

(reduced for any subsequent withdrawals). 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 to the current contract value on or after the third anniversary of rider election or of the most recent step-up, which also resets the 200% cap.

The Lincoln SmartSecurity® Advantage one-year 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. Lincoln SmartSecurity® Advantage one-year allows an owner to step up the guarantee amount automatically on the benefit anniversary to the current contract value if the contract value is greater than the guarantee amount at the time of step up. To receive the full amount of the guarantee, annual withdrawals are limited to 5% of the guaranteed amount. Withdrawals will continue until the longer of when the guarantee is equal to zero or 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 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. 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. For more information on our hedging program, see “Critical Accounting Policies and Estimates – Derivatives” and “Realized Gain (Loss) and Benefit Ratio Unlocking” in the MD&A. For information regarding risks related to guaranteed benefits, see “Item 1A. Risk Factors – Market Conditions – 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.”

#### 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. Our fixed annuity product offerings as of December 31, 2011, consisted of traditional fixed-rate and fixed indexed deferred annuities, as well as fixed-rate immediate annuities with various payment options, including lifetime incomes.

Our traditional fixed-rate deferred annuity products include Lincoln Classic<sup>SM</sup> (Single and Flexible Premium), Lincoln Select<sup>SM</sup>, Lincoln Smart Course<sup>®</sup>, Lincoln MYGuarantee<sup>SM</sup> Plus and Lincoln GrowSmart<sup>SM</sup> Fixed Annuity.

Our fixed indexed deferred annuity products include Lincoln OptiPoint<sup>®</sup>, Lincoln OptiChoice<sup>SM</sup> and Lincoln New Directions<sup>®</sup>. Our fixed indexed annuities allow the contract holder to elect an interest rate based on the performance of the Standard & Poor’s (“S&P”) 500 Index<sup>®</sup> (“S&P 500”). The indexed interest rate is guaranteed never to be less than zero. Available with certain of our fixed indexed annuities, Lincoln Living Income<sup>SM</sup> Advantage and Lincoln Lifetime Income<sup>SM</sup> Edge provide 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. We use derivatives to hedge the equity market risk associated with our fixed indexed annuity products. For more information on our hedging program, see “Critical Accounting Policies and Estimates – Derivatives” and “Realized Gain (Loss) and Benefit Ratio Unlocking” in the MD&A.

In addition to traditional fixed-rate immediate annuities, we offered the Lincoln SmartIncome<sup>SM</sup> Inflation Annuity that provides lifetime income with annual adjustments to keep pace with inflation.

We offer single and flexible premium fixed deferred annuities. 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.

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.

#### Distribution

The Annuities segment distributes its individual fixed and variable annuity products through LFD. 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.

## RETIREMENT PLAN SERVICES

### Overview

The Retirement Plan Services segment provides employers with retirement plan products and services, primarily in the defined contribution retirement plan marketplaces. While our focus is employer-sponsored defined contribution plans, we also serve the defined benefit plan and individual retirement account (“IRA”) markets. We provide a variety of plan investment vehicles, including individual and group variable annuities, group fixed annuities and mutual fund-based programs. We also offer a broad array of plan services including plan recordkeeping, compliance testing, participant education and other related services.

Defined contribution plans are a popular employee benefit offered by many employers across a wide spectrum of industries and by employers large and small. Retirement Plan Services primarily focuses on the Mid – Large market, which accounted for 45% of this segment’s total assets under management as of December 31, 2011. In addition, Retirement Plan Services focuses on the small market 401(k) business, which accounted for 16% of this segment’s total assets under management as of December 31, 2011.

#### Products and Services

The Retirement Plan Services segment currently brings three primary offerings to the employer-sponsored market: LINCOLN DIRECTORSM group variable annuity, LINCOLN ALLIANCE® program, and Multi-Fund® variable annuity.

LINCOLN DIRECTORSM and Multi-Fund® products are variable annuities. The LINCOLN ALLIANCE® program is mutual fund-based. These offerings primarily cover the 403(b) and 401(k) marketplace. The 403(b) plans are available to employees of educational institutions, not-for-profit healthcare organizations and certain other not-for-profit entities; and 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.

LINCOLN DIRECTORSM group variable annuity is a 401(k) defined contribution retirement plan solution available to small businesses, typically those with plans having less than \$2 million in account values. The LINCOLN DIRECTORSM product offers participants a broad array of investment options from several fund families and a fixed account. The Retirement Plan Services segment earns revenue through asset charges, investment management fees, surrender charges and recordkeeping fees from this product. We also receive fees from the underlying mutual funds companies for the services we provide, and we earn investment margins on assets in the fixed account.

The LINCOLN ALLIANCE® program is a defined contribution retirement plan solution aimed at mid to large employers, typically those that have defined contribution plans with \$2 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 mutual funds, along with recordkeeping, plan compliance services and customized employee education services. The program allows the use of any 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.

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. We earn mortality and expense charges, investment income on the fixed account and surrender charges from this product. We also receive fees for services that we provide to funds in the underlying separate accounts.

#### Distribution

Retirement Plan Services products are primarily distributed by LFD. Wholesalers and managers distribute these products through advisors, consultants, banks, wirehouses, TPAs and individual planners. During 2011, LFD expanded its distribution of the segment’s products by increasing wholesalers and managers from 49 to 55, increasing relationship management expertise and growing the number of broker-dealer relationships.

The Multi-Fund® program is sold primarily by affiliated advisors. The LINCOLN ALLIANCE® program is sold primarily through consultants and affiliated advisors. LINCOLN DIRECTORSM group variable annuity is sold in the small marketplace by intermediaries, including financial advisors, TPAs, planners and wirehouses.

#### Competition

The retirement plan marketplace is very competitive and is comprised of many providers with no one company dominating the market for all products. As stated above, we compete in the small, mid and large markets. 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, client service and client compliance and fiduciary services. During the fourth quarter of 2011, we began to put new clients on our enhanced recordkeeping platform. We believe the new platform will allow us to compete more effectively in the retirement plan marketplace.

## LIFE INSURANCE

### Overview

The Life Insurance segment focuses on the creation and protection of wealth for its clients through the manufacturing of life insurance products, including 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 segment generally has higher sales in the second half of the year than in the first half of the year. Approximately 45%, 44% and 44% of total sales were in the first half of 2011, 2010 and 2009, respectively.

Mortality margins, morbidity margins (for linked-benefit products), investment margins (through spreads or fees), expense margins (expense charges assessed to the contract holder less expenses incurred to manage the business) and surrender fees drive life insurance profits. Mortality margins, morbidity margins, and some expense assessments are a function of the rates priced into the product and level of insurance in force. 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” (which includes indexed) or “variable” contracts. This classification describes whether we or the contract 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.

### Products

We offer four categories of life insurance products consisting of:

#### Interest-Sensitive Life Insurance

Interest-sensitive life insurance products provide life insurance with account 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 typically 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), less surrender charges and policy loan payoffs, 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 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 based on the performance of the S&P 500.



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 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 cash 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, cost of insurance (“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 cash value be less than zero.

Unlike other GDB 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.

## 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. The policy also provides a reduced death benefit to the contract holder's beneficiary if the contract holder accelerates the death benefit as long-term care benefits during his or her life.

## 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. 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.

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 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 single life and survivorship versions of our VUL products with secondary guarantees.

## 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.

## 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 and BOLI products and services to small- to mid-sized banks and mid- to large-sized corporations, primarily through 14 intermediaries who specialize in one or both of these markets and who are serviced through a network of internal and external LFD 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 2010, the latest year for which data is available, there were 917 life insurance companies in the U.S. and U.S. territories, according to the American Council of Life Insurers.

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 2011, the average face amount (excluding MoneyGuard® products) was approximately \$1 million and average first year premiums paid were approximately

\$40,000. The Life Insurance segment competes primarily on product design and customer service. With respect to customer service, management tracks the speed, accuracy and responsiveness of service to customers' calls and transaction requests. Further, management tracks the turnaround time and quality for various client services such as processing of applications. Additional competitive factors relevant to the Life Insurance segment include product breadth, speed to market, underwriting and risk management, financial strength ratings and extent of distribution network.

#### 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 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 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.

## 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.

### 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.

#### 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 1 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 2 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.

#### Group Accident Insurance

We offer employer-sponsored group accident insurance products for employees and their covered dependents. This product is predominantly purchased on an employee-paid basis. Accident insurance provides scheduled benefits for over 30 types of benefit triggers related to accidental causes, and it is available for non-occupational accidents exclusively or on a 24-hour coverage basis.

### Group Critical Illness Insurance

We offer employer-sponsored group critical illness insurance to employees and their covered dependents. This product is predominantly purchased on an employee-paid basis. The coverage provides for lump sum payouts upon the occurrence of one of the specified critical illness benefit triggers covered within a critical illness insurance policy. This product also includes Lincoln CareCompass<sup>SM</sup>, a package of benefits and services that assists employees and their family members in prevention, early detection and treatment of critical illness events.

### Group Medical

We manage employer-sponsored benefits designed to supplement a company's major medical plan by reimbursing executives and eligible dependents for health care expenses not covered by the basic plan. Along with medical expense reimbursement, EXEC-U-CARE<sup>®</sup> plans include Accidental Death and Dismemberment coverage, EXEC-U-CARE CONCIERGE<sup>®</sup> health care assistance and TravelConnect<sup>SM</sup> travel assistance services.

### Distribution

The segment's products are marketed primarily through a national distribution system, including approximately 150 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 and financial strength ratings. In this 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 in-house claim specialists and outsourced third-party resources. Claims are evaluated for eligibility and payment of benefits pursuant to the group insurance contract and in compliance with federal and state regulations. Prompt decisions, accurate benefit payment and fair claims handling are paramount to customer satisfaction with claim services. 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 a variety of clinical experts, including internal and external medical professionals and rehabilitation specialists, to evaluate medically supported functional capabilities, assess employability and develop return to work plans. Dental claims management focuses on assisting plan administrators and members with the rising costs of insurance by utilizing tools to optimize dental claims payment accuracy through advanced claims review and validation, improved data analysis, enhanced clinical review of claims and provider utilization monitoring.

## OTHER OPERATIONS

Other Operations includes the financial data for operations that are not directly related to the business segments. Other Operations includes investments related to the excess capital in our insurance subsidiaries; investments in media properties and other corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance to Swiss Re Life & Health America, Inc. ("Swiss Re") in 2001; the results of certain disability income business; our run-off Institutional Pension business in the form of group annuity and insured funding-type of contracts with assets under management of approximately \$1.8 billion as of December 31, 2011; and debt. We are actively managing our remaining radio station clusters to maximize performance and future value.

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 25% to 30% of the mortality risk on newly issued non-term life insurance contracts and approximately 30% to 35% of total mortality risk including term insurance contracts. As of December 31, 2011, our policy for this program was to retain no more than \$11 million on a single insured life issued on fixed, VUL and term life insurance contracts. The retention per single insured life for COLI was less than \$1 million.

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 reinsurance exposure. The amounts recoverable from reinsurers were \$6.5 billion as of December 31, 2011 and 2010, of which \$2.8 billion and \$3.0 billion for the respective periods were recoverable from Swiss Re related to the sale of our reinsurance business to Swiss Re.

We also utilize inter-company reinsurance agreements to manage our statutory capital position as well as our hedge program for variable annuity guarantees. These inter-company agreements do not have an effect on our consolidated financial statements.

For more information regarding reinsurance, see “Reinsurance” in the MD&A and Note 9. For risks involving reinsurance, see “Item 1A. Risk Factors – Operational Matters – 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 – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also 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.



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.

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.

#### FINANCIAL STRENGTH RATINGS

The Nationally Recognized Statistical Ratings Organizations rate the financial strength of our principal insurance subsidiaries.

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 insurance companies, 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 D

As of February 21, 2012, 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
Insurer Financial Strength Ratings LNL	A+ (2nd of 16)	A+ (5th of 19)	A2 (6th of 21)	AA- (4th of 22)
Lincoln Life & Annuity Co. of New York ("LLANY")	A+ (2nd of 16)	A+ (5th of 19)	A2 (6th of 21)	AA- (4th of 22)
First Penn-Pacific Life Insurance Co. ("FPP")	A+ (2nd of 16)	A+ (5th of 19)	A2 (6th of 21)	A- (7th of 22)

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. Ratings are not recommendations to buy our securities.

All ratings are on outlook stable, except Moody's ratings, which are on outlook positive. 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 can maintain these ratings. Each rating should be evaluated independently of any other rating.

## 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, 2011, we have not received any material adverse findings resulting from state insurance department examinations of our insurance subsidiaries conducted during this 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. Changes in these statutory accounting principles can significantly affect our capital and surplus. See “Item 1A. Risk Factors – Legislative, Regulatory and Tax – Changes to the calculation of reserves and 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.”

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees, product design and reinsurance arrangements. As a result, the relationship between reserve changes and equity market performance is non-linear during any given reporting period.

For more information on statutory reserving and our use of captive reinsurance structures, see “Review of Consolidated Financial Condition – Liquidity and Capital Resources” in the MD&A.

#### 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, 10% 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 12 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 12 months, but in no event to exceed statutory unassigned surplus. We may not consider the benefit from the statutory accounting principles relating to our insurance subsidiaries' deferred tax assets 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 Commissioner to bring an action to rescind a dividend that violates these standards. In the event the 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 2011 from our insurance subsidiaries, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow" in the MD&A.

#### Risk-Based Capital ("RBC")

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 - others	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, 2011, 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 principles-based reserving; economic conditions leading to higher levels of impairments of securities in our insurance subsidiaries’

general accounts; and an inability to finance life reserves including the issuing of letters of credit supporting captive reinsurance structures.

See “Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings.”

#### Privacy Regulations

In the course of our business, we collect and maintain personal data from our customers including personally identifiable non-public financial and health information, which subjects us to regulation under federal and state privacy laws. These laws require that we institute certain policies and procedures in our business to safeguard this information from improper use or disclosure. If the federal or state regulators establish further regulations for addressing customer privacy, we may need to amend our policies and adapt our internal procedures.

#### 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.

#### Financial Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) was signed by the President in July 2010. This wide-ranging legislation requires substantial reform of the financial services industry and financial products. The Dodd-Frank Act requires significant rulemaking across numerous federal agencies, a process that began in the second half of 2010, but is proceeding slower than anticipated. Consequently, we are unable to predict at this time the manner or the extent to which financial markets in general, or our business, financial condition and results of operations, may be affected following its full implementation.

For instance, the Dodd-Frank Act mandates a new regulatory framework for derivatives transactions, which we use to mitigate many types of risk in our business. The new regulations will require clearing and centralized execution for many derivatives transactions that are currently conducted over-the-counter. This transition will result in significant costs for all substantial market participants. New margin requirements for cleared and uncleared transactions will likely require the posting of higher margin levels for our derivatives activities and also may narrowly restrict the range of eligible collateral. This may require us to hold more of our assets in cash and cash equivalents that generate lower yields than other investments. The new regulations may reduce the level of risk exposure we have to our derivatives counterparties (currently managed by holding collateral), but will increase our exposure to central clearinghouses. The standardization of derivatives products for clearing may make customized products unavailable or uneconomical, potentially decreasing the effectiveness of some of our hedging activities. Although the current draft regulatory plan contemplates a phasing-in of these new requirements, the risks of market disruption cannot be eliminated, and the attendant consequences cannot be estimated. Finally, although the draft rule defining the term “swap” contains an exclusion for insurance products, it is not yet final or sufficiently clear to be certain that all life insurance and annuity products will be excluded. If some insurance and annuity products are characterized as swaps, this will carry additional burdensome regulation. In the face of this continuing uncertainty, it is premature to determine the extent to which our derivatives costs and strategies may change and the extent to which those changes may affect the range or pricing of our products.

Another area of concern related to the Dodd-Frank Act is the possible impact of the Volcker Rule on non-bank financial market participants. Restrictive implementation of the Volcker Rule’s proprietary trading provisions could potentially inhibit legitimate market-making activities and impair overall liquidity in the marketplace to the detriment



of investors such as life insurers. Because the Volcker rulemaking is still in progress, we are unable to predict its ultimate impact on our business.

In addition, the Dodd-Frank Act requires new regulations governing broker-dealers and investment advisers. In particular, the fiduciary standard rulemaking could potentially have broad implications for how our products are designed and sold in the future. In January 2011, the U.S. Securities and Exchange Commission (“SEC”) released a study on the obligations and standards of conduct of financial professionals, as required under the Dodd-Frank Act. The SEC staff recommended establishing a uniform fiduciary standard for investment advisers and broker-dealers when providing investment advice about securities, including guidance for principal trading and definitions of the duties of loyalty and care owed to retail customers that would be consistent with the standard that currently applies to investment advisers. A more uniform fiduciary standard could potentially affect our business in areas including, but not limited to: design and availability of proprietary products; commission-based compensation arrangements; advertising and other communications; use of finders or solicitors of clients (i.e., business contacts who provide referrals); and continuing education requirements for advisors.

Additional provisions of the Dodd-Frank Act include, among other things, the creation of a new Federal Insurance Office within the U.S. Department of the Treasury to gather information regarding the insurance industry; the creation of a new Consumer Financial Protection Bureau to protect consumers of certain financial products; and changes to certain corporate governance rules. The SEC has postponed rule-making on a number of these provisions through 2012. Given the state of the rulemaking and implementation process, the ultimate impact on our business is undeterminable at this time.

#### Department of Labor Regulation

In October 2010, the U.S. Department of Labor (“DOL”) issued a proposed regulation that would, if finalized in current form, substantially expand the range of activities that would be considered to be fiduciary investment advice under the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Internal Revenue Code. If finalized as proposed, the investment-related information and support that our advisors and employees could provide to plan sponsors, participants and IRA holders on a non-fiduciary basis could be substantially limited beyond what is allowed under current law. This could have a material impact on the level and type of services we can provide as well as the nature and amount of compensation and fees we and our advisors and employees may receive for investment-related services. This proposal has generated substantial public comment and as a result, it is likely that any final regulation will be different from the proposal. On September 19, 2011, the DOL announced that it would re-

propose the regulation in early 2012. The exact nature of any re-proposed regulation, the extent of any substantive changes from the originally proposed regulation and any potential effect on our businesses is undeterminable as this time.

#### Federal Tax Legislation

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (“JGTRRA”) was enacted. Individual taxpayers are the principal beneficiaries of JGTRRA, which accelerated certain of the income tax rate reductions enacted originally under the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”), as well as reduced the long-term capital gains and dividend tax rates to 15%. On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2006 (“TIPRA”) was signed into law. TIPRA extended the lower capital gains and dividends rates through the end of 2010. EGTRRA also included provisions that eliminated the estate tax for a single year in 2010, while also replacing the step-up in basis rule applicable to property held in a decedent’s estate with a modified carryover basis rule. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 extended for two years through 2012 all of the lower individual tax rates and set the estate tax rate at 35% with a personal exemption of \$5 million. Should these provisions not be extended beyond 2012, the higher marginal tax rates on individuals could have a positive impact upon the sale of insurance and annuity products.

On February 13, 2012, the Obama Administration submitted to Congress its fiscal year 2013 budget proposal. Included therein are policy and tax recommendations that could have an effect upon our company and our products. All of these recommendations were proposed in last year’s budget submission to Congress. Included among the various proposed policy recommendations are modifications to the dividends received deduction for life insurance company separate accounts. If these proposed changes were enacted into law or, if applicable, changed administratively through the tax regulation process, they could have an adverse effect upon the Company’s profitability. The budget also proposes changes to the tax laws that would affect purchasers of products offered and sold through our various business lines, including such items as expanding the pro-rata disallowance for COLI, the creation of an auto-enrollment IRA program for small employers and encouraging increased use of qualified plans through tax credits to defray start-up costs. Some of these proposed changes, should they become law, would have the potential to improve the attractiveness of our products to consumers and enhance our sales. Other provisions could have the opposite effect. The submission of the Administration’s budget to Congress begins the Congressional Budget process. Any changes to the tax law will require legislation, which may or may not incorporate provisions found in the budget proposal, to move through both houses of Congress before being signed into law by the President.

#### Health Care Reform Legislation

In March 2010, the President signed into law the Patient Protection and Affordable Care Act which was subsequently amended by the Health Care and Education Reconciliation Act. This legislation, as well as subsequent state and federal laws and regulations, includes provisions that provide for additional taxes to help finance the cost of these reforms, and substantive changes and additions to health care and related laws, which could potentially impact some of our lines of businesses.

#### Patriot Act

The USA PATRIOT Act of 2001 includes anti-money laundering and financial transparency laws as well as various regulations applicable to broker-dealers and other financial services companies, including insurance companies. Financial institutions are required to collect information regarding the identity of 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. As a result, we are required to maintain certain internal compliance practices, procedures and controls.

## 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 and Securities Regulation

In addition to being registered under the Securities Act of 1933, some of our separate accounts as well as mutual funds that we sponsor 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, as amended (“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. Agents and employees registered or associated with any of our broker-dealer subsidiaries are subject to the Exchange Act and to examination requirements and regulation by the 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 and termination or limitation of the activities of the regulated entity or its employees.

### 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.

### 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 several issued U.S. patents and have additional patent applications pending in the U.S. Patent and Trademark Office.

We regard our patents as valuable assets and intend to vigorously protect them against infringement. However, complex legal and factual determinations and changes in patent law make 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.

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 intend to protect them against infringement and dilution.

#### EMPLOYEES

As of December 31, 2011, we had a total of 8,564 employees. In addition, we had a total of 1,159 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.

#### 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.

#### Legislative, Regulatory and Tax

Our businesses are heavily regulated and changes in regulation may affect our insurance subsidiary capital requirements or 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 licensing status of the company;
- 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.

Although we endeavor to maintain all required licenses and approvals, our businesses 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, 2011, 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 Advisors, Lincoln Financial Securities and LFD, as well as our variable annuities and variable life insurance products, are subject to regulation and supervision by the SEC and FINRA. 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.

Recently, there has been an increase in potential federal initiatives that would affect the financial services industry. On July 21, 2010, President Obama signed into law the Dodd-Frank Act, a wide-ranging Act that includes a number of reforms of the financial services industry and financial products. The Dodd-Frank Act includes, among other things, changes to the rules governing derivatives; restrictions on proprietary trading by certain entities; the imposition of capital and leverage requirements on bank and

savings and loan holding companies; a study by the SEC of the rules governing broker-dealers and investment advisers with respect to individual investors and investment advice, followed potentially by rulemaking; the creation of a new Federal Insurance Office within the U.S. Treasury to gather information regarding the insurance industry; the creation of a resolution authority to unwind failing institutions, funded on a post-event basis; the creation of a new Consumer Financial Protection Bureau to protect consumers of certain financial products; and changes to executive compensation and certain corporate governance rules, among other things. The Dodd-Frank Act requires significant rulemaking across numerous agencies within the federal government. Although the rulemaking process began in the second half of 2010, it is proceeding substantially slower than the aggressive schedule contemplated at the time of enactment. Consequently, the ultimate impact of these provisions on our businesses (including product offerings), results of operations, liquidity or capital resources is currently indeterminable.

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.

Changes to the calculation of reserves and 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 Valuation of Life Insurance Policies Model Regulation (“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”), commonly known as “AXXX,” clarifies the application of XXX with respect to certain UL insurance policies with secondary guarantees. Virtually all of our newly issued term and the majority of our newly issued UL insurance products are now affected by XXX and AG38. The application of both AG38 and XXX involve numerous interpretations. In the fourth quarter of 2011, the Life Actuarial Task Force, an advisory group to the Life Insurance and Annuities (A) Committee of the NAIC, submitted a draft statement on the application of AG38 (the “Statement”) to the Committee. The NAIC’s Executive Committee set up a joint working group (the “Joint Working Group”) comprised of members of the Life Insurance and Annuities (A) Committee and the Financial Condition (E) Committee to review the Statement and the current application of AG38 to determine whether new interim guidelines should be developed for the products within the scope of AG38. The Joint Working Group has developed a draft framework that proposes to evaluate in-force reserves based on an asset adequacy analysis incorporating moderately adverse scenarios. New business written after a certain date, yet to be specified, would be reserved using a formulaic approach consistent with the Statement, as modified or clarified by the NAIC. Any interim guidelines would be in place only until principles-based reserving is implemented. Because the draft framework contains many open issues, we cannot predict its impact on our statutory reserves. However, a change to the method for calculating reserves may require us to significantly increase our statutory reserves for UL policies with secondary guarantees. Further, changes in the method of calculating reserves may also impact the future profitability and sales of our UL insurance policies with secondary guarantees.

We 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 captive reinsurance subsidiaries. Although formal details have not been provided, we anticipate the rating agencies may require a portion of these letters of credit to be included in our leverage calculations, which would pressure our leverage ratios and potentially our ratings. Therefore, 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.



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 have lower returns on such products sold than we currently anticipate and/or reduce our sales of these products.

Changes in U.S. federal income tax law could increase our tax costs and make the products that we sell less desirable.

Changes to the Internal Revenue Code, administrative rulings or court decisions could increase our effective tax rate, make our products less desirable and lower our net income. For example, on February 14, 2011, the Obama Administration released its fiscal year 2012 budget proposal including proposals which, if enacted, would affect the taxation of life insurance companies and certain life insurance products. If enacted into law, the statutory changes contemplated by the Administration's revenue proposals would, among other things, change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, that are eligible for the dividend received deduction. The dividend received deduction reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and expected amount determined using the federal statutory tax rate of 35%. Our income tax provision for the year ended December 31, 2011, included a separate account dividend received deduction benefit of \$112 million. In addition, the proposals would affect the treatment of COLI policies by limiting the availability of certain interest deductions for companies that purchase those policies. If proposals of this type were

enacted, our sale of COLI, variable annuities and variable life products could be adversely affected and our actual tax expense could increase, reducing earnings.

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 and regulatory actions in the ordinary course of our insurance and retirement operations. 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. See Note 13 for a description of legal and regulatory proceedings and actions. These actions include ongoing audits on behalf of multiple states' treasury and controllers' offices for compliance with laws and regulations concerning the identification, reporting and escheatment of unclaimed contract benefits or abandoned funds.

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 prepared in accordance with GAAP as identified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC"). From time to time, we are required to adopt new or revised accounting standards or guidance that are incorporated into the FASB ASC. 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.

For example, the FASB issued Accounting Standards Update ("ASU") No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" ("ASU 2010-26"), which clarifies the types of costs that insurance companies may capitalize and amortize over the life of the business. ASU 2010-26 significantly reduces the amount of acquisition cost that we will be able to defer in connection with sales of our insurance products. Although this will not affect the ultimate profitability of our products, we expect it could materially alter the pattern of our earnings. For further information, see "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – DAC, VOBA, DSI and DFEL – New DAC Methodology."

In addition, the FASB is working on several projects with the International Accounting Standards Board, which could result in significant changes as GAAP and International Financial Reporting Standards ("IFRS") attempt to converge, including how we account for our insurance contracts and financial instruments and how our financial statements are presented. Furthermore, the SEC is considering whether and how to incorporate IFRS into the U.S. financial reporting system. The accounting changes being proposed by the FASB may result in a complete change to how we account for and report significant areas of our business, such as insurance contracts and deferred acquisition costs ("DAC"). The effective dates and transition methods are not known; however, issuers may be required to or may choose to adopt the new standards retrospectively. In this case, the issuer will report results under the new accounting method as of the effective date, as well as for all periods presented. The changes to GAAP and potential incorporation of IFRS into the U.S. financial reporting system will impose special demands on issuers in the areas of governance, employee training, internal controls, contract fulfillment and disclosure and will likely affect how we manage our business, as it will likely affect other business processes such as design of compensation plans, product design, etc.

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 shareholders, 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.

#### Market Conditions

Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations.

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. Concerns over the viability of the European Union and its ability to resolve the European debt crisis, the ability of the U.S. government to reign in the U.S. deficit, continued high unemployment and a stagnant real estate market in the U.S. have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These events may have an adverse effect on us given our credit and equity market exposure. 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 and recession that occurred during 2008 and 2009, 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, domestic and foreign government spending, the volatility and strength of the capital markets, the potential for inflation or deflation and uncertainty over domestic and foreign government actions 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 contract holders 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.

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

Interest rate fluctuations and/or a sustained period of low interest rates could negatively affect our profitability. Some of our products, principally fixed annuities, interest-sensitive whole life, UL and the fixed portion of VUL, 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. Spreads are an important component of our net income. 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 when interest rates are declining or remain at low levels, we may have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments reducing our spread. 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. Lowering interest crediting rates helps

to mitigate the effect of spread compression on some of our products. However, 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 still decrease. As of December 31, 2011, 85% of our annuities business, 93% of our retirement plan services business and 92% of our life insurance business with guaranteed minimum interest or crediting rates are at their guaranteed minimums.

Our expectation for future spreads is an important component in the amortization of DAC and value of business acquired (“VOBA”) as it affects the future profitability of the business. Currently, new money rates continue to be at historically low levels. The Federal Reserve Board recently announced that it will keep rates low until at least late 2014. If interest rates were to remain low over a sustained period of time, this will put additional pressure on our spreads, potentially resulting in unlocking of our DAC and VOBA assets, thereby reducing net income in the affected reporting period. We would expect the effect to be most pronounced in our Life Insurance segment. For additional information on interest rate risks, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk.”

A decline in market interest rates could also reduce our return on investments that do not support particular policy obligations. During periods of sustained lower interest rates, our recorded policy liabilities may not be sufficient to meet future policy obligations and may need to be strengthened, thereby reducing net income in the affected reporting period. Accordingly, declining

interest rates may materially affect our results of operations, financial position and cash flows and significantly reduce our profitability.

Increases in market interest rates may also negatively affect our profitability. In periods of rapidly 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. 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. Furthermore, unanticipated increases in withdrawals and termination may cause us to unlock our DAC and VOBA assets, which would reduce net income. An increase in market interest rates could also have a material adverse effect on the value of our investment portfolio, for example, by decreasing the estimated fair values of the fixed income securities that comprise a substantial portion of our investment portfolio. An increase in interest rates could also result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds.

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 and VUL insurance policies is based primarily 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 DAC, deferred sales inducements (“DSI”), 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. If we were to have unlocked our reversion to the mean (“RTM”) assumption in the corridor as of December 31, 2011, we would have recorded a favorable prospective unlocking of approximately \$175 million, pre-tax, for our Annuities segment, approximately \$20 million, pre-tax for our Retirement Plan Services segment and approximately \$15 million, pre-tax, for our Life Insurance segment. For further information about our RTM process, see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Reversion to the Mean” in the MD&A.

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® (a form of GIB rider) features have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC (“benefit reserves”) and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC (“embedded derivative reserves”). We calculate the value of the embedded derivative reserve and the benefit reserves based on the specific characteristics of

each guaranteed living benefit feature. 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 reserves not carried at fair value 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, increases in interest rates and decreases in volatility will generally decrease the reserves calculated using fair value. Conversely, a decrease in the equity markets 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.

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, a strategic decision to under- or over-hedge in reaction to extreme market conditions or inconsistencies between economic and statutory reserving guidelines and divergence between the performance of the underlying funds and hedging indices. For example, for the years ended December 31, 2011, 2010 and 2009, we experienced a breakage on our variable annuity net derivatives results of \$(106) million, \$(27) million and \$103 million, respectively, pre-tax and before the associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities. 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. Breakage can be positive or negative. The non-performance risk factor is required under the Fair Value Measurements and Disclosures Topic of the FASB ASC, 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.

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.

#### Liquidity and Capital Position

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

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. When considering our liquidity and capital position, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company.

For our insurance and other subsidiaries, the principal sources of liquidity are insurance premiums and fees, annuity considerations and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash.

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. See “Item 7. MD&A – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flows” for a description of our credit ratings. 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. Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

Because we are a holding company with no direct operations, the inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations.

We are a holding company and we have no direct operations. Our principal asset is the capital stock of our insurance subsidiaries. Our ability to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders, repurchase our securities and pay corporate expenses depends primarily on the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including LNL, our primary insurance subsidiary, may pay dividends to us without prior approval of the Commissioner up to a certain threshold, or must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding 12 consecutive months exceed the statutory limitation. The current Indiana 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 prior calendar year.

In addition, payments of dividends and advances or repayment of funds to us by our insurance subsidiaries are restricted by the applicable laws of their respective jurisdictions requiring that our insurance subsidiaries hold a specified amount of minimum reserves in order to meet future obligations on their outstanding policies. These regulations specify that the minimum reserves shall be calculated to be sufficient to meet future obligations, after giving consideration to future required premiums to be received, and are based on certain specified mortality and morbidity tables, interest rates and methods of valuation, which are subject to change. In order to meet their claims-paying obligations, our insurance subsidiaries regularly monitor their reserves to ensure we hold sufficient amounts to cover actual or expected contract and claims payments. At times, we may determine that reserves in excess of the minimum may be needed to ensure sufficiency.

Changes in, or reinterpretations of, 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. Requiring our insurance subsidiaries to hold additional reserves has the potential to constrain their ability to pay dividends to the holding company. See "Legislative, Regulatory and Tax – Changes to the calculation of reserves and 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" above for additional information on potential changes in these laws.

The earnings of our insurance subsidiaries impact contract holders' surplus. Lower earnings constrain the growth in our insurance subsidiaries' capital, and therefore, can constrain the payment of dividends and advances or repayment of funds to us.

In addition, the amount of surplus that our insurance subsidiaries could pay as dividends is constrained by the amount of surplus they hold to maintain their financial strength ratings, to provide an additional layer of margin for risk protection and for future investment in our businesses. Notwithstanding the foregoing, we believe that our insurance subsidiaries have sufficient liquidity to meet their contract holder obligations and maintain their operations.

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, including 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 AG38 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 “Covenants and Ratings – 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.

#### Assumptions and Estimates

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 insurance products, we calculate these reserves based on many assumptions and estimates, including, but not limited to, estimated premiums we will receive over the assumed life of the policies, the timing of the events covered by the insurance policies,

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 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.

The assumptions and estimates we use in connection with establishing and carrying our reserves are inherently uncertain. 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. Increases in reserves have a negative effect on income from operations in the quarter incurred.

If our businesses do not perform well and/or their estimated fair values decline 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 acquisition price incurred to acquire subsidiaries and other businesses over the fair value of their net assets as of the date of acquisition. As of December 31, 2011, we had a total of \$2.3 billion of goodwill on our Consolidated Balance Sheets, of which \$1.5 billion related to our Life Insurance segment and \$440 million related to our Annuities segment. We test goodwill at least annually for indications of value impairment with consideration given to financial performance, merger and acquisitions and other relevant factors. In addition, certain events, including a significant and adverse change in legal factors, accounting standards or the business climate, an adverse action or assessment by a regulator or unanticipated competition, would cause us to review the carrying amounts of goodwill for impairment. Impairment testing is performed based upon estimates of the fair value of the "reporting unit" to which the goodwill relates. As of December 31, 2011, we recorded a goodwill impairment of \$747 million, primarily related to our Life Insurance segment. Subsequent reviews of goodwill could result in impairment of goodwill, and such write downs could have a material adverse effect on our net income and book value, but will not affect the statutory capital of our insurance subsidiaries. For more information on goodwill, see Note 10 and "Critical Accounting Policies and Estimates – Goodwill and Other Intangible Assets" in the MD&A.

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. As of December 31, 2011, we had a deferred tax asset of \$2.5 billion. 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.

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.

We regularly review our available-for-sale (“AFS”) securities for declines in fair value that we determine to be other-than-temporary. For an equity security, if we do not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, we conclude that an other-than-temporary impairment (“OTTI”) has occurred, and the amortized cost of the equity security is written down to the current fair value, with a corresponding change to realized gain (loss) on our Consolidated Statements of Income (Loss). When assessing our ability and intent to hold the equity security to recovery, we consider, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of decline, a fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer.

For a debt security, if we intend to sell a security or it is more likely than not we will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, we conclude that an OTTI has

occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized loss on our Consolidated Statements of Income. If we do not intend to sell a debt security or it is not more likely than not we will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), we conclude that an OTTI has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to realized loss on our Consolidated Statements of Income (Loss), as this is also deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in other comprehensive income (loss) ("OCI") to unrealized OTTI on AFS securities on our Consolidated Statements of Stockholders' Equity, as this is considered a noncredit (i.e., recoverable) impairment. Net OTTI recognized in net income (loss) was \$118 million, \$152 million and \$392 million, pre-tax, for the years ended December 31, 2011, 2010 and 2009, respectively. The portion of OTTI recognized in OCI for the years ended December 31, 2011 and 2010, was \$47 million and \$88 million, pre-tax, respectively.

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 operations and financial position.

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 the Fair Value Measurements and Disclosures Topics of the FASB ASC, 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 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.

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, natural disaster 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. Additionally, the impact of climate change could cause changes in weather patterns, resulting in more severe and more frequent natural disasters such as forest fires,

hurricanes, tornados, floods and storm surges. 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, natural disasters 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.

#### Operational Matters

Our enterprise 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 enterprise 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, 2011, we ceded \$331.7 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, 2011, we had \$6.5 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, \$2.8 billion related 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 \$2.2 billion as of December 31, 2011. Furthermore, approximately \$1.0 billion of the Swiss Re treaties are funds withheld structures where we have a right of offset on assets backing the reinsurance receivables.



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.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.

Our success depends, in large part, on our ability to attract and retain key people. Intense competition exists for the key employees with demonstrated ability, and we may be unable to hire or retain such employees. The unexpected loss of services of one or more of our key personnel could have a material adverse effect on our operations due to their skills, knowledge of our business, their years of industry experience and the potential difficulty of promptly finding qualified replacement employees. 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 key employees, including financial advisors, wholesalers and other employees, as well as independent distributors of our products.

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. Additionally, complex legal and factual determinations and evolving laws and court interpretations make the scope of protection afforded our intellectual property uncertain, particularly in relation to our patents. While we believe our patents provide us with a competitive advantage, we cannot be certain that any issued patents will be interpreted with 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. 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.

Our information systems may experience interruptions or breaches in security.

Our information systems are critical to the operation of our business. We collect, process, maintain, retain and distribute large amounts of personal financial and health information and other confidential and sensitive data about our customers in the ordinary course of our business. Our business therefore depends on our customers' willingness to entrust us with their personal information. Any failure, interruption or breach in security could result in disruptions to our critical systems and adversely affect our customer relationships. While we employ a robust and tested information security program, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it can be sufficiently remediated. The occurrence of any such failure, interruption or security breach of our systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and financial liability.

#### Covenants and Ratings

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.

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. A downgrade 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.

All of our ratings and ratings of our principal insurance subsidiaries 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 we can maintain these ratings. See “Item 1. Business – Financial Strength Ratings” and “Item 7. MD&A – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flows” for a description of our ratings.

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.

As of December 31, 2011, we had approximately \$1.2 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, or the "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 OCI and any increase in stockholders' equity resulting from the issuance of preferred stock during a quarter), or "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, or 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, until our adjusted stockholders' equity amount increased or 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.

If we were required to utilize the ACSM and were successful in selling sufficient shares of common stock 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.

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, or the "cedent," remains primarily liable on the underlying insurance business. Under these types of agreements, as of December 31, 2011, we held statutory reserves of \$3.1 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 \$2.1 billion of statutory reserves as of December 31, 2011. 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 an 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 \$875 million 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, 2011, LLANY's RBC ratio exceeded the required ratio. See "Item 1. Business – Financial Strength Ratings" for a description of our financial strength 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.

## Investments

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 21% of the carrying value of our total cash and invested assets as of December 31, 2011.

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.

Defaults on our mortgage loans and write downs of mortgage equity may adversely affect our profitability.

Our mortgage loans face default risk and are principally collateralized by commercial properties. The performance of our mortgage loan investments 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.

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. 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. 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.

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 payments to our counterparties related to any decline in the market value of the specified assets.

Our investments are reflected within our consolidated financial statements utilizing different accounting bases, and, accordingly, there may be significant differences between cost and fair value that are not recorded 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 AFS, 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 AFS securities (i.e., unrealized investment gains and losses) is recorded as a separate component of OCI, net of adjustments to DAC, contract holder related amounts and deferred income taxes;
- Fixed maturity and equity securities designated as trading securities are recorded at fair value with subsequent changes in fair value recognized in realized gain (loss). However, in certain cases, the trading securities support reinsurance arrangements. In those cases, 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. These types of securities represent 60% of our trading securities;
- 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;
- Also, mortgage loans on real estate are carried at unpaid principal balances, adjusted for any unamortized premiums or discounts and deferred fees or expenses, net of valuation allowances;
- Policy loans are carried 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 on 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 on 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.

## Competition

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.

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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2011, LNC and our subsidiaries owned or leased approximately 3.5 million square feet of office space. We leased 0.1 million square feet of office space in Philadelphia, Pennsylvania for LFN. 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 Annuities and Retirement Plan Services segments. We owned or leased 0.8 million square feet of office space in Greensboro, North Carolina, primarily for our Life Insurance segment. We owned or leased 0.3 million square feet of office space in Omaha, Nebraska, primarily for our Group Protection segment. An additional 1.3 million square feet of office space is owned or leased in other U.S. cities for branch offices. As provided in Note 13, the rental expense on operating leases for office space and equipment was \$42 million for 2011. 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 13, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

## Executive Officers of the Registrant

Executive Officers of the Registrant as of February 17, 2012, were as follows:

Name	Age (1)	Position with LNC and Business Experience During the Past Five Years
Dennis R. Glass	62	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	46	Executive Vice President, Chief Human Resources Officer (since March 2011) Senior Vice President, Chief Human Resources Officer (December 2008 - March 2011). 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	52	President, Retirement Plan Services (since December 2009). Executive Vice President, Chief Administrative Officer (November 2008 - December 2009). 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).
Robert W. Dineen	62	President, Lincoln Financial Network, and CEO, Lincoln Financial Advisors (2) (since 2002). Senior Vice President, Managed Asset Group, Merrill Lynch & Co., a diversified financial services company (2001 - 2002).
Randal J. Freitag	49	Executive Vice President and Chief Financial Officer (since January 2011). Senior Vice President, Chief Risk Officer (2007 - December 2010). Senior Vice President, Chief Risk Officer and Treasurer (2007 - October 2009). Senior Vice President, Product Risk and Profitability and Actuary (2004 - 2007).
Wilford H. Fuller	41	President and CEO, Lincoln Financial Distributors (2) (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	52	President, Insurance Solutions and Annuities (since July 2008 and February 2009 respectively). 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).

(1) Age shown is based on the officer's age as of February 17, 2012.

(2) Denotes an affiliate of LNC.

## 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 stock exchange under the symbol LNC. As of January 27, 2012, the number of shareholders of record of our common stock was 10,053. 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. For potential restrictions on our ability to pay dividends, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 20 in the accompanying notes to the consolidated financial statements presented in "Item 8. Financial Statements and Supplementary Data," as well as in "Part I – Item 1. Business – Regulatory – Insurance Regulation – Restriction on Subsidiaries' Dividends and Other Payments." 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
2011				
High	\$ 32.68	\$ 32.39	\$ 29.67	\$ 21.88
Low	28.00	25.97	15.00	13.75
Dividend declared	0.050	0.050	0.050	0.080
2010				
High	\$ 30.74	\$ 33.55	\$ 26.83	\$ 29.12
Low	22.52	23.86	20.65	23.17
Dividend declared	0.010	0.010	0.010	0.050

For information on securities authorized for issuance under equity compensation plans, see "Part III – Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," which is incorporated herein by reference.

## (b) Not Applicable

## (c) Issuer Purchases of Equity Securities

The following summarizes purchases of equity securities by the issuer during the quarter ended December 31, 2011 (dollars in millions, except per share data):

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced	(d) Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the
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				Plans or Programs (2)		Plans or Programs (3)
10/1/11 - 10/31/11	2,378	\$	16.27	-	\$	740
11/1/11 - 11/30/11	7,572,969		19.01	7,572,600		596
12/1/11 - 12/31/11	2,822,964		19.78	2,812,800		540

- (1) Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes and 12,911 shares were withheld for taxes on the vesting of restricted stock. For the quarter ended December 31, 2011, there were 10,385,400 shares purchased as part of publicly announced plans or programs.
- (2) On February 23, 2007, our Board approved a \$2.0 billion increase to our securities repurchase authorization, bringing the total authorization at that time to \$2.6 billion. As of December 31, 2011, our security repurchase authorization was \$540 million. The security repurchase authorization does not have an expiration date. 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. The shares repurchased in connection with the awards described in Note 19 in the

accompanying notes to the consolidated financial statements presented in “Item 8. Financial Statements and Supplementary Data” do not reduce our security repurchase authorization.

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

#### Item 6. Selected Financial Data

The following selected financial data (in millions, except per share data) should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the accompanying notes to the consolidated financial statements presented in “Item 8. Financial Statements and Supplementary Data.” Some previously reported amounts have been reclassified to conform to the presentation as of and for the year ended December 31, 2011.

	For the Years Ended December 31,				
	2011	2010	2009	2008	2007
Total revenues	\$ 10,636	\$ 10,407	\$ 8,499	\$ 9,224	\$ 9,614
Income (loss) from continuing operations	302	951	(415)	(10)	1,199
Net income (loss)	294	980	(485)	57	1,215
Per share data: (1)(2)					
Income (loss) from continuing operations - basic	0.99	2.53	(1.60)	(0.04)	4.44
Income (loss) from continuing operations - diluted	0.95	2.45	(1.60)	(0.04)	4.37
Net income (loss) - basic	0.96	2.62	(1.85)	0.22	4.50
Net income (loss) - diluted	0.92	2.54	(1.85)	0.22	4.43
Common stock dividends	0.230	0.080	0.040	1.455	1.600
As of December 31,					
	2011	2010	2009	2008	2007
Assets	\$ 202,906	\$ 193,824	\$ 177,433	\$ 163,136	\$ 191,435
Long-term debt:					
Principal	5,088	5,363	5,019	4,555	4,620
Unamortized premiums (discounts) and fair value					
hedge on interest rate swap agreements	303	36	31	176	(2)
Stockholders' equity	14,164	12,806	11,700	7,977	11,718
Per common share data: (1)					
Stockholders' equity, including accumulated other comprehensive income (loss) (3)	48.59	40.54	36.02	31.15	44.32
Stockholders' equity, excluding accumulated other comprehensive income (loss) (3)	40.19	38.17	36.89	42.09	43.46
Market value of common stock	19.42	27.81	24.88	18.84	58.22

(1) Per share amounts were affected by the retirement of 24.7 million, 1.1 million, less than 1 million, 9.3 million and 15.4 million shares of common stock during the years ended December 31, 2011, 2010, 2009, 2008 and 2007, respectively.

(2) For discussion of the reduction of net income (loss) available to common stockholders see Note 14 in the accompanying notes to the consolidated financial statements presented in “Item 8. Financial Statements and

Supplementary Data.”

(3) Per share amounts are calculated under the assumption that our Series A preferred stock has been converted to common stock, but exclude Series B preferred stock balances as it was non-convertible.

## 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 financial condition as of December 31, 2011, compared with December 31, 2010, and the results of operations in 2011 and 2010, compared with the immediately preceding year of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Lincoln," "Company," "we," "our" or "us" refer to Lincoln National Corporation and its consolidated subsidiaries. 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 "Part II – Item 8. Financial Statements and Supplementary Data," as well as "Part I – 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. Financial information that follows is presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"), unless otherwise indicated. See Note 1 for a discussion of GAAP.

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 define and report operating revenues and income (loss) from operations by segment in Note 22. Our management believes 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. In addition, we believe that our 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.

Certain reclassifications have been made to prior periods' financial information.

### FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by us or on our 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 in connection 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. We claim 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:

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize 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;

- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements related to secondary guarantees under universal life, such as a change to reserve calculations under Actuarial Guideline 38 (also known as The Application of the Valuation of Life Insurance Policies Model Regulation, or "AG38"), and variable annuity products under Actuarial Guideline 43 (also known as Commissioners Annuity Reserve Valuation Method for Variable Annuities, or "AG43"); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. federal tax reform;
- Uncertainty about the effect of rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us and the economy and the financial services sector in particular;
- The initiation of legal or regulatory proceedings against us, 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 we compete; adverse decisions in

- significant actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
- Changes in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits and demand for our products;
  - A decline in the equity markets causing a reduction in the sales of our subsidiaries' products, a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products, an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL") and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
  - Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect 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 the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
  - Changes in GAAP, including the potential incorporation of International Financial Reporting Standards ("IFRS") into the U.S. financial reporting system, that may result in unanticipated changes to our net income;
  - Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
  - Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
  - Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
  - The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items;
  - The adequacy and collectibility of reinsurance that we have purchased;
  - Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our 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 our subsidiaries can charge for their products;
  - The unknown effect on our subsidiaries' businesses resulting from changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
  - Loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Other sections of this report, our 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 affect our businesses and financial performance, including "Part I – Item 1A. Risk Factors," "Part II – 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, we operate 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 effect of all risk factors on our businesses 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, we disclaim 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 retirement 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 fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, term life insurance, employer-sponsored defined contribution retirement plans, mutual funds and group life, disability and dental.

We provide products and services and report results through our Annuities, Retirement Plan Services (formerly referred to as “Defined Contribution”), Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in “Part I – Item 1. Business” above.

For information on how we derive our revenues, see the discussion in results of operations by segment below.

#### Current Market Conditions

Recent unfavorable market conditions including, but not limited to, the following concerns are weighing on and threatening the financial stability of the economy:

- The effects of low interest rates;
  - The effects of the European debt crisis;
  - The effects of volatile equity and capital markets; and
  - Slow growth in the U.S. economy;
- § Uncertainty regarding the long-term effect of the Budget Control Act of 2011;
- § Downgrades and threatened downgrades by credit rating agencies;
- § The interest rate on overnight loans between banks controlled by the Federal Reserve Board remaining unchanged in January 2012 at 0% to 0.25%, with low rates expected to continue at least through late 2014, in anticipation of weakening economic conditions and a subdued outlook on inflation, an indicator of general interest rate trends;
- § Persistent high unemployment, shrinking unemployment benefits and weak job creation;
- § Continued slow and unpredictable U.S. housing market; and
- § Historically low consumer confidence as the Consumer Confidence Index fell during 2011 to a level not seen since April 2009 when the U.S. was still officially in recession, reflecting the lowest percentile since the inception of the index.

The Federal Reserve's projections for 2012 announced in the fourth quarter of 2011 reflect weak growth and a slowing economic recovery. In the face of these economic challenges, we continue to focus on building our businesses through these difficult markets and beyond by developing and introducing high quality products, expanding distribution into 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.

#### Significant Operational Matters

##### Interest Rate Risk on Fixed Insurance Businesses

Because the profitability of our fixed annuity, UL, VUL and defined contribution 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 our fixed annuities, UL and VUL, have interest rate guarantees that expose us to the risk that changes in interest rates or prolonged low interest rates will reduce our spread, or the difference between the interest that we are required to credit to contracts and the yields that we are able to earn on our general account investments supporting our obligations under the contracts. Although we have been proactive in our investment strategies, product designs, crediting rate strategies and overall asset-liability practices to mitigate the risk of unfavorable consequences in this type of environment, 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 an adverse effect on some of our businesses or results of operations.

Given the level of interest rates as of the end of 2011, we have provided disclosures around the effects of sustained low interest rates in "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals."

### Earnings from Account Values

The Annuities and Retirement Plan Services segments are the most sensitive to the equity markets, as well as, to a lesser extent, our Life Insurance segment. We discuss the earnings effect of the equity markets on account values and the related asset-based earnings below in “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Effect of Equity Market Sensitivity.” From December 31, 2010, to December 31, 2011, our account values were up \$2.7 billion driven primarily by positive net flows during 2011.

### Variable Annuity Hedge Program Performance

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 guaranteed living benefit (“GLB”) embedded derivatives 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 embedded derivative reserves. These results are excluded from the Annuities and Retirement Plan Services segments’ operating revenues and income from operations. See “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” below for information on our methodology for calculating the non-performance risk (“NPR”), which affects the discount rate used in the calculation of the GLB embedded derivative reserves.

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 the income statement effect in the opposite direction of the guaranteed death benefit (“GDB”) benefit ratio unlocking for movements in equity markets. These results are excluded from income (loss) from operations.

The costs of derivative instruments that we use to hedge these variable annuity products may increase as a result of the low interest rate environment.

The variable annuity hedge program ended 2011 with assets of \$2.9 billion, which were in excess of the estimated liability of \$2.6 billion as of December 31, 2011.

### Credit Losses, Impairments and Unrealized Losses

Related to our investments in fixed income and equity securities, we experienced net realized losses that reduced net income by \$76 million for 2011 and included credit-related write-downs of securities for other-than-temporary impairments (“OTTI”) of \$77 million. Although economic conditions have improved, we expect a continuation of some level of OTTI. If we were to experience another period of weakness in the economic environment, it could lead to increased credit defaults, resulting in additional write-downs of securities for OTTI.

Declines in overall market yields driven by improved credit fundamentals resulted in a \$304 million decrease in gross unrealized losses on the available-for-sale (“AFS”) fixed maturity securities in our general account as of December 31, 2011.

### Improvement of Return on Equity

One of our highest priorities continues to be increasing our return on equity (“ROE”). Growth in ROE will be driven by a number of items including:

- Earnings mix shift to businesses with higher returns;
- Sales of products that have higher returns than the products already in force; and
- Capital management actions consisting of redeployment of excess capital (including returning capital to common stockholders) and further generation of excess capital.

### Strategic Investments

We continue to make strategic investments in our businesses to grow revenues, further spur productivity and improve our efficiency and service to our customers. These efforts include investments in technology and system upgrades,

new products for the voluntary market and expanded distribution focus.

#### 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 effect 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 our overall life insurer investment portfolio yields. Equity market performance can also affect 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 group 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.

### 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. 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. Regulators may refine capital requirements and introduce new reserving standards for the life insurance industry. Regulations recently adopted or currently under review, such as the Dodd-Frank Act, can potentially affect the capital requirements of the industry and result in increased regulation and oversight for the industry. In addition, changes in GAAP, including future convergence with IFRS, as well as the methodologies, estimations and assumptions thereunder, may result in unanticipated changes to our net income. See "Part I – Item 1. Business – Regulatory" for a discussion of the potential effects of regulatory changes on our industry.

### Issues and Outlook

Going into 2012, significant issues include:

- Continuation of the low interest rate environment in comparison to historical periods;
-



Planned reductions in sales levels, especially in our UL products with secondary guarantees, due to economic factors; and

- Increased actions by government and regulatory authorities to introduce regulations or change existing regulations or guidance in a manner that could have a significant effect on our capital, earnings and/or business models, such as changing long-standing reserving methods for products with guarantee features.

In the face of these issues and potential issues, we expect to focus on the following:

- Closely monitoring our capital and liquidity positions taking into account the uncertain economic recovery and changing statutory accounting and reserving practices;
- Continuing to explore additional financing strategies addressing the statutory reserve strain related to our secondary guarantee UL products in order to manage our capital position effectively;
- Taking actions to manage the risk of a continuation of lower interest rates, including re-pricing our products;
- Closely monitoring ongoing activities in the legal and regulatory environment and taking an active role in the legislative and/or regulatory process;
- Continuing to make investments in our businesses to grow revenues and further spur productivity;

- Shifting focus toward other life insurance products, such as indexed UL and linked-benefit rider products, that have greater market acceptance in the current environment; and
- Managing our expenses aggressively through process improvement initiatives combined with continued financial discipline and execution excellence throughout our operations.

For additional factors that could cause actual results to differ materially from those set forth in this section, see “Part I – 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 critical 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 affect the Annuities, Retirement Plan Services, Life Insurance and Group Protection segments.

#### Deferrals

Qualifying deferrable acquisition expenses are recorded as an asset on our Consolidated Balance Sheets as DAC for products we sold during a period or VOBA for books of business we acquired during a period. In addition, we defer costs associated with DSI and revenues associated with DFEL. DSI increases interest credited and reduces income when amortized. DFEL is a liability included within other contract holder funds on our Consolidated Balance Sheets, and when amortized, increases insurance fees on our Consolidated Statements of Income (Loss).

Our DAC, VOBA, DSI and DFEL balances (in millions) by business segment as of December 31, 2011, were as follows:

	Retirement				
	Plan	Life	Group		
	Annuities	Services	Insurance	Protection	Total
DAC and VOBA					
Gross	\$ 2,941	\$ 526	\$ 7,227	\$ 195	\$ 10,889
Unrealized (gain) loss	(623)	(195)	(1,880)	-	(2,698)
Carrying value	\$ 2,318	\$ 331	\$ 5,347	\$ 195	\$ 8,191
DSI					
Gross	\$ 322	\$ 3	\$ -	\$ -	\$ 325
Unrealized (gain) loss	(53)	(1)	-	-	(54)
Carrying value	\$ 269	\$ 2	\$ -	\$ -	\$ 271

DFEL				
Gross	\$ 268	\$ -	\$ 1,810	\$ - 2,078
Unrealized (gain) loss	(5)	-	(704)	- (709)
Carrying value	\$ 263	\$ -	\$ 1,106	\$ - 1,369

AFS securities and certain derivatives are stated at fair value with unrealized gains and losses included within accumulated other comprehensive income (loss), net of associated DAC, VOBA, DSI, other contract holder funds and deferred income taxes. The unrealized balances in the table above represent the DAC, VOBA, DSI and DFEL balances for these effects of unrealized gains and losses on AFS securities and certain derivatives as of the end-of-period.

## New DAC Methodology

In October 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (referred to herein as the “new DAC methodology”), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. This determination of deferability must be made on a contract-level basis. This new DAC methodology contrasts to the existing guidance we follow that defines deferrable acquisition costs as costs that vary with and are related primarily to new or renewal business, regardless of whether the acquisition efforts were successful or unsuccessful.

Some examples of acquisition costs that remain subject to deferral as part of the new DAC methodology include the following:

- Employee, agent or broker commissions for successful contract acquisitions;
- Wholesaler production bonuses for successful contract acquisitions;
- Renewal commissions and bonuses to agents or brokers;
- Medical and inspection fees for successful contract acquisitions;
- Premium-related taxes and assessments; and
- A portion of the salaries and benefits of certain employees involved in the underwriting, contract issuance and processing, medical and inspection and sales force contract selling functions related to the successful issuance or renewal of an insurance contract.

All other acquisition-related costs, including costs incurred by the insurer for soliciting potential customers, market research, training, administration, management of distribution and underwriting functions, unsuccessful acquisition or renewal efforts and product development, are considered non-deferrable acquisition costs and must be expensed in the period incurred.

In addition, the following indirect costs are considered non-deferrable acquisition costs as part of the new DAC methodology and must be charged to expense in the period incurred:

- Administrative costs;
- Rent;
- Depreciation;
- Occupancy costs;
- Equipment costs (including data processing equipment dedicated to acquiring insurance contracts); and
- Other general overhead.

We will adopt the new DAC methodology effective January 1, 2012, and have elected to apply the guidance retrospectively. We expect that our adoption of the new DAC methodology will result in an overall reduction in deferrable acquisition costs, partially offset by lower DAC amortization, in each of our business segments. We currently estimate that retrospective adoption will result in the restatement of all years presented with a cumulative effect adjustment to the opening balance of retained earnings for the earliest period presented of approximately \$950 million to \$1.15 billion. In addition, the adoption of this accounting guidance will result in a lower DAC adjustment associated with unrealized gains and losses on AFS securities and certain derivatives; therefore, we will also adjust these DAC balances through a cumulative effect adjustment to the opening balance of accumulated other comprehensive income (loss) (“AOCI”). This adjustment is dependent on our unrealized position as of the date of adoption. We believe that the total of our segment results would have declined by approximately 5% to 7% for 2011 had we applied the provisions of the new DAC methodology during 2011. This decline would not have been uniform across our segments as the effect on the Life Insurance segment would have been greater due to its products having

longer contract lives and its more significant VOBA balance that is not affected by the new methodology. This estimate does not include changes that management may make to mitigate the effects of this new DAC methodology.

#### Amortization

Deferrable acquisition costs for variable annuity and deferred fixed annuity contracts and UL and VUL policies are amortized over the lives of the contracts in relation to the incidence of estimated gross profits (“EGPs”) derived from the contracts. Broker commissions or broker-dealer expenses, which vary with and are related to sales of mutual fund products, respectively, are expensed as incurred. For our traditional products, we amortized deferrable acquisition costs either on a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

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.

We amortize DAC, VOBA, DSI and DFEL in proportion to our EGPs for interest-sensitive products. When actual gross profits are higher in the period than EGPs, we recognize more amortization than planned. When actual gross profits are lower in the period than EGPs, we recognize less amortization than planned. In a calendar year where the gross profits for a certain group of policies, or “cohorts,” are negative, our actuarial process limits, or floors, the amortization expense offset to zero.

For a discussion of the periods over which we amortize our DAC, VOBA, DSI and DFEL see “DAC, VOBA, DSI and DFEL” in Note 1.

### Unlocking

As discussed and defined in “DAC, VOBA, DSI and DFEL” in Note 1, we may record retrospective unlocking, prospective unlocking – assumption changes and prospective unlocking – model refinements on a quarterly basis that result in increases or decreases to the carrying values of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees. The primary distinction between retrospective and prospective unlocking is that retrospective unlocking is driven by the difference between actual gross profits compared to EGPs each period, while prospective unlocking is driven by changes in assumptions or projection models related to our expectations of future EGPs.

For illustrative purposes, the following presents the hypothetical effects to EGPs and DAC (1) amortization attributable to changes in assumptions from those our model projections assume (i.e., prospective unlocking), assuming all other factors remain constant:

Actual Experience Differs From Those Our Model Projections Assume	Hypothetical Effect to Net Income for EGPs	Hypothetical Effect to Net Income for DAC (1) Amortization	Description of Expected Effect
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 DAC, VOBA, DSI and DFEL and changes in future contract benefits.

Details underlying the effect to income (loss) from continuing operations from prospective unlocking (in millions) were as follows:

	Assumption Changes For the Years Ended December 31,			Model Refinements For the Years Ended December 31,		
	2011	2010	2009	2011	2010	2009
Income (loss) from operations:						
Annuities	\$ (17)	\$ 27	\$ (9)	\$ -	\$ (6)	\$ -
Retirement Plan Services	-	10	5	(2)	(5)	-
Life Insurance	26	(101)	(7)	25	18	-
Excluded realized gain (loss)	(72)	18	(151)	-	-	(6)
Income (loss) from continuing operations	\$ (63)	\$ (46)	\$ (162)	\$ 23	\$ 7	\$ (6)

Our prospective unlocking – assumption changes were attributable primarily to the following:

#### 2011

- For Annuities, we lowered our long-term equity market growth rate and interest margin assumptions, partially offset by lowering our lapse assumptions;
- For Life Insurance, we updated our crediting rate assumptions to reflect actions implemented to reduce interest crediting rates; and
- For excluded realized gain (loss), we increased our lapse assumptions, partially offset by lowering our assumptions for long-term volatility.

#### 2010

- For Annuities, we included an estimate in our models for rider fees related to our annuity products with living benefit guarantees and lowered our lapse assumptions, partially offset by completing the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business (see more discussion below);
- For Retirement Plan Services, we completed the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business (see more discussion below);
- For Life Insurance, we lowered our new money investment yield assumption to reflect the then current new money rates and to approximate the forward curve for interest rates relevant at such time, as this effect alone represented \$114 million unfavorable unlocking; and
- For excluded realized gain (loss), we lowered our lapse assumptions, which was significantly offset by shifting the mapping of approximately 5% of variable annuity account values to blended equity and fixed maturity hedging indices, whereas previously we had been mapped almost exclusively to equity.

During 2010, we completed the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business for our Annuities and Retirement Plan Services segments. This conversion harmonized assumptions, methods of calculations and processes and upgraded a critical platform for our financial reporting and analysis capabilities for these blocks of business. We recorded unfavorable prospective unlocking for Annuities and favorable prospective unlocking for Retirement Plan Services as a result of the planned conversion. We are in the process of completing a similar conversion for Life Insurance and also have other blocks of business in Annuities that we intend to convert. Although we expect some differences to emerge as a result of this exercise, based upon the current status of these efforts, we are not able to provide an estimate or range of the effects to our results of operations until completion of the conversion.



2009

- For Annuities, we increased our assumptions related to maintenance expenses, partially offset by increasing our assumptions for expense assessments and modifying the valuation of variable annuity products that have elements of both benefit reserves and embedded derivative reserves;
- For Retirement Plan Services, we modified our assumptions related to compensation in our wholesaling distribution organization that lowered deferrals as a percentage of total expenses incurred and revised our assumptions related to maintenance expenses;
- For Life Insurance, we lowered our investment margin assumptions and increased our expense, death claim and lapse assumptions; and

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- For excluded realized gain (loss), we modified the valuation of variable annuity products that have elements of both benefit reserves and embedded derivative reserves, and we revised our fund assumptions related to hedged indices.

Details underlying the effect to income (loss) from continuing operations from retrospective unlocking (in millions) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Income (loss) from operations:			
Annuities	\$ 104	\$ 81	\$ 29
Retirement Plan Services	10	(3)	(1)
Life Insurance	(10)	(3)	(18)
Benefit ratio unlocking	(14)	10	89
Income (loss) from continuing operations	\$ 90	\$ 85	\$ 99

Our retrospective unlocking was attributable primarily to the following:

#### 2011

- For Annuities, we experienced higher average equity markets and prepayment and bond makewhole premiums and lower lapses than our model projections assumed;
- For Retirement Plan Services, we experienced lower lapses and higher average equity markets than our model projections assumed;
- For Life Insurance, we received lower premiums and experienced higher death claims than our model projections assumed; and
- For benefit ratio unlocking, the period to period equity markets were less favorable than our model projections assumed.

#### 2010

- For Annuities, we experienced higher average equity markets and expense assessments and lower lapses than our model projections assumed;
- For Retirement Plan Services, we experienced higher lapses, partially offset by higher average equity markets, than our model projections assumed;
- For Life Insurance, we received lower premiums and experienced higher death claims, partially offset by lower lapses and expenses, than our model projections assumed; and
- For benefit ratio unlocking, the period to period equity markets were more favorable than our model projections assumed.

#### 2009

- For Annuities, we experienced lower lapses and higher average equity markets than our model projections assumed;
- For Retirement Plan Services, we experienced higher lapses and maintenance expenses and lower average equity markets than our model projections assumed;
- For Life Insurance, we received lower premiums and experienced lower investment income on alternative investments and prepayment and bond makewhole premiums, partially offset by lower death claims and lapses, than our model projections assumed; and

- For benefit ratio unlocking, the period to period equity markets were more favorable than our model projections assumed.

#### Reversion to the Mean (“RTM”)

Because equity market movements have a significant effect on the value of variable annuity and VUL 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 effect on DAC, VOBA, DSI and DFEL amortization for our variable annuity, annuity-based 401(k) and VUL businesses.

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 RTM process. Under our 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) and VUL blocks of business. Because future equity market returns are unpredictable, the underlying premise of this process is that best estimate projections of future EGPs 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 re-projected 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 rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, is an immediate drop of approximately 8% followed by growth going forward of 8% to 9% depending on the block of business and reflecting differences in contract holder fund allocations between fixed income and equity-type investments. If we were to have unlocked our RTM assumption in the corridor as of December 31, 2011, we would have recorded a favorable prospective unlocking of approximately \$175 million, pre-tax, for Annuities, approximately \$20 million, pre-tax, for Retirement Plan Services, and approximately \$15 million, pre-tax, for Life Insurance.

#### Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized, but are subject to impairment tests conducted at least annually as of October 1. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. We are required to perform a two-step test in our evaluation of the carrying value of goodwill for each of our reporting units, and the results of one test on one reporting unit cannot subsidize the results of another reporting unit. 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 of the reporting unit is deemed to be recoverable, 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. In Step 2, the implied fair value of goodwill is

determined for each reporting unit. The reporting unit's fair value as determined in Step 1 is assigned to all of its net assets (recognized and unrecognized) as if the reporting unit were acquired in a business combination as of 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.

The fair values of our insurance and annuities businesses are comprised of two components: the value of new business and the value of in-force business. Factors could cause us to believe our estimated fair value of the total business may be lower than the carrying value and trigger a Step 1 test, but may not require a Step 2 test if the fair value of the reporting unit is greater than its carrying value. We may also conduct a Step 2 test, but it may not result in goodwill impairment because the implied fair value of goodwill may exceed our carrying amount of goodwill. The value of our goodwill asset is supported by our value of new business, which is not affected by the same factors as our value of in-force business.

The implied fair value of goodwill is most sensitive to new business production levels, profitability and discount rates. Factors that could affect production levels and profitability include mix of new business, pricing changes, customer acceptance of our products and distribution strength. Recent declines in interest rates have applied downward pressure to the interest rate inputs used in the discount rate calculation. Spread compression and related effects to profitability caused by lower interest rates affect the valuation

of in-force business much more significantly than the valuation of new business. The effect of interest rate movements on the value of new business is primarily related to the discount rate. However, current market conditions have led to re-pricing actions in the life insurance industry creating additional uncertainty around future sales returns and levels, which we believe has resulted in an increase in the discount rate a market participant would assume for new business in our Life Insurance segment.

Refer to Note 10 of our consolidated financial statements for goodwill and specifically identifiable intangible assets by segment as well as the results of our recoverability analysis for the years ended December 31, 2010 and 2009. All the discussion that follows represents our analysis as of October 1, 2011.

We performed a Step 1 analysis on all of our reporting units including: Annuities, Retirement Plan Services, Life Insurance, Group Protection and Media. Our Annuities, Retirement Plan Services and Group Protection reporting units passed the Step 1 analysis, and although the carrying value of the net assets for Group Protection was within the estimated fair value range, we deemed it prudent to validate the carrying value of goodwill through a Step 2 analysis. Given the Step 1 results, we also performed a Step 2 analysis for our Life Insurance and Media reporting units.

#### Step 1 Results and Information for our Annuities and Retirement Plan Services Reporting Units

For Annuities and Retirement Plan Services, we estimated the fair values of the reporting units based on a discounted cash flow valuation technique (“income approach”) similar to that of our Life Insurance and Group Protection reporting units discussed below. We also updated our estimates of discount rates based upon current market observable inputs. We used discount rates ranging from 12.0% to 13.0% for both Annuities and Retirement Plan Services based upon the weighted average cost of capital adjusted for risks associated with the operations.

Based upon our Step 1 analysis for Annuities and Retirement Plan Services, our estimated implied fair value was well in excess of each reporting unit’s carrying value of net assets, including goodwill.

#### Step 2 Results and Information for our Life Insurance, Group Protection and Media Reporting Units

In our Step 2 analyses of Life Insurance, Group Protection and Media, we estimated the implied fair value of goodwill for each reporting unit primarily through an income approach, although limited available market data was also considered. In determining the estimated implied fair value of goodwill for these reporting units, we considered discounted cash flow calculations and assumptions that market participants would make in valuing the new business of these reporting units. These analyses required us to make judgments about new business revenues, earnings projections, capital market assumptions and discount rates.

The key assumptions used in the analyses to determine the implied fair value of goodwill for the Life Insurance and Group Protection reporting units included:

- New business for 10 years;
- Expense synergies assumption that would be expected to be realized in a market-participant transaction similar to prior market observable transactions and our prior experience; and
- Interest rates used to discount new business cash flows; we considered discount rates ranging from 9.0% to 10.5% for our Life Insurance reporting unit and from 9.0% to 10.0% for our Group Protection reporting unit based on the weighted average cost of capital adjusted for the risk factors associated with the operations.

Based upon our Step 2 analysis for Life Insurance, we recorded a goodwill impairment of \$650 million that was attributable primarily to marketplace dynamics, including product changes that we have implemented or will

implement shortly that we believe will have an unfavorable effect on our sales levels for a period of time. We believe the assumptions used in our estimates of the implied fair value of our goodwill are reasonable.

Based upon our Step 2 analysis for Group Protection, we determined that there was no impairment.

The key assumptions used in the analysis to determine the fair value of the Media reporting unit included:

- Broadcast cash flows for 10 years and a terminal value in year 11; and
- Interest rates used to discount broadcast cash flows; we considered discount rates ranging from 12.0% to 14.0% that were based on the weighted average cost of capital adjusted for the risk factors associated with the operations.

Based upon our Step 2 analysis for Media, we recorded a goodwill impairment of \$97 million, which represented the entire remaining balance of goodwill for this reporting unit. The goodwill impairment was primarily a result of the deterioration in operating environment and outlook for the business.

## Control Premium Information and Outlook

We believe that our stock price has been unfavorably affected by macroeconomic events and concerns about the economic recovery as discussed above in “Current Market Conditions.” Our stock price has experienced increased volatility and continues to be lower than our book value. We believe that our stock price is not representative of the underlying fair value of our reporting units.

In addition, as discussed above in “New DAC Methodology,” we currently estimate that retrospective adoption will result in lower carrying values for our Annuities, Retirement Plan Services, Life Insurance and Group Protection reporting units by approximately \$950 million to \$1.15 billion, which will provide a favorable change in next year’s Step 1 evaluation.

Because our stock is trading at a price below book value, we are required to evaluate and reassess each reporting period whether or not there is an indicator that would require us to perform an impairment test. Factors that can influence the value of goodwill include the capital markets, competitive landscape, regulatory environment, consumer confidence and any items that can directly or indirectly affect new business future cash flows. For example, unfavorable changes to assumptions as compared to our October 1, 2011, analysis or factors that could result in impairment include, but are not limited to, the following:

- Lower expectations for future sales levels or future sales profitability;
- Higher discount rates on new business assumptions;
- Weakened expectations for the ability to execute future reinsurance transactions for life insurance business over the long-term or expectations for significant increases in the associated costs.
- Legislative, regulatory or tax changes that affect the cost of, or demand for, our subsidiaries’ products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements or changes to risk-based capital (“RBC”) requirements; and
- 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 regarding the estimated fair value of our reporting units.

## Investments

Invested assets are an integral part of our operations, and we invest in fixed maturity and equity securities that are primarily classified as available-for-sale and carried at fair value with the difference from amortized cost included in stockholders’ equity as a component of AOCI. See “Consolidated Investments” below for more information.

## Investment Valuation

Our measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which would include our own credit risk. Our estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability (“exit price”) in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability (“entry price”). Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification™ (“ASC”), we categorize our financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined in Note 1.





The following summarizes our AFS and trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions):

	As of December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Priced by third party pricing services	\$ 700	\$ 67,361	\$ -	\$ 68,061
Priced by independent broker quotations	-	-	3,058	3,058
Priced by matrices	-	9,063	-	9,063
Priced by other methods (1)	-	-	1,916	1,916
Total	\$ 700	\$ 76,424	\$ 4,974	\$ 82,098
Percent of total	1%	93%	6%	100%

(1) Represents primarily securities for which pricing models were used to compute fair value.

For the categories and associated fair value of our AFS fixed maturity securities classified within Level 3 of the fair value hierarchy as of December 31, 2011 and 2010, see Notes 1 and 21.

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 considered in the valuation of our investment securities as we incorporate the issuer's credit rating and a risk premium, if warranted, given 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. We use an internationally recognized pricing service as our primary pricing source, and we do not adjust prices received from third parties or obtain multiple prices when measuring the fair value of our investments. We generally use prices from the pricing service rather than broker quotes because we have documentation from the pricing service on the observable market inputs they use, which contrasts to the broker quotes where we have limited information on the pricing inputs. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For private placement securities, we use pricing matrices that utilize observable pricing inputs of similar public securities and Treasury yields as inputs to the fair value measurement. It is possible that different valuation techniques and models, other than those described above, could produce materially different estimates of fair value.

When the volume and level of activity for an asset or liability has significantly decreased in relation to normal market activity for the asset or liability, we believe that the market is not active as indicated by the following:

- Few recent transactions based on volume and level of activity in the market; therefore, there is not sufficient frequency and volume to provide pricing information on an ongoing basis;
- Price quotations are not based on current information;
- Price quotations vary substantially either over time or among market makers;
-

Indexes that previously were highly correlated with the fair values of the asset are demonstrably uncorrelated with recent fair values;

- Abnormal, or significant increases in, liquidity risk premiums or implied yields for quoted prices when compared with reasonable estimates using realistic assumptions of credit and other nonperformance risk for the asset class;
- Abnormally wide bid-ask spread or significant increases in the bid-ask spread; and
- Limited public information available.

After evaluating all factors and considering the significance and relevance of each factor, we evaluate whether there has been a significant decrease in the volume and level of activity for the asset when the market for that asset is not active. As of December 31, 2011, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions.

We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of deposit and collateralized debt obligations (“CDOs”) when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are generally classified as Level 3 of the fair value hierarchy. As of December 31, 2011, we used broker quotes for 77 securities as our final price source, representing approximately 2% of total securities owned.

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 and observations of general market movements for those security classes. Our primary third-party pricing service has policies and processes to ensure that it is using objectively verifiable observable market data. The pricing service regularly reviews the evaluation inputs for securities covered, including broker quotes, executed trades and credit information, as applicable. If the pricing service determines it does not have sufficient objectively verifiable information about a security’s valuation, it discontinues providing a valuation for the security. The pricing service regularly publishes and updates a summary of inputs used in its valuations by major security type. In addition, we have policies and procedures in place to review the process that is utilized by the third-party pricing service and the output that is provided to us by the pricing service. On a periodic basis, we test the pricing for a sample of securities to evaluate the inputs and assumptions used by the pricing service, and we perform a comparison of the pricing service output to an alternative pricing source. In addition, we check prices provided by our primary pricing service to ensure that they are not stale or unreasonable by reviewing the prices for unusual changes from period to period based on certain parameters or for lack of change from one period to the next. If such anomalies in the pricing are observed, we may use pricing information from another pricing source.

#### Valuation of Alternative Investments

Recognition of investment income on alternative investments is delayed due to the availability of the related financial statements, which are generally obtained from the partnerships’ general partners, as our venture capital, real estate and oil and gas portfolios are generally reported to us on a three-month delay, and our hedge funds are reported to us on a one-month delay. In addition, the effect of audit adjustments related to completion of calendar-year financial statement audits of the investees are typically received during the first or second quarter of each calendar year. Accordingly, our investment income from alternative investments for any calendar year period may not include the complete effect of the change in the underlying net assets for the partnership for that calendar year period.

Annually, typically during the first or second quarter, we obtain audited financial statements for our alternative investment partnerships for the preceding calendar year and recognize adjustments to the extent that the audited equity of the investee differs from the equity used for reporting in prior quarters. Recorded audit adjustments affect our investment income on alternative investments in the period that the adjustments are recorded.

#### Write-downs for OTTI and Allowance for Losses

We regularly review our AFS securities for declines in fair value that we determine to be other-than-temporary. For additional details, see “Consolidated Investments” below and Notes 1, 2 and 5.

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 OTTI of the security. In addition, we review for other indicators of impairment as required by the Investments – Debt and Equity Securities Topic of the FASB ASC.

Based on our evaluation of securities with an unrealized loss as of December 31, 2011, we do not believe that any additional OTTI, other than those already reflected in the financial statements, are necessary. As of December 31, 2011, there were AFS securities with gross unrealized losses totaling \$1.1 billion, pre-tax, and prior to the effect of DAC, VOBA, DSI and other contract holder funds.

As the discussion in Notes 1, 2 and 5 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 affect 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 emphasis include properties that have deteriorating credits or have experienced debt-service coverage and/or loan-to-value reduction. Where warranted, we have established or increased loss reserves based upon this analysis.

#### Derivatives

We use derivative instruments to manage a variety of equity market and interest rate risks that are inherent in many of our life insurance and annuity products. 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, 2011, contain industry standard terms. Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk,” Note 1 and Note 6.

We measure our derivative instruments at fair value, which fluctuates from period to period due to the volatility of the inputs some of which are significantly affected by economic conditions. The effect 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. Subsequent to the adoption of the Fair Value Measurements and Disclosures Topic of the FASB ASC, 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.

Our future contract benefits (embedded derivatives) carried at fair value on a recurring basis are all classified as Level 3.

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 2011, there was a significant increase in future contract benefits classified as Level 3 of the fair value hierarchy due primarily to lower equity markets and increased volatility as compared to 2010. For more information, see Notes 1 and 21.

#### 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 guaranteed withdrawal benefit (“GWB”) feature and our i4LIFE® Advantage and 4LATER® Advantage guaranteed income benefit (“GIB”) features that are available in our variable annuity products. We have certain GLB variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB, 4LATER® and Lincoln Lifetime IncomeSMA Advantage features, have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC (“benefit reserves”) and embedded derivative reserves. We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. 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 GLB embedded derivative reserves. 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. See “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” for information on how we determine our NPR.

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, these positions may not completely offset changes in the fair value embedded derivative reserve 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.

Approximately 48% of our variable annuity account values contained a GWB rider as of December 31, 2011. 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, 2011 and 2010, 80% and 35% respectively, of all GWB in-force contracts were “in the money,” and our exposure to the guaranteed amounts, after reinsurance, as of December 31, 2011 and 2010, was \$2.5 billion and \$1.1 billion, respectively. Our exposure before reinsurance for these same periods was \$2.7 billion and \$1.2 billion, 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 per year of the guaranteed amount. 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 \$2.5 billion, net of reinsurance. 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. The market-consistent scenarios used in the determination of the fair value of the GWB liabilities are similar to those used by an investment bank to value derivatives for which the pricing is not transparent and the aftermarket is nonexistent or illiquid. In our calculation, risk-neutral Monte Carlo simulations resulting in over 35 million scenarios are utilized to value the entire block of guarantees. The market-consistent scenario assumptions, at each valuation date, are those we view to be appropriate for a hypothetical market participant. The market consistent inputs include assumptions for the capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.), policyholder behavior (e.g., policy lapse, benefit utilization, mortality, etc.), risk margins, administrative expenses and a margin for profit. 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.

For information on our variable annuity hedge program performance, see our discussion in “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” below.





The following table presents our estimates of the potential instantaneous effect to 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 effects do not include any estimate of retrospective or prospective unlocking that could occur, nor do they estimate any change in the NPR component of the GLB reserve or any estimate of effects to our GLB benefit ratio unlocking. These estimates are based upon the recorded reserves as of December 30, 2011, and the related hedge instruments in place as of that date. The effects presented in the table 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 Hypothetical effect to net income	\$ (60)	\$ (16)	\$ (4)	\$ (3)
			+25	+50
Interest Rates Hypothetical effect to net income	\$ (14)	\$ (4)	\$ (1)	\$ (6)
			-50 bps	-25 bps
Implied Volatilities Hypothetical effect to net income	\$ 16	\$ 8	\$ (9)	\$ (18)
			2%	4%

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 Effect to Net Income
	Equity Market Return	Interest Rate Yields	Market Implied Volatilities	
Scenario 1	-5%	-12.5 bps	+1%	\$ (11)
Scenario 2	-10%	-25.0 bps	+2%	(36)
Scenario 3	-20%	-50.0 bps	+4%	(130)

The actual effects of the results illustrated in the two tables above could vary significantly 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 December 30, 2011, 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;
- The analysis assumes constant exchange rates and implied dividend yields;
-

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 GLB reserves and the instruments utilized to hedge these exposures.

#### Standard & Poor's ("S&P") 500 Index® ("S&P 500") Benefits

Our indexed annuity and indexed UL 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 S&P 500 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 (Loss). The Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC require 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 (Loss). For information on our S&P 500 benefits hedging results, see our discussion in “Realized Gain (Loss) and Benefit Ratio Unlocking” 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 exactly offset each other.

For information on our variable annuity hedge program performance, see our discussion in “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” below.

#### UL Products with Secondary Guarantees

We issue UL contracts where we contractually guarantee to the contract holder a secondary guarantee. The policy can remain in force, even if the base policy account value is zero, as long as contractual secondary guarantee requirements have been met. The reserves related to UL products with secondary guarantees are based on the application of a benefit ratio the same as our GDB features, which are discussed above. 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 contracts. For more discussion, see “Results of Life Insurance.”

#### 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 13 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 affected, which could have a material effect on our consolidated results of operations in a particular quarterly or annual period. See Note 19 for more information on our stock-based incentive compensation plans.

#### 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. Legislative changes to the Internal Revenue Code of 1986, as amended, modification or new regulations, administrative rulings, or court decisions could increase our effective tax rate.

The application of GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce our deferred tax asset to an amount that is more likely than not to be realizable. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including: the nature and character of the deferred tax assets and liabilities; taxable income in prior carryback years; future reversals of existing temporary differences; the length of time carryovers can be utilized; and any tax planning strategies we would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, including our capital loss deferred tax asset, will be realized. For additional information on our income taxes, see Note 7.

#### Acquisitions and Dispositions

For information about acquisitions and divestitures, see Note 3.

## RESULTS OF CONSOLIDATED OPERATIONS

Details underlying the consolidated results, deposits, net flows and account values (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Net Income (Loss)					
Income (loss) from operations:					
Annuities	\$ 592	\$ 484	\$ 353	22 %	37 %
Retirement Plan Services	167	154	133	8 %	16 %
Life Insurance	604	513	569	18 %	-10 %
Group Protection	101	72	124	40 %	-42 %
Other Operations	(146)	(186)	(237)	22 %	22 %
Excluded realized gain (loss), after-tax	(252)	(95 )	(780)	NM	88 %
Gain (loss) on early extinguishment of debt, after-tax	(5 )	(3 )	42	-67 %	NM
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	2	2	2	0 %	0 %
Impairment of intangibles, after-tax	(747)	-	(710)	NM	100 %
Benefit ratio unlocking, after-tax	(14 )	10	89	NM	-89 %
Income (loss) from continuing operations, after-tax	302	951	(415)	-68 %	NM
Income (loss) from discontinued operations, after-tax	(8 )	29	(70 )	NM	141 %
Net income (loss)	\$ 294	\$ 980	\$ (485)	-70 %	NM

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Deposits					
Annuities	\$ 10,650	\$ 10,667	\$ 10,362	0 %	3 %
Retirement Plan Services	5,566	5,301	4,952	5 %	7 %
Life Insurance	5,393	4,934	4,451	9 %	11 %
Total deposits	\$ 21,609	\$ 20,902	\$ 19,765	3 %	6 %
Net Flows					
Annuities	\$ 2,191	\$ 3,555	\$ 3,893	-38 %	-9 %
Retirement Plan Services	504	(291 )	995	273 %	NM
Life Insurance	3,683	3,057	2,421	20 %	26 %
Total net flows	\$ 6,378	\$ 6,321	\$ 7,309	1 %	-14 %

	As of December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Account Values					
Annuities	\$ 85,534	\$ 84,848	\$ 74,281	1 %	14 %
Retirement Plan Services	39,133	38,824	35,302	1 %	10 %
Life Insurance	35,278	33,585	31,744	5 %	6 %
Total account values	\$ 159,945	\$ 157,257	\$ 141,327	2 %	11 %





### Comparison of 2011 to 2010

Net income decreased due primarily to goodwill impairment in our Life Insurance segment and media business during 2011 (see “Critical Accounting Policies and Estimates – Goodwill and Other Intangible Assets” for more information).

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

- Positive net flows and more favorable average equity markets driving higher average daily variable account values;
- Growth in business and interest crediting rate actions driving higher net investment income and flat interest credited, partially offset by new money rates averaging below portfolio yields;
- Higher legal expenses during 2010; and
- Higher EGPs on rider fees related to our products with living benefit guarantees resulting in a lower DAC, VOBA, DSI and DFEL amortization rate.

### Comparison of 2010 to 2009

Net income increased due primarily to the following:

- Market volatility, the corresponding increase in discount rates and lower annuity sales leading to goodwill impairment in our Annuities segment during 2009; and declining results and forecasted advertising revenues for the entire radio market leading to goodwill and Federal Communications Commission licenses impairment related to our radio clusters during 2009;
- Volatile capital markets during 2009 leading to realized losses;
- Positive net flows and more favorable average equity markets driving higher average daily variable account values;
- More favorable investment income on alternative investments and higher prepayment and bond makewhole premiums;
- The effect of unlocking during 2010 as compared to 2009;
- Income from discontinued operations during 2010 compared to loss from discontinued operations during 2009, both related to our former Lincoln UK and Investment Management segments; and
- Unfavorable adjustments during 2009 related to rescinding the reinsurance agreement on certain disability income business sold to Swiss Re Life & Health America, Inc. (“Swiss Re”).

The increase in net income was partially offset primarily by the following:

- Higher death claims in our Life Insurance segment, and unfavorable claims incidence and termination experience in the long-term disability product line in our Group Protection segment;
- Early extinguishing long-term debt resulting in a gain in 2009;
- Settlement of the Transamerica litigation matter during 2010; and
- Higher account values driving higher trail commissions.

## RESULTS OF ANNUITIES

## Income (Loss) from Operations

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance premiums (1)	\$ 74	\$ 53	\$ 89	40 %	-40 %
Insurance fees	1,247	1,098	841	14 %	31 %
Net investment income	1,106	1,119	1,037	-1 %	8 %
Operating realized gain (loss)	89	69	54	29 %	28 %
Other revenues and fees (2)	349	315	280	11 %	13 %
Total operating revenues	2,865	2,654	2,301	8 %	15 %
Operating Expenses					
Interest credited	698	726	682	-4 %	6 %
Benefits	213	174	242	22 %	-28 %
Underwriting, acquisition, insurance and other expenses	1,248	1,168	983	7 %	19 %
Total operating expenses	2,159	2,068	1,907	4 %	8 %
Income (loss) from operations before taxes	706	586	394	20 %	49 %
Federal income tax expense (benefit)	114	102	41	12 %	149 %
Income (loss) from operations	\$ 592	\$ 484	\$ 353	22 %	37 %

(1) Includes primarily our single-premium immediate annuities (“SPIA”), which have a corresponding offset in benefits for changes in reserves.

(2) Consists primarily of fees attributable to broker-dealer services that are subject to market volatility.

## Comparison of 2011 to 2010

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

- Higher insurance fees attributable to more favorable average equity markets driving higher average daily variable account values;
  - More favorable tax return true-ups recorded in 2011 than in 2010 driven by the separate account dividends-received deduction (“DRD”) and other items; and
  - Higher net investment income net of interest credited driven primarily by:
    - § Actions implemented to reduce interest crediting rates;
    - § The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
    - § Positive net flows and interest credited to contract holders driving higher average fixed account values; and
    - § An increase in surplus investments;
- partially offset by:
- § New money rates averaging below our portfolio yields; and
  - § Transfers from fixed to variable reducing average fixed account values; and
  - Higher insurance premiums due to growth in our SPIA business.

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

- Higher underwriting, acquisition, insurance and other expenses due to:
  - § Higher account values driving higher trail commissions; and
  - § Investments in strategic initiatives related to updating information technology and expanding distribution and support during 2011;partially offset by:
  - § Higher EGPs on rider fees related to our products with living benefit guarantees resulting in a lower amortization rate; and
  - § The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information); and

- Higher benefits attributable to:
  - § The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information); and
  - § Growth in our SPIA business;partially offset by:
  - § More favorable average equity markets that reduced our expected GDB benefit payments; and
  - § Favorable mortality experience on SPIA.

#### Comparison of 2010 to 2009

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

- Higher insurance fees attributable to more favorable average equity markets driving higher average daily variable account values;
- Higher net investment income, partially offset by higher interest credited, driven by:
  - § Positive net flows and interest credited to contract holders, partially offset by transfers from fixed to variable, driving higher average fixed account values;
  - § More favorable investment income on alternative investments within our surplus portfolio, and higher prepayment and bond makewhole premiums (see “Consolidated Investments – Alternative Investments” and “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and
  - § Holding less cash during 2010, and actions implemented to reduce interest crediting rates; and
- Lower benefits attributable primarily to more favorable average equity markets that reduced our expected GDB benefit payments.

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

- Higher underwriting, acquisition, insurance and other expenses due to:
  - § Negative gross profits in total for certain cohorts during 2009 resulting in a higher DAC and VOBA amortization rate during 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Amortization” for more information); and
  - § Higher account values driving higher trail commissions;partially offset by:
  - § The effect of unlocking in 2010 as compared to 2009 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information); and
- More favorable tax return true-ups recorded in 2009 than in 2010.

#### Additional Information

We are in the process of completing the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business. See “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information.

We expect to continue making strategic investments during 2012 that will result in higher expenses.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect 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 8%, 7% and 8% for 2011, 2010 and 2009, respectively.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, 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 “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates.”

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 (loss), see "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

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

### 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	
	2011	2010	2009	2011	2010
Insurance Fees					
Mortality, expense and other assessments	\$ 1,258	\$ 1,113	\$ 860	13 %	29 %
Surrender charges	34	37	36	-8 %	3 %
DFEL:					
Deferrals	(61 )	(75 )	(56 )	19 %	-34 %
Amortization, net of interest:					
Prospective unlocking - assumption changes	6	1	3	NM	-67 %
Retrospective unlocking	(11 )	(1 )	2	NM	NM
Amortization, net of interest, excluding unlocking	21	23	(4 )	-9 %	NM
Total insurance fees	\$ 1,247	\$ 1,098	\$ 841	14 %	31 %

	As of or for the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Account Value Information					
Variable annuity deposits, excluding the fixed portion of variable	\$ 5,871	\$ 5,099	\$ 4,007	15 %	27 %
Net flows for variable annuities, excluding the fixed portion of variable	(396 )	7	(27 )	NM	126 %
Change in market value on variable, excluding the fixed portion of variable	(2,296 )	6,087	11,995	NM	-49 %
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	2,844	3,396	2,475	-16 %	37 %
Average daily variable annuity account values, excluding the fixed portion of variable	66,007	58,188	46,551	13 %	25 %
Average daily S&P 500	1,268.03	1,138.78	947.53	11 %	20 %
Variable annuity account values, excluding the fixed portion of variable	65,010	64,858	55,368	0 %	17 %

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) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)” below for discussion of these attributed fees.

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	
	2011	2010	2009	2011	2010
<b>Net Investment Income</b>					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 975	\$ 1,002	\$ 955	-3 %	5 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	27	23	5	17 %	NM
Alternative investments (2)	1	1	-	0 %	NM
Surplus investments (3)	103	93	77	11 %	21 %
Total net investment income	\$ 1,106	\$ 1,119	\$ 1,037	-1 %	8 %
<b>Interest Credited</b>					
Amount provided to contract holders	\$ 697	\$ 738	\$ 730	-6 %	1 %
DSI deferrals	(39 )	(65 )	(75 )	40 %	13 %
Interest credited before DSI amortization	658	673	655	-2 %	3 %
<b>DSI amortization:</b>					
Prospective unlocking - assumption changes	2	3	-	-33 %	NM
Retrospective unlocking	(17 )	(7 )	(5 )	NM	-40 %
Amortization, excluding unlocking	55	57	32	-4 %	78 %
Total interest credited	\$ 698	\$ 726	\$ 682	-4 %	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 and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Years Ended December 31,			Basis Point Change Over Prior Year	
	2011	2010	2009	2011	2010
<b>Interest Rate Spread</b>					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.13 %	5.50 %	5.50 %	(37 )	(0 )
Commercial mortgage loan prepayment and bond makewhole premiums	0.14 %	0.13 %	0.03 %	1	10
Alternative investments	0.00 %	0.01 %	0.00 %	(1 )	1
Net investment income yield on reserves	5.27 %	5.64 %	5.53 %	(37 )	11
Interest rate credited to contract holders	3.33 %	3.52 %	3.77 %	(19 )	(25 )
Interest rate spread	1.94 %	2.12 %	1.76 %	(18 )	36





	As of or for the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
<b>Other Information</b>					
Fixed annuity deposits, including the fixed portion of variable	\$ 4,779	\$ 5,568	\$ 6,355	-14 %	-12 %
Net flows for fixed annuities, including the fixed portion of variable	2,587	3,548	3,920	-27 %	-9 %
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(2,844 )	(3,396 )	(2,475 )	16 %	-37 %
Average invested assets on reserves	19,071	18,248	17,363	5 %	5 %
Average fixed account values, including the fixed portion of variable	20,728	20,029	18,249	3 %	10 %
Fixed annuity account values, including the fixed portion of variable	20,524	19,990	18,913	3 %	6 %

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. 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

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

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
<b>Benefits</b>					
Prospective unlocking - assumption changes	\$ 43	\$ (3 )	\$ 7	NM	NM
Net death and other benefits, excluding unlocking	170	177	235	-4 %	-25 %
Total benefits	\$ 213	\$ 174	\$ 242	22 %	-28 %

Benefits for this segment include changes in reserves of immediate annuity account values driven by premiums, changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

## Underwriting, Acquisition, Insurance and Other Expenses

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

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Underwriting, Acquisition, Insurance and Other Expenses					
Commissions:					
Deferrable	\$ 466	\$ 474	\$ 463	-2 %	2 %
Non-deferrable	260	223	165	17 %	35 %
General and administrative expenses	360	337	317	7 %	6 %
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	(2 )	(1 )	1	-100%	NM
Taxes, licenses and fees	21	20	20	5 %	0 %
Total expenses incurred, excluding broker-dealer	1,105	1,053	966	5 %	9 %
DAC deferrals	(618 )	(624 )	(624)	1 %	0 %
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	487	429	342	14 %	25 %
DAC and VOBA amortization, net of interest					
Prospective unlocking - assumption changes	(13 )	(41 )	10	68 %	NM
Prospective unlocking - model refinements	-	9	-	-100%	NM
Retrospective unlocking	(114 )	(84 )	(19 )	-36 %	NM
Amortization, net of interest, excluding unlocking	535	535	360	0 %	49 %
Broker-dealer expenses incurred	353	320	290	10 %	10 %
Total underwriting, acquisition, insurance and other expenses	\$ 1,248	\$ 1,168	\$ 983	7 %	19 %
DAC Deferrals					
As a percentage of sales/deposits	5.8 %	5.8 %	6.0 %		

(1) Represents reimbursements to the Annuities segment from the Life Insurance segment for reserve financing, net of expenses incurred for this segment's use of letters of credit ("LOCs").

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. Certain of our commissions, such as trail commissions that are based on account values, 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. Fluctuations in these expenses correspond with fluctuations in other revenues and fees.

## RESULTS OF RETIREMENT PLAN SERVICES

## Income (Loss) from Operations

Details underlying the results for Retirement Plan Services (in millions) were as follows:

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance fees	\$ 210	\$ 201	\$ 183	4 %	10 %
Net investment income	793	769	732	3 %	5 %
Other revenues and fees (1)	14	18	11	-22 %	64 %
Total operating revenues	1,017	988	926	3 %	7 %
Operating Expenses					
Interest credited	437	440	445	-1 %	-1 %
Benefits	2	2	(3 )	0 %	167 %
Underwriting, acquisition, insurance and other expenses	344	332	301	4 %	10 %
Total operating expenses	783	774	743	1 %	4 %
Income (loss) from operations before taxes	234	214	183	9 %	17 %
Federal income tax expense (benefit)	67	60	50	12 %	20 %
Income (loss) from operations	\$ 167	\$ 154	\$ 133	8 %	16 %

(1) Consists primarily of mutual fund account program fees for mid to large employers.

## Comparison of 2011 to 2010

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

- Higher net investment income and relatively flat interest credited driven by:
  - § Transfers from variable to fixed and interest credited to contract holders driving higher average fixed account values;
  - § Higher prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and
  - § Actions implemented to reduce interest crediting rates;
- partially offset by:
  - § Negative net flows reducing average fixed account values; and
  - § New money rates averaging below our portfolio yields; and
- Higher insurance fees attributable to more favorable average equity markets driving higher average daily variable account values, partially offset by an overall shift in business mix toward products with lower expense assessment rates and negative variable net flows.

The increase in income from operations was partially offset primarily by higher underwriting, acquisition, insurance and other expenses attributable to the following:

- Investments in strategic initiatives related to updating information technology and expanding distribution and support during 2011; and
- Higher account values driving higher trail commissions;
- partially offset by:
-

A lower amortization rate during 2011 due primarily to no VOBA amortization as our VOBA balance became fully amortized during the fourth quarter of 2010; and

- The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information).

## Comparison of 2010 to 2009

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

- Higher net investment income and relatively flat interest credited driven by:
  - § Transfers from variable to fixed and interest credited to contract holders, partially offset by negative net flows, driving higher average fixed account values;
  - § Actions implemented to reduce interest crediting rates;
  - § More favorable investment income on alternative investments within our surplus portfolio and higher prepayment and bond makewhole premiums (see “Consolidated Investments – Alternative Investments” and “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and
  - § Holding less cash during 2010; and
- Higher insurance fees attributable to more favorable average equity markets driving higher average daily variable account values, partially offset by an overall shift in business mix toward products with lower expense assessment rates.

The increase in income from operations was partially offset primarily by higher underwriting, acquisition, insurance and other expenses attributable to the following:

- Investments in strategic initiatives related to updating information technology and expanding distribution during 2010; and
  - Higher account values driving higher trail commissions;
- partially offset by:
- An overall shift in business mix toward products with lower deferrable expense rates resulting in a lower amortization rate during 2010.

## Additional Information

We expect to continue making strategic investments during 2012 to improve our infrastructure and product offerings that will result in higher expenses.

Net flows in this business fluctuate based on the timing of larger plans rolling onto our platform and rolling off over the course of the year, and we expect this trend will continue during 2012.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect 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 and mutual fund products was 13%, 15% and 13% for 2011, 2010 and 2009, respectively.

Our lapse rate is negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Account Value Roll Forward table below as “Total Multi-Fund® and Other Variable Annuities”), which are also our higher margin product lines in this segment, due to the fact that they are mature blocks with much of the account values out of their surrender charge period. The proportion of these products to our total account values was 40%, 42% and 45% for 2011, 2010 and 2009, respectively. Due to this expected overall shift in business mix toward products with lower returns, a significant increase in new deposit production will be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on a quarterly basis. Our ability to retain quarterly reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, 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 “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates.”

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

Insurance Fees

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

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Insurance Fees					
Annuity expense assessments	\$ 178	\$ 172	\$ 157	3 %	10 %
Mutual fund fees	30	26	22	15 %	18 %
Total expense assessments	208	198	179	5 %	11 %
Surrender charges	2	3	4	-33 %	-25 %
Total insurance fees	\$ 210	\$ 201	\$ 183	4 %	10 %



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	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
<b>Account Value Roll Forward – By Product</b>					
<b>Total Micro – Small Segment:</b>					
Balance as of beginning-of-year	\$ 6,396	\$ 5,863	\$ 4,888	9 %	20 %
Gross deposits	1,301	1,242	1,157	5 %	7 %
Withdrawals and deaths	(1,402 )	(1,377 )	(1,273 )	-2 %	-8 %
Net flows	(101 )	(135 )	(116 )	25 %	-16 %
Transfers between fixed and variable accounts	5	4	(2 )	25 %	300 %
Investment increase and change in market value	(139 )	664	1,093	NM	-39 %
Balance as of end-of-year	\$ 6,161	\$ 6,396	\$ 5,863	-4 %	9 %
<b>Total Mid – Large Segment:</b>					
Balance as of beginning-of-year	\$ 16,207	\$ 13,653	\$ 9,540	19 %	43 %
Gross deposits	3,563	3,308	2,954	8 %	12 %
Withdrawals and deaths	(2,095 )	(2,558 )	(1,110 )	18 %	NM
Net flows	1,468	750	1,844	96 %	-59 %
Transfers between fixed and variable accounts	(68 )	16	12	NM	33 %
Other (1)	-	186	-	-100%	NM
Investment increase and change in market value	(166 )	1,602	2,257	NM	-29 %
Balance as of end-of-year	\$ 17,441	\$ 16,207	\$ 13,653	8 %	19 %
<b>Total Multi-Fund® and Other Variable Annuities:</b>					
Balance as of beginning-of-year	\$ 16,221	\$ 15,786	\$ 14,450	3 %	9 %
Gross deposits	702	751	841	-7 %	-11 %
Withdrawals and deaths	(1,565 )	(1,657 )	(1,574 )	6 %	-5 %
Net flows	(863 )	(906 )	(733 )	5 %	-24 %
Transfers between fixed and variable accounts	-	-	(1 )	NM	100 %
Investment increase and change in market value	173	1,341	2,070	-87 %	-35 %
Balance as of end-of-year	\$ 15,531	\$ 16,221	\$ 15,786	-4 %	3 %
<b>Total Annuities and Mutual Funds:</b>					
Balance as of beginning-of-year	\$ 38,824	\$ 35,302	\$ 28,878	10 %	22 %
Gross deposits	5,566	5,301	4,952	5 %	7 %
Withdrawals and deaths	(5,062 )	(5,592 )	(3,957 )	9 %	-41 %
Net flows	504	(291 )	995	273 %	NM
Transfers between fixed and variable accounts	(63 )	20	9	NM	122 %
Other (1)	-	186	-	-100%	NM
Investment increase and change in market value	(132 )	3,607	5,420	NM	-33 %
Balance as of end-of-year (2)	\$ 39,133	\$ 38,824	\$ 35,302	1 %	10 %

(1) Represents LINCOLN ALLIANCE® program assets held by a third-party trustee that were not previously included in the account value roll forward. Effective January 1, 2010, all such LINCOLN ALLIANCE® program activity was included in the account value roll forward.

(2) Includes mutual fund account values and other third-party trustee-held assets. These items are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.



	As of or for the Years Ended			Change Over	
	2011	December 31, 2010	2009	2011	2010
<b>Account Value Information</b>					
Variable annuity deposits, excluding the fixed portion of variable	\$ 1,615	\$ 1,614	\$ 1,586	0 %	2 %
Net flows for variable annuities, excluding the fixed portion of variable	(497 )	(544 )	(302 )	9 %	-80 %
Change in market value on variable, excluding the fixed portion of variable	(280 )	1,687	2,843	NM	-41 %
Transfers from the variable portion of variable annuity products to the fixed portion of variable annuity products	(283 )	(169 )	(176 )	-67 %	4 %
Average daily variable annuity account values, excluding the fixed portion of variable	13,611	12,930	11,315	5 %	14 %
Average daily S&P 500	1,268.03	1,138.78	947.53	11 %	20 %
Variable annuity account values, excluding the fixed portion of variable	12,867	13,927	12,953	-8 %	8 %

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.

#### 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			Change Over	
	2011	December 31, 2010	2009	2011	2010
<b>Net Investment Income</b>					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 719	\$ 705	\$ 681	2 %	4 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	21	9	5	133 %	80 %
Alternative investments (2)	1	3	1	-67 %	200 %
Surplus investments (3)	52	52	45	0 %	16 %
Total net investment income	\$ 793	\$ 769	\$ 732	3 %	5 %
Interest Credited	\$ 437	\$ 440	\$ 445	-1 %	-1 %

(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 effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.



	For the Years Ended			Basis Point Change	
	December 31,			Over Prior	
	2011	2010	2009	2011	2010
<b>Interest Rate Spread</b>					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.53 %	5.70 %	5.76 %	(17 )	(6 )
Commercial mortgage loan prepayment and bond makewhole premiums	0.16 %	0.08 %	0.04 %	8	4
Alternative investments	0.01 %	0.02 %	0.01 %	(1 )	1
Net investment income yield on reserves	5.70 %	5.80 %	5.81 %	(10 )	(1 )
Interest rate credited to contract holders	3.32 %	3.49 %	3.70 %	(17 )	(21 )
Interest rate spread	2.38 %	2.31 %	2.11 %	7	20

	As of or for the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
<b>Other Information</b>					
Fixed annuity deposits, including the fixed portion of variable	\$ 1,436	\$ 1,332	\$ 1,342	8 %	-1 %
Net flows for fixed annuities, including the fixed portion of variable	(106 )	(347 )	(62 )	69 %	NM
Transfers to the fixed portion of variable annuity products from the variable portion of variable annuity products	283	169	176	67 %	-4 %
Average invested assets on reserves	12,988	12,360	11,815	5 %	5 %
Average fixed account values, including the fixed portion of variable	13,168	12,580	12,024	5 %	5 %
Fixed annuity account values, including the fixed portion of variable	13,630	12,779	12,246	7 %	4 %

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. 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 benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

## 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	
	2011	2010	2009	2011	2010
Underwriting, Acquisition, Insurance and Other Expenses					
Commissions:					
Deferrable	\$ 22	\$ 27	\$ 28	-19 %	-4 %
Non-deferrable	45	38	36	18 %	6 %
General and administrative expenses	273	242	221	13 %	10 %
Taxes, licenses and fees	13	13	12	0 %	8 %
Total expenses incurred	353	320	297	10 %	8 %
DAC deferrals	(69 )	(67 )	(69 )	-3 %	3 %
Total expenses recognized before amortization	284	253	228	12 %	11 %
DAC and VOBA amortization, net of interest:					
Prospective unlocking - assumption changes	-	(16 )	(8 )	100 %	-100 %
Prospective unlocking - model refinements	3	8	-	-63 %	NM
Retrospective unlocking	(15 )	4	2	NM	100 %
Amortization, net of interest, excluding unlocking	72	83	79	-13 %	5 %
Total underwriting, acquisition, insurance and other expenses	\$ 344	\$ 332	\$ 301	4 %	10 %
DAC Deferrals					
As a percentage of annuity sales/deposits	2.3 %	2.3 %	2.4 %		

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. Certain of our commissions, such as trail commissions that are based on 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 expensed as incurred.

## RESULTS OF LIFE INSURANCE

## Income (Loss) from Operations

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance premiums	\$ 441	\$ 439	\$ 392	0 %	12 %
Insurance fees	1,979	1,934	1,901	2 %	2 %
Net investment income	2,294	2,186	1,975	5 %	11 %
Other revenues and fees	25	31	27	-19 %	15 %
Total operating revenues	4,739	4,590	4,295	3 %	7 %
Operating Expenses					
Interest credited	1,235	1,199	1,185	3 %	1 %
Benefits	1,669	1,734	1,373	-4 %	26 %
Underwriting, acquisition, insurance and other expenses	948	908	923	4 %	-2 %
Total operating expenses	3,852	3,841	3,481	0 %	10 %
Income (loss) from operations before taxes	887	749	814	18 %	-8 %
Federal income tax expense (benefit)	283	236	245	20 %	-4 %
Income (loss) from operations	\$ 604	\$ 513	\$ 569	18 %	-10 %

## Comparison of 2011 to 2010

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

- Higher net investment income, only partially offset by higher interest credited attributable to:
  - § Growth in business in force; and
  - § Actions implemented to reduce interest crediting rates;
 partially offset by:
  - § New money rates averaging below our portfolio yields;
- Lower benefits attributable primarily to:
  - § The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
 partially offset by:
  - § Higher death claims; and
  - § Model refinements and continued growth in our secondary guarantee life insurance business; and
- Higher insurance fees due to growth in insurance in force, partially offset by the effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information).

The increase in income from operations was partially offset primarily by an increase in underwriting, acquisition, insurance and other underwriting expenses attributable to:

- The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
-

Higher pricing of reserve financing transactions supporting our secondary guarantee UL and term business in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see “Strategies to Address Statutory Reserve Strain” below for more information); and

- The effect of the inter-company reinsurance agreement effective December 31, 2010.



## Comparison of 2010 to 2009

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

- Higher benefits attributable to:
  - § The effect of unlocking in 2010 as compared to 2009 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
  - § Higher death claims;
  - § Harmonizing certain processes resulting in an increase in traditional product reserves; and
  - § Continued growth in our secondary guarantee life insurance business; and
- More favorable tax return true-ups recorded in 2009 than in 2010.

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

- Higher net investment income and relatively flat interest credited attributable to:
    - § More favorable investment income on alternative investments and higher prepayment and bond makewhole premiums (see “Consolidated Investments – Alternative Investments” and “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below);
    - § Growth in business in force; and
    - § Actions implemented to reduce interest crediting rates; and
  - Lower underwriting, acquisition, insurance and other expenses attributable to:
    - § The effect of unlocking in 2010 as compared to 2009 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
- partially offset by:
- § Reducing projected EGPs for this segment (discussed in “Additional Information” below) resulting in a higher amortization rate; and
  - § Higher pricing of reserve financing transactions supporting our secondary guarantee UL and term business in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see “Strategies to Address Statutory Reserve Strain” below for more information).

## Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and RBC levels above current regulatory required levels. Products containing secondary guarantees require reserves calculated under AG38. Our insurance subsidiaries are employing strategies to reduce the strain of increasing AG38 and Valuation of Life Insurance Policies Model Regulation (“XXX”) statutory reserves associated with secondary guarantee UL and term products. As discussed below, we have been successful in executing reinsurance solutions to release capital to Other Operations. We expect to regularly execute transactions designed to release capital as we continue to sell products that are subject to these reserving requirements. We also plan to refinance prior transactions with long-term structured solutions.

Included in the LOCs issued as of December 31, 2011, and reported in the credit facilities table in Note 12, was approximately \$2.0 billion of long-dated LOCs issued to support inter-company reinsurance arrangements, of which approximately \$200 million and \$1.0 billion was issued for UL business with secondary guarantees through 2015 and 2031, respectively, and approximately \$800 million was issued for term business through 2023. We have also used the proceeds from senior note issuances of approximately \$1.1 billion to execute long-term structured solutions supporting secondary guarantee UL and term business. LOCs and related capital market alternatives lower the capital effect of secondary guarantee UL products. An inability to obtain the necessary LOC capacity or other capital market alternatives could affect our returns on our in-force secondary guarantee UL business. However, we believe that our

insurance subsidiaries have sufficient capital to support the increase in statutory reserves, based on our current reserve projections, if such structures are not available. See “Part I – Item 1A. Risk Factors – Legislative, Regulatory and Tax – Changes to the calculation of reserves and 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” for further information on XXX and AG38 reserves. See the table in “Underwriting, Acquisition, Insurance and Other Expenses” below for the presentation of our expenses associated with reserve financing.

#### Additional Information

We are in the process of completing the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business. See “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information.

We expect to continue making strategic investments during 2012 that will result in higher expenses.

We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, 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. During the third quarter of 2010, we lowered our new money investment yield assumption. This assumption revision had the effect of lowering the projected EGPs for this segment, thereby increasing our rate of amortization, which results in higher DAC, VOBA and DFEL amortization and lower earnings for this segment.

For information on interest rate spreads and the interest rate risk due to falling interest rates, see “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates.”

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant effect 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, we face conditions in the marketplace as discussed in “Introduction – Executive Summary – Current Market Conditions” above that may challenge our sales volume in 2012. For example, we are implementing pricing changes to our products that reflect the current low interest rate environment that we believe will lower our sales volumes and could potentially reduce our market share until competitive conditions change.

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

#### 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.

#### 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			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Insurance Fees					
Mortality assessments	\$ 1,312	\$ 1,287	\$ 1,299	2 %	-1 %
Expense assessments	935	844	759	11 %	11 %
Surrender charges	96	100	112	-4 %	-11 %
DFEL:					
Deferrals	(483 )	(472 )	(439 )	-2 %	-8 %
Amortization, net of interest:					
Prospective unlocking - assumption changes	(11 )	56	20	NM	180 %

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Prospective unlocking - model refinements	(26 )	(56 )	-	54 %	NM
Retrospective unlocking	(4 )	24	15	NM	60 %
Amortization, net of interest, excluding unlocking	160	151	135	6 %	12 %
Total insurance fees	\$ 1,979	\$ 1,934	\$ 1,901	2 %	2 %

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Sales by Product					
UL:					
Excluding MoneyGuard®	\$ 317	\$ 353	\$ 397	-10 %	-11 %
MoneyGuard®	186	108	67	72 %	61 %
Total UL	503	461	464	9 %	-1 %
VUL	50	43	36	16 %	19 %
COLI and BOLI	92	63	51	46 %	24 %
Term	55	70	59	-21 %	19 %
Total sales	\$ 700	\$ 637	\$ 610	10 %	4 %

Net Flows					
Deposits	\$ 5,393	\$ 4,934	\$ 4,451	9 %	11 %
Withdrawals and deaths	(1,710)	(1,877)	(2,030)	9 %	8 %
Net flows	\$ 3,683	\$ 3,057	\$ 2,421	20 %	26 %
Contract holder assessments	\$ 3,286	\$ 3,119	\$ 2,996	5 %	4 %

	As of December 31,			Change Over	
	2011	2010	2009	2011	2010
Account Values					
UL (1)	\$ 28,052	\$ 26,199	\$ 24,994	7 %	5 %
VUL (1)	4,929	5,108	4,468	-4 %	14 %
Interest-sensitive whole life	2,297	2,278	2,282	1 %	0 %
Total account values	\$ 35,278	\$ 33,585	\$ 31,744	5 %	6 %
In-Force Face Amount					
UL and other (1)	\$ 307,900	\$ 297,837	\$ 291,879	3 %	2 %
Term insurance (2)	271,931	265,154	248,726	3 %	7 %
Total in-force face amount	\$ 579,831	\$ 562,991	\$ 540,605	3 %	4 %

- (1) Effective with the March 31, 2009, transfer of certain life insurance policies to a third party, UL and VUL account values were reduced by \$938 million and \$640 million, respectively, and UL and other face amount in force was reduced by \$20.9 billion.
- (2) Excludes \$19.8 billion of face amount in force associated with our assumption of the mortality risk effective October 1, 2009, on the block of business mentioned in footnote one above.

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 interest-sensitive and other 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 of approximately 50% of commissionable premiums;
- MoneyGuard® (our linked-benefit product) – 15% of premium deposits; and
- Term – 100% of first year paid premiums.

UL and VUL products with secondary guarantees represented approximately 38% of interest-sensitive life insurance in force as of December 31, 2011, and approximately 43% of sales for 2011. Changes in the marketplace and product focuses are resulting in a shift in our business mix away from products with secondary guarantees to accumulation products like Indexed UL, VUL, and

COLI. For example, during the fourth quarter of 2011, UL and VUL products with secondary guarantees represented only 29% of sales. Actuarial Guideline 37, or Variable Life Reserves for Guaranteed Minimum Death Benefits, and AG38 impose additional statutory reserve requirements for these products.

#### 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	
	2011	2010	2009	2011	2010
<b>Net Investment Income</b>					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 2,092	\$ 2,000	\$ 1,942	5 %	3 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	23	30	12	-23 %	150 %
Alternative investments (2)	62	49	(69 )	27 %	171 %
Surplus investments (3)	117	107	90	9 %	19 %
Total net investment income	\$ 2,294	\$ 2,186	\$ 1,975	5 %	11 %
<b>Interest Credited</b>	\$ 1,235	\$ 1,199	\$ 1,185	3 %	1 %

(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 effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Years Ended December 31,			Basis Point Change Over Prior Year	
	2011	2010	2009	2011	2010
<b>Interest Rate Yields and Spread</b>					
Attributable to interest-sensitive products:					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.79 %	5.87 %	5.93 %	(8 )	(6 )
Commercial mortgage loan prepayment and bond makewhole premiums	0.07 %	0.09 %	0.04 %	(2 )	5
Alternative investments	0.19 %	0.17 %	-0.25 %	2	42
Net investment income yield on reserves	6.05 %	6.13 %	5.72 %	(8 )	41
Interest rate credited to contract holders	4.08 %	4.16 %	4.23 %	(8 )	(7 )
Interest rate spread	1.97 %	1.97 %	1.49 %	(0 )	48

#### Attributable to traditional products:

Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.90 %	6.12 %	5.99 %	(22 )	13
Commercial mortgage loan prepayment and bond makewhole premiums	0.03 %	0.07 %	0.01 %	(4 )	6
Alternative investments	0.01 %	0.02 %	0.00 %	(1 )	2

Net investment income yield on reserves	5.94%	6.21%	6.00%	(27)	21
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	For the Years Ended December			Change Over	
	2011	31, 2010	2009	2011	Prior Year 2010
Averages					
Attributable to interest-sensitive products:					
Invested assets on reserves (1)	\$ 31,752	\$ 29,391	\$ 27,824	8 %	6 %
Account values - universal and whole life (1)	30,066	28,465	27,674	6 %	3 %
Attributable to traditional products:					
Invested assets on reserves	4,297	4,465	4,896	-4 %	-9 %

(1) We experienced declines in our average invested assets on reserves and account values attributable to interest-sensitive products subsequent to the transfer of certain life insurance policies to a third party, which reduced these balances by \$927 million and \$938 million, respectively, on March 31, 2009.

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 a faster rate than account values. Invested assets are based upon the statutory reserve liabilities and are therefore affected by various reserve adjustments, including 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. We use our investment income to offset the earnings effect of the associated build of our policy reserves for traditional products. 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.

## Benefits

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

	For the Years Ended			Change Over	
	2011	December 31, 2010	2009	2011	Prior Year 2010
Benefits					
Death claims direct and assumed	\$ 2,847	\$ 2,538	\$ 2,260	12 %	12 %
Death claims ceded	(1,368)	(1,154)	(993)	-19 %	-16 %
Reserves released on death	(452)	(433)	(394)	-4 %	-10 %
Net death benefits	1,027	951	873	8 %	9 %
Change in secondary guarantee life insurance product reserves:					
Prospective unlocking - assumption changes	(297)	84	(3)	NM	NM
Prospective unlocking - model refinements	155	71	-	118 %	NM
Change in reserves, excluding unlocking	467	306	249	53 %	23 %
Other benefits:					
Prospective unlocking - assumption changes	33	-	-	NM	NM
Other benefits, excluding unlocking (1)	284	322	254	-12 %	27 %
Total benefits	\$ 1,669	\$ 1,734	\$ 1,373	-4 %	26 %
Death claims per \$1,000 of in-force	1.80	1.72	1.63	5 %	6 %

(1) Includes primarily traditional product changes in reserves and dividends.

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

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## 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	
	2011	2010	2009	2011	2010
Underwriting, Acquisition, Insurance and Other Expenses					
Commissions	\$ 678	\$ 664	\$ 676	2 %	-2 %
General and administrative expenses	473	451	451	5 %	0 %
Expenses associated with reserve financing	57	37	6	54 %	NM
Taxes, licenses and fees	145	129	115	12 %	12 %
Total expenses incurred	1,353	1,281	1,248	6 %	3 %
DAC and VOBA deferrals	(948 )	(915 )	(900 )	-4 %	-2 %
Total expenses recognized before amortization	405	366	348	11 %	5 %
DAC and VOBA amortization, net of interest					
Prospective unlocking - assumption changes	215	129	33	67 %	291 %
Prospective unlocking - model refinements	(219 )	(155 )	-	-41 %	NM
Retrospective unlocking	12	28	42	-57 %	-33 %
Amortization, net of interest, excluding unlocking	531	536	496	-1 %	8 %
Other intangible amortization	4	4	4	0 %	0 %
Total underwriting, acquisition, insurance and other expenses	\$ 948	\$ 908	\$ 923	4 %	-2 %

## DAC and VOBA Deferrals

As a percentage of sales

	135.4%	143.6%	147.5%
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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.

When comparing DAC and VOBA deferrals as a percentage of sales for 2011 to 2010 and for 2010 to 2009, the decrease is primarily a result of incurred deferrable commissions declining at a rate higher than sales attributable primarily to changes in sales mix to products with lower commission rates.

## RESULTS OF GROUP PROTECTION

## Income (Loss) from Operations

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

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance premiums	\$ 1,778	\$ 1,682	\$ 1,579	6 %	7 %
Net investment income	152	141	127	8 %	11 %
Other revenues and fees	9	8	7	13 %	14 %
Total operating revenues	1,939	1,831	1,713	6 %	7 %
Operating Expenses					
Interest credited	3	3	3	0 %	0 %
Benefits	1,314	1,296	1,116	1 %	16 %
Underwriting, acquisition, insurance and other expenses	467	422	403	11 %	5 %
Total operating expenses	1,784	1,721	1,522	4 %	13 %
Income (loss) from operations before taxes	155	110	191	41 %	-42 %
Federal income tax expense (benefit)	54	38	67	42 %	-43 %
Income (loss) from operations	\$ 101	\$ 72	\$ 124	40 %	-42 %

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Income (Loss) from Operations by Product Line					
Life	\$ 34	\$ 37	\$ 42	-8 %	-12 %
Disability	64	34	79	88 %	-57 %
Dental	(2 )	(4 )	(2 )	50 %	-100 %
Total non-medical	96	67	119	43 %	-44 %
Medical	5	5	5	0 %	0 %
Income (loss) from operations	\$ 101	\$ 72	\$ 124	40 %	-42 %

## Comparison of 2011 to 2010

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

- More favorable non-medical loss ratio experience;
- Growth in insurance premiums driven by normal, organic business growth in our non-medical products; and
- Higher net investment income driven by an increase in business.

The increase in income from operations was partially offset primarily by higher underwriting, acquisition, insurance and other expenses attributable to an increase in business and investments in strategic initiatives associated with enhancements to sales and distribution processes and improvements to technology platforms during 2011.

## Comparison of 2010 to 2009

Income from operations for this segment decreased due to unfavorable claims incidence and, to a lesser extent, termination experience on our long-term disability business and adverse mortality and morbidity experience on our life business resulting in a non-medical loss ratio of 76.2% during 2010 that was above the high end of our historical expected range of 71% to 74%.

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

- Growth in insurance premiums driven by normal, organic business growth in our non-medical products and strong case persistency; and
- Higher net investment income driven by an increase in business and more favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Alternative Investments” below for more information).

#### Additional Information

During 2011, our non-medical loss ratio was 72.9%, below the 76.2% we experienced during 2010, attributable primarily to improvement in disability claim incidence rates. Non-medical loss ratios in general are likely to remain within our long-term expectation of 71% to 74% during 2012. For every one percent increase in the loss ratio above our expectation, we would expect an approximate annual \$10 million to \$12 million decrease to income from operations.

Management compares trends in actual loss ratios to pricing expectations because group-underwriting risks change over time. We expect normal fluctuations in our composite non-medical loss ratios of this segment, as claims experience is inherently uncertain. We have taken actions to manage the effects of our loss ratio results, such as implementing price adjustments on our product lines upon renewal to better reflect our experience going forward. In addition, we have been focusing on managing the higher volume of incidence through claims risk management, including contracting additional resources to help reduce caseloads and improve claim recovery experience so that incidence volumes do not detract from our claim recovery efforts. We have also been employing tools to identify and support claimants who will return to work.

We expect to continue making strategic investments during 2012 that will result in higher expenses.

We are evaluating the potential effects that health care reform may have on the value and profitability of this segment’s products and income from operations, including, but not limited to, potential changes to traditional sources of income for our brokers who may seek additional portfolio options and/or modification to compensation structures.

During the second quarter of 2011, we reviewed the discount rate assumptions associated with reserves for long-term disability and life waiver claim incurrals. Due to the persistent decline in new money investment yields, we lowered the discount rate by 50 basis points to 4.25% on new incurrals, which decreased income from operations by \$3 million during the second quarter of 2011. For information on the effects of current interest rates on our long-term disability claim reserves, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates.”

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.

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



## Insurance Premiums

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Insurance Premiums by Product Line					
Life	\$ 693	\$ 639	\$ 584	8 %	9 %
Disability	757	727	692	4 %	5 %
Dental	183	167	149	10 %	12 %
Total non-medical	1,633	1,533	1,425	7 %	8 %
Medical	145	149	154	-3 %	-3 %
Total insurance premiums	\$ 1,778	\$ 1,682	\$ 1,579	6 %	7 %
Sales	\$ 395	\$ 353	\$ 361	12 %	-2 %

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.

## Net Investment Income

We use our investment income to offset the earnings effect of the associated build of our policy reserves, which are a function of our insurance premiums and the yields on our invested assets.

## Benefits and Interest Credited

Details underlying benefits and interest credited (in millions) and loss ratios by product line were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Benefits and Interest Credited by Product Line					
Life	\$ 518	\$ 484	\$ 420	7 %	15 %
Disability	529	548	443	-3 %	24 %
Dental	143	136	121	5 %	12 %
Total non-medical	1,190	1,168	984	2 %	19 %
Medical	127	131	135	-3 %	-3 %
Total benefits and interest credited	\$ 1,317	\$ 1,299	\$ 1,119	1 %	16 %

## Loss Ratios by Product Line

Life	74.8 %	75.8 %	72.0 %
Disability	69.9 %	75.4 %	64.0 %
Dental	77.9 %	81.5 %	81.7 %
Total non-medical	72.9 %	76.2 %	69.1 %
Medical	87.9 %	87.6 %	87.9 %





## Underwriting, Acquisition, Insurance and Other Expenses

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

	For the Years Ended			Change	
	December 31,			Over Prior	
	2011	2010	2009	2011	2010
Underwriting, Acquisition, Insurance and Other Expenses					
Commissions	\$ 201	\$ 190	\$ 176	6 %	8 %
General and administrative expenses	244	208	204	17 %	2 %
Taxes, licenses and fees	41	39	36	5 %	8 %
Total expenses incurred	486	437	416	11 %	5 %
DAC deferrals	(65 )	(61 )	(59 )	-7 %	-3 %
Total expenses recognized before amortization	421	376	357	12 %	5 %
DAC and VOBA amortization, net of interest	46	46	46	0 %	0 %
Total underwriting, acquisition, insurance and other expenses	\$ 467	\$ 422	\$ 403	11 %	5 %
 DAC Deferrals					
As a percentage of insurance premiums	3.7 %	3.6 %	3.7 %		

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.

## RESULTS OF OTHER OPERATIONS

## Income (Loss) from Operations

Details underlying the results for Other Operations (in millions) were as follows:

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance premiums	\$ 1	\$ 2	\$ 4	-50 %	-50 %
Net investment income	307	326	307	-6 %	6 %
Amortization of deferred gain on business sold through reinsurance	72	72	73	0 %	-1 %
Media revenues (net)	77	75	68	3 %	10 %
Other revenues and fees	4	12	13	-67 %	-8 %
Total operating revenues	461	487	465	-5 %	5 %
Operating Expenses					
Interest credited	113	120	148	-6 %	-19 %
Benefits	126	139	258	-9 %	-46 %
Media expenses	69	59	53	17 %	11 %
Other expenses	90	176	125	-49 %	41 %
Interest and debt expense	285	286	261	0 %	10 %
Total operating expenses	683	780	845	-12 %	-8 %
Income (loss) from operations before taxes	(222)	(293)	(380)	24 %	23 %
Federal income tax expense (benefit)	(76 )	(107)	(143)	29 %	25 %
Income (loss) from operations	\$ (146)	\$ (186)	\$ (237)	22 %	22 %

## Comparison of 2011 to 2010

Loss from operations for Other Operations decreased due primarily to lower other expenses attributable to higher legal and merger-related expenses in 2010, partially offset by an assessment associated with the New York State Department of Financial Services' liquidation plan for Executive Life Insurance Company of New York during 2011. State guaranty funds assess insurance companies to cover losses to contract holders of insolvent or rehabilitated companies.

The decrease in loss from operations was partially offset primarily by lower net investment income, net of interest credited, attributable to the following:

- Repurchases of common stock, net cash used in operating activities due primarily to interest payments and transfers to other segments for OTTI, partially offset by distributable earnings received from our insurance segments, resulting in lower average invested assets; and
- New money rates averaging below our portfolio yields.

## Comparison of 2010 to 2009

Loss from operations for Other Operations decreased due primarily to the following:

- The unfavorable effect during 2009 related to rescinding the reinsurance agreement on certain disability income business sold to Swiss Re (discussed in "Reinsurance" below), which resulted in pre-tax increases in benefits of \$78

million, interest credited of \$15 million and other expenses of \$5 million, partially offset by a \$34 million tax benefit;

- Higher benefits during 2009 associated with our run-off disability income business due to increasing reserves supporting this business and writing off certain receivables upon rescinding the reinsurance agreement; and
- Higher net investment income due to distributable earnings received from our insurance segments, issuances of common stock and preferred stock and proceeds from the sale of Lincoln UK and Delaware, partially offset by redemption of our Series B preferred stock and repurchase and cancellation of associated common stock warrants, resulting in higher average invested assets.

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

- Higher other expenses due to:
  - § Settlement of the Transamerica litigation matter during 2010 (see Note 13 for more information);
  - § More favorable state income tax true-ups in 2009; and
  - § Higher branding expenses in 2010;
- partially offset by:
  - § Restructuring charges for expense initiatives in 2009; and
  - § Higher merger-related expenses in 2009; and
- Higher interest and debt expense attributable to higher average balances of outstanding debt during 2010.

#### Additional Information

The deferred gain on business sold through reinsurance will be fully amortized during the first half of 2017.

The results of Other Operations include our thrift business. We completed the liquidation of this business on November 30, 2011, which did not have a significant effect on the results of Other Operations.

We provide information about Other Operations' 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 factors that could cause actual results to differ materially from those set forth in this section, see "Part I – Item 1A. Risk Factors" and "Forward-Looking Statements – Cautionary Language" above.

#### Net Investment Income and Interest Credited

We utilize an internal formula to determine the amount of capital that is allocated to our business segments. Investment income on capital in excess of the calculated amounts is reported in Other Operations. If regulations require increases in our insurance segments' statutory reserves and surplus, the amount of capital retained by Other Operations would decrease and net investment income would be negatively affected.

Write-downs for OTTI decrease the recorded value of our invested assets owned by our business segments. These write-downs are not included in the income from operations of our operating segments. When impairment occurs, assets are transferred to the business segments' portfolios and will reduce the future net investment income for Other Operations, but should not have an effect on a consolidated basis unless the impairments are related to defaulted securities. Statutory reserve adjustments for our business segments can also cause allocations of invested assets between the affected segments and Other Operations.

The majority of our interest credited relates to our reinsurance operations sold to Swiss Re in 2001. A substantial amount of the business was sold through indemnity reinsurance transactions, which is still recorded in our consolidated financial statements. The interest credited corresponds to investment income earnings on the assets we continue to hold for this business. There is no effect to income or loss in Other Operations or on a consolidated basis for these amounts because interest earned on the blocks that continue to be reinsured is passed through to Swiss Re in the form of interest credited.

#### Benefits

Benefits are recognized when incurred for Institutional Pension products and disability income business.

## Other Expenses

Details underlying other expenses (in millions) were as follows:

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Other Expenses					
General and administrative expenses:					
Legal	\$ 1	\$ 77	\$ 14	-99 %	NM
Branding	29	27	18	7 %	50 %
Non-brand marketing	4	11	9	-64 %	22 %
Other (1)	38	59	52	-36 %	13 %
Total general and administrative expenses	72	174	93	-59 %	87 %
Merger-related expenses (2)	-	9	17	-100 %	-47 %
Restructuring charges (recoveries) for expense initiatives (3)	-	(1 )	34	100 %	NM
Taxes, licenses and fees	27	(4 )	(19 )	NM	79 %
Inter-segment reimbursement associated with reserve financing and LOC expenses (4)	(9 )	(2 )	-	NM	NM
Total other expenses	\$ 90	\$ 176	\$ 125	-49 %	41 %

- (1) Includes expenses that are corporate in nature including charitable contributions, amortization of media intangible assets with a definite life, other expenses not allocated to our business segments and inter-segment expense eliminations.
- (2) Includes the result of actions undertaken by us to eliminate duplicate operations and functions as a result of the Jefferson-Pilot merger along with costs related to the implementation of our unified product portfolio and other initiatives. These actions were completed during 2010. Our cumulative integration expense was approximately \$225 million, pre-tax, which excluded amounts capitalized or recorded as goodwill.
- (3) Includes expenses associated with a restructuring plan implemented starting in December 2008 in response to the economic downturn and sustained market volatility, which focused on reducing expenses. These actions were completed during 2009. Our cumulative pre-tax charges amounted to \$41 million for severance, benefits and related costs associated with the plan for workforce reduction and other restructuring actions.
- (4) Consists of reimbursements to Other Operations from the Life Insurance segment for the use of proceeds from certain issuances of senior notes that were used as long-term structured solutions, net of expenses incurred by Other Operations for its use of LOCs.

## Interest and Debt Expense

Our current level of interest expense may not be indicative of the future due to, among other things, the timing of the use of cash, the availability of funds from our inter-company cash management program and the future cost of capital. For additional information on our financing activities, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Financing Activities" below.

## REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

Details underlying realized gain (loss), after-DAC (1) and benefit ratio unlocking (in millions) were as follows:

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
<b>Components of Realized Gain (Loss), Pre-Tax</b>					
Total operating realized gain (loss)	\$ 89	\$ 69	\$ 54	29 %	28 %
Total excluded realized gain (loss)	(388)	(146)	(1,200)	NM	88 %
Total realized gain (loss), pre-tax	\$ (299)	\$ (77 )	\$ (1,146)	NM	93 %
<b>Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax</b>					
Total excluded realized gain (loss)	\$ (252)	\$ (95 )	\$ (780 )	NM	88 %
Benefit ratio unlocking	(14 )	10	89	NM	-89 %
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	\$ (266)	\$ (85 )	\$ (691 )	NM	88 %
<b>Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax</b>					
Realized gain (loss) related to certain investments	\$ (99 )	\$ (118)	\$ (350 )	16 %	66 %
Gain (loss) on the mark-to-market on certain instruments	(54 )	49	23	NM	113 %
Variable annuity net derivatives results:					
Hedge program performance	(106)	(27 )	103	NM	NM
Unlocking for GLB reserves hedged	(72 )	18	(157 )	NM	111 %
GLB NPR component	65	(19 )	(313 )	NM	94 %
Total variable annuity net derivatives results	(113)	(28 )	(367 )	NM	92 %
Indexed annuity forward-starting option	-	12	2	-100%	NM
Realized gain (loss) on sale of subsidiaries/businesses	-	-	1	NM	-100%
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	\$ (266)	\$ (85 )	\$ (691 )	NM	88 %

(1) DAC refers to the associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities.

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

For information on our counterparty exposure, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”





### Comparison of 2011 to 2010

We had higher realized losses in 2011 as compared to 2010 due primarily to the following:

- Losses on the mark-to-market on certain instruments during 2011 as compared to gains in 2010 attributable to spreads widening on corporate credit default swaps, partially offset by declines in interest rates leading to an increase in the value of our trading securities; and
- Higher losses on variable annuity net derivatives results attributable to:
  - § Volatile capital markets during 2011 resulting in higher losses in our hedge program; and
  - § The effect of unlocking in 2011 as compared to 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);

partially offset by:

- § Widening of our credit spreads during 2011 resulting in a favorable GLB NPR component (see “Variable Annuity Net Derivatives Results” below for a discussion of how our NPR adjustment is determined).

### Comparison of 2010 to 2009

We had lower realized losses in 2010 as compared to 2009 due primarily to the following:

- More favorable variable annuity net derivatives results attributable to:
  - § Narrowing of our credit spreads during 2009 resulting in an unfavorable GLB NPR component (see “Variable Annuity Net Derivatives Results” below for a discussion of how our NPR adjustment is determined); and
  - § The effect of unlocking in 2010 as compared to 2009 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);

partially offset by:

- § Less favorable hedge program performance;
- General improvement in the credit markets leading to a decline in OTTI (see “Consolidated Investments – Realized Gain (Loss) Related to Certain Investments” below for more information); and
- Higher gains on the mark-to-market on certain instruments attributable to spreads narrowing on corporate credit default swaps and declines in interest rates leading to an increase in the value of our trading securities.

### Operating Realized Gain (Loss)

Operating realized gain (loss) includes indexed annuity net derivatives results representing the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products. The change in the fair value of the liability for the embedded derivative represents the amount that is credited to the indexed annuity contract.

Our GWB, GIB and 4LATER® features have elements of both benefit reserves and embedded derivative reserves. We calculate the value of the embedded derivative reserves and the benefit reserves based on the specific characteristics of each GLB feature. For our GLBs that meet the definition of an embedded derivative under the Derivatives and Hedging Topic of the FASB ASC, we record them at fair value on our Consolidated Balance Sheets with changes in fair value recorded in realized gain (loss) on our Consolidated Statements of Income (Loss). In bifurcating the embedded derivative, we attribute to the embedded derivative the portion of total fees collected from the contract holder that relates to the GLB riders (the “attributed fees”). These attributed fees represent the present value of future claims expected to be paid for the GLB at the inception of the contract (the “net valuation premium”) plus a margin that a theoretical market participant would include for risk/profit (the “risk/profit margin”).

We also include the risk/profit margin portion of the GLB attributed rider fees in operating realized gain (loss) and include the net valuation premium of the GLB attributed rider fees in excluded realized gain (loss). For our Annuities and Retirement Plan Services segments, the excess of total fees collected from the contract holders over the GLB attributed rider fees is reported in insurance fees.

Details underlying the effect to operating realized gain (loss) from unlocking (in millions) were as follows:

	For the Years Ended			Change Over	
	December 31,			Prior Year	
	2011	2010	2009	2011	2010
Retrospective unlocking	\$ 39	\$ 34	\$ 20	15 %	70 %

### Realized Gain (Loss) Related to Certain Investments

See “Consolidated Investments – Realized Gain (Loss) Related to Certain Investments” below.

### Gain (Loss) on the Mark-to-Market on Certain Instruments

Gain (loss) on the mark-to-market on certain instruments, including those associated with our consolidated variable interest entities (“VIEs”) and trading securities represents changes in the fair values of certain derivative instruments (including the credit default swaps and contingent forwards associated with consolidated VIEs), total return swaps (embedded derivatives that are theoretically included in our various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements) and trading securities.

See Note 4 for information about our consolidated VIEs.

### Variable Annuity Net Derivatives Results

Our variable annuity net derivatives results include the net valuation premium, the change in the GLB embedded derivative reserves and the change in the fair value of the derivative instruments we own to hedge them, including the cost of purchasing the hedging instruments. In addition, these results include the changes in reserves not accounted for at fair value and resulting benefit ratio unlocking on our GDB and GLB riders and the change in the fair value of the derivative instruments we own to hedge them.

We use derivative instruments to hedge our exposure to the risks and earnings volatility that result from changes in the GLB embedded derivative reserves. The change in fair value of these derivative instruments is designed to generally offset the change in embedded derivative reserves. Our variable annuity net derivatives results can be volatile especially when sudden and significant changes in equity markets and/or interest rates occur. We do not attempt to hedge the change in the NPR component of the liability. As of December 31, 2011, the net effect of the NPR resulted in a \$211 million decrease in the liability for our GLB embedded derivative reserves. The NPR factors affect the discount rate used in the calculation of the GLB embedded derivative reserve. Our methodology for calculating the NPR component of the embedded derivative reserve utilizes an extrapolated 30-year NPR spread curve applied to a series of expected cash flows over the expected life of the embedded derivative. Our cash flows consist of both expected fees to be received from contract holders and benefits to be paid, and these cash flows are different on a pre- and post- NPR basis. We utilize a model based on our holding company’s credit default swap (“CDS”) spreads adjusted for items, such as the liquidity of our holding company CDS. Because the guaranteed benefit liabilities are contained within our insurance subsidiaries, we apply items, such as the effect of our insurance subsidiaries’ claims-paying ratings compared to holding company credit risk and the over-collateralization of insurance liabilities, in order to determine factors that are representative of a theoretical market participant’s view of the NPR of the specific liability within our insurance subsidiaries.

Details underlying the NPR component and associated effect to our GLB embedded derivative reserves (dollars in millions) were as follows:

	As of December 31, 2011	As of September 30, 2011	As of June 30, 2011	As of March 31, 2011	As of December 31, 2010
10-year CDS spread	3.65%	4.42%	2.02%	1.78%	1.98%
NPR factor related to 10-year CDS spread	0.43%	0.51%	0.24%	0.17%	0.17%

Unadjusted embedded derivative liability	\$ 2,418	\$ 2,642	\$ 306	\$ 112	\$ 389
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Estimating what the absolute amount of the NPR effect will be period to period is difficult due to the utilization of all cash flows and the shape of the spread curve. Currently, we estimate that if the NPR factors as of December 31, 2011, were to have been zero along all points on the spread curve, then the NPR offset to the unadjusted liability would have resulted in an unfavorable effect to net income of approximately \$315 million, pre-DAC and pre-tax. Alternatively, if the NPR factors were 20 basis points higher along all points on the spread curve as of December 31, 2011, then there would have been a favorable effect to net income of approximately \$120 million, pre-DAC and pre-tax. In the preceding two sentences, “DAC” refers to the associated amortization of DAC, VOBA, DSI and DFEL. Changing market conditions could cause this relationship to deviate significantly in future periods. Sensitivity within this range is primarily a result of volatility in our CDS spreads and the slope of the CDS spread term structure.

For additional information on our guaranteed benefits, see “Critical Accounting Policies and Estimates – Derivatives – Guaranteed Living Benefits” above.

## Indexed Annuity Forward-Starting Option

The liability for the forward-starting option reflects changes in the fair value of 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 accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC. 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 indications of volatility and interest rates, which can vary significantly from period to period due to a number of factors and therefore can provide results that are not indicative of the underlying trends.

## CONSOLIDATED INVESTMENTS

Details underlying our consolidated investment balances (in millions) were as follows:

	As of December		Percentage of	
	31,	31,	Total	
	2011	2010	As of December	Investments
			31,	31,
			2011	2010
Investments				
AFS securities:				
Fixed maturity	\$ 75,433	\$ 68,030	81.0 %	81.6 %
VIEs' fixed maturity	700	584	0.8 %	0.7 %
Total fixed maturity	76,133	68,614	81.8 %	82.3 %
Equity	139	197	0.1 %	0.2 %
Trading securities	2,675	2,596	2.9 %	3.1 %
Mortgage loans on real estate	6,942	6,752	7.4 %	8.1 %
Real estate	137	202	0.1 %	0.3 %
Policy loans	2,884	2,865	3.1 %	3.5 %
Derivative investments	3,151	1,076	3.4 %	1.3 %
Alternative investments	807	750	0.9 %	0.9 %
Other investments	262	288	0.3 %	0.3 %
Total investments	\$ 93,130	\$ 83,340	100.0 %	100.0 %

## Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion on our risk management process, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

## Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either

wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

We have the ability to maintain our investment holdings throughout credit cycles because of our capital position, the long-term nature of our liabilities and the matching of our portfolios of investment assets with the liabilities of our various products.

#### Fixed Maturity and Equity Securities Portfolios

Fixed maturity securities and equity securities consist of portfolios classified as AFS and trading. Mortgage-backed and private securities are included in both of the AFS and trading portfolios.

Details underlying our fixed maturity and equity securities portfolios by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of AFS securities in Note 5; however, the categories below represent a more detailed breakout of the AFS portfolio; therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

	As of December 31, 2011				
	Amortized	Unrealized	Losses	Fair	%
	Cost	Gains	and	Value	Fair
			OTTI		Value
<b>Fixed Maturity AFS Securities</b>					
<b>Industry corporate bonds:</b>					
Financial services	\$ 8,926	\$ 607	\$ 158	\$ 9,375	12.3 %
Basic industry	3,394	323	27	3,690	4.8 %
Capital goods	3,933	455	9	4,379	5.8 %
Communications	3,247	364	37	3,574	4.7 %
Consumer cyclical	3,226	345	36	3,535	4.6 %
Consumer non-cyclical	7,956	1,190	1	9,145	12.0 %
Energy	5,026	690	6	5,710	7.5 %
Technology	1,682	192	3	1,871	2.5 %
Transportation	1,360	166	1	1,525	2.0 %
Industrial other	755	74	3	826	1.1 %
Utilities	10,644	1,457	27	12,074	15.8 %
<b>Collateralized mortgage and other obligations ("CMOs"):</b>					
Agency backed	3,226	357	-	3,583	4.7 %
Non-agency backed	1,481	12	199	1,294	1.7 %
<b>Mortgage pass through securities ("MPTS"):</b>					
Agency backed	2,982	179	-	3,161	4.2 %
Non-agency backed	1	-	-	1	0.0 %
<b>Commercial mortgage-backed securities ("CMBS"):</b>					
Non-agency backed	1,642	73	115	1,600	2.1 %
<b>Corporate asset-backed securities ("ABS"):</b>					
CDOs	88	-	6	82	0.1 %
Commercial real estate ("CRE") CDOs	33	-	13	20	0.0 %
Credit card	790	47	-	837	1.1 %
Home equity	905	3	271	637	0.8 %
Manufactured housing	85	5	1	89	0.1 %
Auto loan	52	1	-	53	0.1 %
Other	246	29	1	274	0.4 %
<b>Municipals:</b>					
Taxable	3,452	565	9	4,008	5.3 %
Tax-exempt	38	1	-	39	0.1 %
<b>Government and government agencies:</b>					
United States	1,468	232	-	1,700	2.2 %
Foreign	1,746	152	4	1,894	2.5 %
Hybrid and redeemable preferred securities	1,277	50	170	1,157	1.5 %
<b>Total fixed maturity AFS securities</b>	<b>69,661</b>	<b>7,569</b>	<b>1,097</b>	<b>76,133</b>	<b>100.0 %</b>
<b>Equity AFS Securities</b>	<b>135</b>	<b>16</b>	<b>12</b>	<b>139</b>	



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	Total AFS securities	69,796	7,585	1,109	76,272
Trading Securities (1)		2,301	408	34	2,675
	Total AFS and trading securities	\$ 72,097	\$ 7,993	\$ 1,143	\$ 78,947

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	As of December 31, 2010				%
	Amortized	Unrealized	Unrealized Losses and	Fair	Fair
	Cost	Gains	OTTI	Value	Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	\$ 8,377	\$ 438	\$ 148	\$ 8,667	12.7 %
Basic industry	2,478	203	20	2,661	3.9 %
Capital goods	3,425	243	45	3,623	5.3 %
Communications	3,050	251	32	3,269	4.8 %
Consumer cyclical	2,772	185	47	2,910	4.2 %
Consumer non-cyclical	7,259	628	20	7,867	11.5 %
Energy	4,533	428	17	4,944	7.2 %
Technology	1,414	108	9	1,513	2.2 %
Transportation	1,379	116	3	1,492	2.2 %
Industrial other	884	53	10	927	1.4 %
Utilities	9,800	708	62	10,446	15.2 %
CMOs:					
Agency backed	3,975	308	1	4,282	6.2 %
Non-agency backed	1,718	16	259	1,475	2.1 %
MPTS:					
Agency backed	2,978	106	5	3,079	4.5 %
Non-agency backed	2	-	-	2	0.0 %
CMBS:					
Non-agency backed	2,144	95	186	2,053	3.0 %
ABS:					
CDOs	128	22	8	142	0.2 %
CRE CDOs	46	-	14	32	0.0 %
Credit card	831	33	4	860	1.3 %
Home equity	1,002	6	268	740	1.1 %
Manufactured housing	110	3	4	109	0.2 %
Auto loan	162	2	-	164	0.2 %
Other	211	21	1	231	0.3 %
Municipals:					
Taxable	3,219	27	94	3,152	4.6 %
Tax-exempt	3	-	-	3	0.0 %
Government and government agencies:					
United States	931	120	2	1,049	1.5 %
Foreign	1,438	94	7	1,525	2.2 %
Hybrid and redeemable preferred securities	1,476	56	135	1,397	2.0 %
Total fixed maturity AFS securities	65,745	4,270	1,401	68,614	100.0%
Equity AFS Securities	179	25	7	197	
Total AFS securities	65,924	4,295	1,408	68,811	
Trading Securities (1)	2,340	297	41	2,596	
Total AFS and trading securities	\$ 68,264	\$ 4,592	\$ 1,449	\$ 71,407	

(1)

Certain of our trading securities support our modified coinsurance arrangements (“Modco”) and the investment results are passed directly to the reinsurers. Refer to the “Trading Securities” section for further details.

## AFS Securities

In accordance with the AFS accounting guidance, we reflect stockholders' equity as if unrealized gains and losses were actually recognized, and consider all related accounting adjustments that would occur upon such a hypothetical recognition of unrealized gains and losses. Such related balance sheet effects include adjustments to the balances of DAC, VOBA, DFEL, other contract holder funds and deferred income taxes. Adjustments to each of these balances are charged or credited to accumulated OCI. For instance, DAC is adjusted upon the recognition of unrealized gains or losses because the amortization of DAC is based upon an assumed emergence of gross profits on certain insurance business. Deferred income tax balances are also adjusted because unrealized gains or losses do not affect actual taxes currently paid.

The quality of our AFS fixed maturity securities portfolio, as measured at estimated fair value and by the percentage of fixed maturity securities invested in various ratings categories, relative to the entire fixed maturity AFS security portfolio (in millions) was as follows:

NAIC Designation (1)	Rating Agency Equivalent Designation (1)	As of December 31, 2011			As of December 31, 2010		
		Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
<b>Investment Grade Securities</b>							
1	Aaa / Aa / A	\$ 42,436	\$ 47,490	62.4%	\$ 40,573	\$ 42,769	62.3%
2	Baa	23,323	25,237	33.1%	21,032	22,286	32.5%
<b>Total investment grade securities</b>		<b>65,759</b>	<b>72,727</b>	<b>95.5%</b>	<b>61,605</b>	<b>65,055</b>	<b>94.8%</b>
<b>Below Investment Grade Securities</b>							
3	Ba	2,466	2,350	3.1%	2,620	2,403	3.5%
4	B	960	750	1.0%	796	665	1.0%
5	Caa and lower	318	218	0.3%	476	325	0.5%
6	In or near default	158	88	0.1%	248	166	0.2%
<b>Total below investment grade securities</b>		<b>3,902</b>	<b>3,406</b>	<b>4.5%</b>	<b>4,140</b>	<b>3,559</b>	<b>5.2%</b>
<b>Total fixed maturity AFS securities</b>		<b>\$ 69,661</b>	<b>\$ 76,133</b>	<b>100.0%</b>	<b>\$ 65,745</b>	<b>\$ 68,614</b>	<b>100.0%</b>
<b>Total securities below investment grade as a percentage of total fixed maturity AFS securities</b>							
		<b>5.6%</b>	<b>4.5%</b>		<b>6.3%</b>	<b>5.2%</b>	

(1)

Based upon the rating designations determined and provided by the National Association of Insurance Commissioners (“NAIC”) or the major credit rating agencies (Fitch Ratings (“Fitch”), Moody's Investors Service (“Moody’s”) and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

Comparisons between the NAIC ratings and rating agency designations are published by the NAIC. The NAIC assigns securities quality ratings and uniform valuations, which are used by insurers when preparing their annual statements. The NAIC ratings are similar to the rating agency designations of the Nationally Recognized Statistical Rating Organizations for marketable bonds. NAIC ratings 1 and 2 include bonds generally considered investment grade (rated Baa3 or higher by Moody’s, or rated BBB- or higher by S&P and Fitch), by such ratings organizations. However, securities rated NAIC 1 and NAIC 2 could be deemed below investment grade by the rating agencies as a result of the current RBC rules for residential mortgage-backed securities (“RMBS”) and CMBS for statutory reporting. NAIC ratings 3 through 6 include bonds generally considered below investment grade (rated Ba1 or lower by Moody’s, or rated BB+ or lower by S&P and Fitch).

We have identified direct and indirect exposure to select countries in Europe that are currently experiencing stress in the credit markets, notably Greece, Ireland, Italy, Portugal, Spain, Hungary and Cyprus. These countries were identified due to high credit spreads and political and economic uncertainty in these countries. The exposure was determined by country of domicile, provided that a meaningful portion of revenues is generated from the country of domicile. As of December 31, 2011, we had direct sovereign exposure only to Italy with an amortized cost of \$3 million and fair value of \$2 million. We had no exposure to any issuers, sovereign or non-sovereign, located in Greece, Hungary or Cyprus. Our non-sovereign exposure in Ireland, Italy, Portugal and Spain was limited to two large banks in which we had investments with an amortized cost and fair value of \$77 million as of December 31, 2011.

Our total non-banking and non-sovereign AFS securities exposure to Ireland, Italy, Portugal and Spain had an amortized cost of \$770 million and a fair value of \$798 million as of December 31, 2011, of which approximately 50% was related to large multinational companies domiciled in those countries. The detailed breakout by country was as follows (in millions):

	Amortized Cost	Fair Value
Spain	\$ 367	\$ 386
Ireland	215	227
Italy	148	154
Portugal	40	31
Total	\$ 770	\$ 798

We purchased a European subordinated investment grade financial index hedge in the amount of €35 million with a maturity of December 20, 2016, to provide some protection on possible defaults on our European investments.

We manage European and other investment risks through our internal investment department and outside asset managers. The risk management is focused on monitoring spreads, pricing and monitoring of global economic developments. We have incorporated these risks into our stress testing.

As of December 31, 2011 and 2010, 67.4% and 79.8%, respectively, of the total publicly traded and private securities in an unrealized loss status were rated as investment grade. See Note 5 for maturity date information for our fixed maturity investment portfolio. Our gross unrealized losses on AFS securities as of December 31, 2011, decreased \$299 million. This change was attributable to a decline in overall market yields, which was driven by market uncertainty and weakening economic activity. As more fully described in Note 1, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of December 31, 2011, does not represent OTTI as we do not intend to sell these debt securities, it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities, or we have the ability and intent to hold the equity securities for a period of time sufficient for recovery. For further information on our unrealized losses on AFS securities see “Composition by Industry Categories of our Unrealized Losses on AFS Securities” below.

Selected information for certain AFS securities in a gross unrealized loss position (dollars in millions) was as follows:

	As of December 31, 2011					
	Gross Unrealized Losses	Fair Value	Estimated Years until Call	Estimated Average Recovery Years	Subordination Current	Estimated Level Origination
CMBS	\$ 324	\$ 115	1 to 41	27	22.1 %	15.3 %
Hybrid and redeemable preferred securities	677	170	1 to 55	31	N/A	N/A

As provided in the table above, many of the securities in these categories are long-dated with some of the preferred securities being perpetual. This is purposeful as it matches the long-term nature of our liabilities associated with our life insurance and annuity products. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” where

we present information related to maturities of securities and the expected cash flows for rate sensitive liabilities and maturities of our holding company debt, which also demonstrates the long-term nature of the cash flows associated with these items. Because of this relationship, we do not believe it will be necessary to sell these securities before they recover or mature. For these securities, the estimated range and average period until recovery is the call or maturity period. It is difficult to predict or project when the securities will recover as it is dependent upon a number of factors including the overall economic climate. We do not believe it is necessary to impair these securities as long as the expected future cash flows are projected to be sufficient to recover the amortized cost of these securities.

The actual range and period until recovery could vary significantly depending on a variety of factors, many of which are out of our control. There are several items that could affect the length of the period until recovery, such as the pace of economic recovery, level of delinquencies, performance of the underlying collateral, changes in market interest rates, exposures to various industry or geographic conditions, market behavior and other market conditions.

We concluded that it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, that the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities and that we have the ability to hold the equity AFS securities for a period of time sufficient for recovery. This conclusion is consistent with our asset-liability management process. Management considers the following as part of the evaluation:

- The current economic environment and market conditions;
- Our business strategy and current business plans;
- The nature and type of security, including expected maturities and exposure to general credit, liquidity, market and interest rate risk;
- Our analysis of data from financial models and other internal and industry sources to evaluate the current effectiveness of our hedging and overall risk management strategies;
- The current and expected timing of contractual maturities of our assets and liabilities, expectations of prepayments on investments and expectations for surrenders and withdrawals of life insurance policies and annuity contracts;
- The capital risk limits approved by management; and
- Our current financial condition and liquidity demands.

To determine the recoverability of a debt security, we consider the facts and circumstances surrounding the underlying issuer including, but not limited to, the following:

- Historic and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Adverse conditions specifically related to the security or to specific conditions in an industry or geographic area;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

As reported on our Consolidated Balance Sheets, we had \$97.6 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled \$82.8 billion as of December 31, 2011. If it were necessary to liquidate securities prior to maturity or call to meet cash flow needs, we would first look to those securities that are in an unrealized gain position, which had a fair value of \$69.1 billion, excluding consolidated VIEs in the amount of \$700 million, as of December 31, 2011, rather than selling securities in an unrealized loss position. The amount of cash that we have on hand at any point of time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the on-going cash flows from new and existing business.

See “AFS Securities – Evaluation for Recovery of Amortized Cost” in Note 1 and Note 5 for additional discussion.

As of December 31, 2011 and 2010, the estimated fair value for all private securities was \$9.3 billion and \$8.4 billion, respectively, representing approximately 10% of total invested assets.

For information regarding our VIEs’ fixed maturity securities, see Note 1 and Note 4.

#### Trading Securities

Trading securities, which in certain cases support reinsurance funds withheld and our Modco reinsurance agreements, are carried at estimated fair value and changes in estimated fair value are recorded in net income as they occur. Investment results for these certain portfolios, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. Offsetting these amounts in certain cases



are corresponding changes in fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. See Notes 1 and 9 for more information regarding our accounting for Modco.

Mortgage-Backed Securities (“MBS”) (Included in AFS and Trading Securities)

Our fixed maturity securities include MBS. These securities are subject to risks associated with variable prepayments. This may result in differences between the actual cash flow and maturity of these securities than that expected at the time of purchase. Securities that have an amortized cost greater than par and are backed by mortgages that prepay faster than expected will incur a reduction in yield or a loss. Those securities with an amortized cost lower than par that prepay faster than expected will generate an increase in yield or a gain. In addition, we may incur reinvestment risks if market yields are lower than the book yields earned on the securities. Prepayments occurring slower than expected have the opposite effect. We may incur reinvestment risks if market yields are higher than the book yields earned on the securities and we are forced to sell the securities. The degree to which a security is susceptible to either gains or losses is influenced by: the difference between its amortized cost and par; the relative

sensitivity of the underlying mortgages backing the assets to prepayment in a changing interest rate environment; and the repayment priority of the securities in the overall securitization structure.

We limit the extent of our risk on MBS by prudently limiting exposure to the asset class, by generally avoiding the purchase of securities with a cost that significantly exceeds par, by purchasing securities backed by stable collateral and by concentrating on securities with enhanced priority in their trust structure. Such securities with reduced risk typically have a lower yield (but higher liquidity) than higher-risk MBS. A significant amount of assets in our MBS portfolio are either guaranteed by U.S. government-sponsored enterprises or are supported in the securitization structure by junior securities enabling the assets to achieve high investment grade status.

Our exposure to subprime mortgage lending is limited to investments in banks and other financial institutions that may be affected by subprime lending and direct investments in CDOs, ABS and RMBS. Mortgage-related ABS are backed by home equity loans and RMBS are backed by residential mortgages. These securities are backed by loans that are characterized by borrowers of differing levels of creditworthiness: prime; Alt-A; and subprime. Prime lending is the origination of residential mortgage loans to customers with excellent credit profiles. Alt-A lending is the origination of residential mortgage loans to customers who have prime credit profiles but lack documentation to substantiate income. Subprime lending is the origination of loans to customers with weak or impaired credit profiles.

Delinquency and loss rates on residential mortgages and home equity loans have been showing positive trends, and as long as the unemployment rate remains stable to improving, we expect these trends to continue. We continue to expect to receive payments in accordance with contractual terms for a significant amount of our securities, largely due to the seniority of the claims on the collateral of the securities that we own. The tranches of the securities will experience losses according to their seniority level with the least senior (or most junior), typically the unrated residual tranche, taking the initial loss. The credit ratings of our securities reflect the seniority of the securities that we own. Our RMBS had a market value of \$8.3 billion and an unrealized gain of \$365 million, or 4%, as of December 31, 2011.

The market value of AFS securities and trading securities backed by subprime loans was \$442 million and represented less than 1% of our total investment portfolio as of December 31, 2011. AFS securities represented \$428 million, or 97%, and trading securities represented \$14 million, or 3%, of the subprime exposure as of December 31, 2011. AFS securities and trading securities rated A or above represented 45% of the subprime investments and \$223 million in market value of our subprime investments was backed by loans originating in 2005 and forward. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions):

Type	As of December 31, 2011									
	Prime Agency		Prime/ Non-Agency		Alt-A		Subprime		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
RMBS	\$ 6,743	\$ 6,207	\$ 835	\$ 911	\$ 461	\$ 567	\$ -	\$ 4	\$ 8,039	\$ 7,689
ABS home equity	4	4	-	-	205	280	428	621	637	905
Total by type (1)(2)	\$ 6,747	\$ 6,211	\$ 835	\$ 911	\$ 666	\$ 847	\$ 428	\$ 625	\$ 8,676	\$ 8,594
Rating										
AAA	\$ 6,672	\$ 6,142	\$ 62	\$ 60	\$ 32	\$ 31	\$ 79	\$ 82	\$ 6,845	\$ 6,315
AA	60	56	52	51	6	6	44	50	162	163
A	15	13	54	56	33	36	64	68	166	173
BBB	-	-	52	55	63	64	23	24	138	143
BB and below	-	-	615	689	532	710	218	401	1,365	1,800
Total by rating (1)(2)(3)	\$ 6,747	\$ 6,211	\$ 835	\$ 911	\$ 666	\$ 847	\$ 428	\$ 625	\$ 8,676	\$ 8,594
Origination Year										
2004 and prior	\$ 1,562	\$ 1,445	\$ 215	\$ 221	\$ 228	\$ 255	\$ 209	\$ 265	\$ 2,214	\$ 2,186
2005	842	754	119	141	245	300	158	230	1,364	1,425
2006	246	217	162	175	158	237	60	128	626	757
2007	1,097	963	339	374	35	55	-	-	1,471	1,392
2008	240	217	-	-	-	-	-	-	240	217
2009	1,197	1,121	-	-	-	-	1	2	1,198	1,123
2010	1,074	1,020	-	-	-	-	-	-	1,074	1,020
2011	489	474	-	-	-	-	-	-	489	474
Total by origination year (1)(2)	\$ 6,747	\$ 6,211	\$ 835	\$ 911	\$ 666	\$ 847	\$ 428	\$ 625	\$ 8,676	\$ 8,594
Total AFS RMBS as a percentage of total AFS securities									11.4%	12.3%
Total prime/non-agency, Alt-A and subprime as a percentage of total AFS securities									2.5%	3.4%

(1)

Does not include the fair value of trading securities totaling \$265 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$265 million in trading securities consisted of \$241 million prime, \$10 million Alt-A and \$14 million subprime.

- (2) Does not include the amortized cost of trading securities totaling \$255 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$255 million in trading securities consisted of \$225 million prime, \$13 million Alt-A and \$17 million subprime.
- (3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

None of these investments included any direct investments in subprime lenders or mortgages. We are not aware of material exposure to subprime loans in our alternative asset portfolio.

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions):

Type	As of December 31, 2011							
	Multiple Property		Single Property		CRE CDOs		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
CMBS	\$ 1,553	\$ 1,551	\$ 47	\$ 91	\$ -	\$ -	\$ 1,600	\$ 1,642
CRE CDOs	-	-	-	-	20	33	20	33
Total by type (1)(2)	\$ 1,553	\$ 1,551	\$ 47	\$ 91	\$ 20	\$ 33	\$ 1,620	\$ 1,675
Rating								
AAA	\$ 1,028	\$ 967	\$ 14	\$ 13	\$ -	\$ -	\$ 1,042	\$ 980
AA	215	213	10	10	-	-	225	223
A	134	138	5	6	1	1	140	145
BBB	108	114	5	6	7	8	120	128
BB and below	68	119	13	56	12	24	93	199
Total by rating (1)(2)(3)	\$ 1,553	\$ 1,551	\$ 47	\$ 91	\$ 20	\$ 33	\$ 1,620	\$ 1,675
Origination Year								
2004 and prior	\$ 901	\$ 893	\$ 23	\$ 23	\$ 4	\$ 5	\$ 928	\$ 921
2005	325	309	23	60	7	8	355	377
2006	136	149	1	8	9	20	146	177
2007	136	146	-	-	-	-	136	146
2010	55	54	-	-	-	-	55	54
Total by origination year (1)(2)	\$ 1,553	\$ 1,551	\$ 47	\$ 91	\$ 20	\$ 33	\$ 1,620	\$ 1,675

Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities

2.1% 2.4%

- (1) Does not include the fair value of trading securities totaling \$34 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$34 million in trading securities consisted of \$31 million CMBS and \$3 million CRE CDOs.
- (2) Does not include the amortized cost of trading securities totaling \$39 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$39 million in trading securities consisted of \$35 million CMBS and \$4 million CRE CDOs.
- (3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

As of December 31, 2011, the amortized cost and fair value of our exposure to Monoline insurers was \$593 million and \$537 million, respectively.

Composition by Industry Categories of our Unrealized Losses on AFS Securities

When considering unrealized gain and loss information, it is important to recognize that the information relates to the status of securities at a particular point in time and may not be indicative of the status of our investment portfolios subsequent to the balance sheet date. Further, because the timing of the recognition of realized investment gains and losses through the selection of which securities are sold is largely at management's discretion, it is important to consider the information provided below within the context of the overall unrealized gain or loss position of our investment portfolios. These are important considerations that should be included in any evaluation of the potential effect of unrealized loss securities on our future earnings.

The composition by industry categories of all securities in unrealized loss status (in millions), was as follows:

As of December 31, 2011

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss and OTTI	% Unrealized Loss and OTTI
ABS	\$ 680	10.5%	\$ 972	12.7%	\$ 292	26.3%
Banking	1,507	23.2%	1,769	23.2%	262	23.6%
CMOs	946	14.5%	1,142	15.0%	196	17.7%
CMBS	324	5.0%	439	5.8%	115	10.4%
Property and casualty insurers	108	1.7%	136	1.8%	28	2.5%
Media - non-cable	155	2.4%	182	2.4%	27	2.4%
Electric	217	3.3%	240	3.2%	23	2.1%
Retailers	67	1.0%	88	1.2%	21	1.9%
Paper	102	1.6%	122	1.6%	20	1.8%
Life	117	1.8%	129	1.7%	12	1.1%
Local authorities	40	0.6%	51	0.7%	11	1.0%
Wirelines	159	2.4%	170	2.2%	11	1.0%
Brokerage	87	1.3%	97	1.3%	10	0.9%
Industries with unrealized losses less than \$10 million	1,994	30.7%	2,075	27.2%	81	7.3%
Total by industry	\$ 6,503	100.0%	\$ 7,612	100.0%	\$ 1,109	100.0%

Total by industry as a percentage of total AFS securities

8.5% 10.9% 100.0%

As of December 31, 2011, the amortized cost and fair value of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss status was \$1,015 million and \$701 million, respectively.

#### Mortgage Loans on Real Estate

The following tables summarize key information on mortgage loans on real estate (in millions):

	As of December 31, 2011	As of December 31, 2010
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