

LINCOLN NATIONAL CORP  
Form 10-Q  
November 02, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

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

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LINCOLN NATIONAL CORPORATION

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(Exact name of registrant as specified in its charter)

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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)

(484) 583-1400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 30, 2018, there were 213,604,724 shares of the registrant's common stock outstanding.

## Lincoln National Corporation

## Table of Contents

Item	Page
PART I	
1. <u>Financial Statements</u>	1
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	48
<u>Forward-Looking Statements – Cautionary Language</u>	48
<u>Introduction</u>	49
<u>Executive Summary</u>	49
<u>Critical Accounting Policies and Estimates</u>	50
<u>Results of Consolidated Operations</u>	52
<u>Results of Annuities</u>	54
<u>Results of Retirement Plan Services</u>	60
<u>Results of Life Insurance</u>	64
<u>Results of Group Protection</u>	69
<u>Results of Other Operations</u>	71
<u>Realized Gain (Loss) and Benefit Ratio</u>	74
<u>Unlocking Consolidated Investments</u>	76

	<u>Review of Consolidated Financial Condition</u>	88
	<u>Liquidity and Capital Resources</u>	88
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	92
4.	<u>Controls and Procedures</u>	92

PART II

1.	<u>Legal Proceedings</u>	93
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	93
6.	<u>Exhibits</u>	93
	<u>Exhibit Index for the Report on Form 10-Q</u>	94
	<u>Signatures</u>	95

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of September 30, 2018 (Unaudited)	As of December 31, 2017
<b>ASSETS</b>		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2018 – \$90,808; 2017 – \$86,993)	\$ 93,161	\$ 94,840
Equity securities (cost: 2017 – \$247)	-	246
Trading securities	1,440	1,620
Equity securities	112	-
Mortgage loans on real estate	12,561	10,762
Real estate	12	11
Policy loans	2,490	2,399
Derivative investments	706	915
Other investments	2,204	2,296
Total investments	112,686	113,089
Cash and invested cash	1,460	1,628
Deferred acquisition costs and value of business acquired	10,014	8,403
Premiums and fees receivable	592	396
Accrued investment income	1,168	1,078
Reinsurance recoverables	18,271	4,907
Funds withheld reinsurance assets	566	593
Goodwill	1,757	1,368
Other assets	9,644	6,082
Separate account assets	147,692	144,219
Total assets	\$ 303,850	\$ 281,763
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Future contract benefits	\$ 33,988	\$ 22,887
Other contract holder funds	89,906	80,209
Short-term debt	-	450
Long-term debt	5,804	4,894
Reinsurance related embedded derivatives	20	57
Funds withheld reinsurance liabilities	1,733	1,761
Deferred gain on business sold through reinsurance	1	1

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Payables for collateral on investments	4,212	4,417
Other liabilities	5,424	5,546
Separate account liabilities	147,692	144,219
Total liabilities	288,780	264,441

Contingencies and Commitments (See Note 10)

Stockholders' Equity

Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 214,776,806 and 218,090,114 shares issued and outstanding as of September 30, 2018, and December 31, 2017, respectively	5,619	5,693
Retained earnings	8,615	8,399
Accumulated other comprehensive income (loss)	836	3,230
Total stockholders' equity	15,070	17,322
Total liabilities and stockholders' equity	\$ 303,850	\$ 281,763

See accompanying Notes to Consolidated Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
Revenues				
Insurance premiums	\$ 1,323	\$ 774	\$ 3,265	\$ 2,382
Fee income	1,550	1,401	4,475	4,148
Net investment income	1,271	1,239	3,736	3,738
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(2 )	(9 )	(5 )	(17 )
Portion of loss recognized in other comprehensive income	-	1	-	1
Net other-than-temporary impairment losses on securities recognized in earnings	(2 )	(8 )	(5 )	(16 )
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(53 )	(48 )	(46 )	(89 )
Total realized gain (loss)	(55 )	(56 )	(51 )	(105 )
Amortization of deferred gain on business sold through reinsurance	-	-	1	22
Other revenues	175	153	467	403
Total revenues	4,264	3,511	11,893	10,588
Expenses				
Interest credited	652	647	1,952	1,940
Benefits	1,626	1,261	4,646	3,839
Commissions and other expenses	1,367	1,020	3,600	3,068
Interest and debt expense	69	63	228	190
Strategic digitization expense	18	10	49	33
Total expenses	3,732	3,001	10,475	9,070
Income (loss) before taxes	532	510	1,418	1,518
Federal income tax expense (benefit)	42	92	176	254
Net income (loss)	490	418	1,242	1,264
Other comprehensive income (loss), net of tax	(365 )	148	(3,036 )	1,293
Comprehensive income (loss)	\$ 125	\$ 566	\$ (1,794 )	\$ 2,557
Net Income (Loss) Per Common Share				
Basic	\$ 2.27	\$ 1.89	\$ 5.71	\$ 5.66
Diluted	2.24	1.87	5.59	5.58
Cash Dividends Declared Per Common Share	\$ 0.33	\$ 0.29	\$ 0.99	\$ 0.87



See accompanying Notes to Consolidated Financial Statements

2

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## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Nine Months Ended September 30,	
	2018	2017
<b>Common Stock</b>		
Balance as of beginning-of-year	\$ 5,693	\$ 5,869
Stock compensation/issued for benefit plans	33	75
Retirement of common stock/cancellation of shares	(107 )	(227 )
Balance as of end-of-period	5,619	5,717
<b>Retained Earnings</b>		
Balance as of beginning-of-year	8,399	7,043
Cumulative effect from adoption of new accounting standards	(642 )	-
Net income (loss)	1,242	1,264
Retirement of common stock	(168 )	(373 )
Common stock dividends declared	(216 )	(196 )
Balance as of end-of-period	8,615	7,738
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance as of beginning-of-year	3,230	1,566
Cumulative effect from adoption of new accounting standards	642	-
Other comprehensive income (loss), net of tax	(3,036 )	1,293
Balance as of end-of-period	836	2,859
Total stockholders' equity as of end-of-period	\$ 15,070	\$ 16,314

See accompanying Notes to Consolidated Financial Statements



## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 1,242	\$ 1,264
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	86	38
Trading securities purchases, sales and maturities, net	162	83
Change in premiums and fees receivable	(109 )	60
Change in accrued investment income	(66 )	(75 )
Change in future contract benefits and other contract holder funds	(997 )	(1,152)
Change in reinsurance related assets and liabilities	426	80
Change in accrued expenses	73	(21 )
Change in federal income tax accruals	86	154
Realized (gain) loss	51	105
Amortization of deferred gain on business sold through reinsurance	(1 )	(22 )
Other	81	95
Net cash provided by (used in) operating activities	1,034	609
<b>Cash Flows from Investing Activities</b>		
Purchases of available-for-sale securities and equity securities	(8,816)	(7,465)
Sales of available-for-sale securities and equity securities	2,678	1,104
Maturities of available-for-sale securities	4,714	4,100
Purchase of common stock in acquisition, net of cash acquired	(1,410)	-
Sale of business, net	(12 )	-
Purchases of alternative investments	(234 )	(228 )
Sales and repayments of alternative investments	115	140
Issuance of mortgage loans on real estate	(2,035)	(1,342)
Repayment and maturities of mortgage loans on real estate	842	849
Issuance and repayment of policy loans, net	40	34
Net change in collateral on investments, derivatives and related settlements	22	90
Other	(144 )	(66 )
Net cash provided by (used in) investing activities	(4,240)	(2,784)
<b>Cash Flows from Financing Activities</b>		
Payment of long-term debt, including current maturities	(537 )	-
Issuance of long-term debt, net of issuance costs	1,094	-
Payment related to early extinguishment of debt	(23 )	-

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Proceeds from sales leaseback transaction	51	45
Deposits of fixed account values, including the fixed portion of variable	9,426	7,625
Withdrawals of fixed account values, including the fixed portion of variable	(4,466)	(4,309)
Transfers to and from separate accounts, net	(2,008)	(1,183)
Common stock issued for benefit plans	(7 )	38
Repurchase of common stock	(275 )	(600 )
Dividends paid to common stockholders	(217 )	(198 )
Net cash provided by (used in) financing activities	3,038	1,418
Net increase (decrease) in cash, invested cash and restricted cash	(168 )	(757 )
Cash, invested cash and restricted cash as of beginning-of-year	1,628	2,722
Cash, invested cash and restricted cash as of end-of-period	\$ 1,460	\$ 1,965

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries (“LNC” or the “Company,” which also may be referred to as “we,” “our” or “us”) operate multiple insurance businesses through four business segments. See Note 15 for additional details. The collective group of businesses uses “Lincoln Financial Group” as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products primarily include fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, indexed universal life insurance (“IUL”), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for the Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. As discussed in Note 3, on May 1, 2018, LNC and The Lincoln National Life Insurance Company (“LNL”) completed the acquisition of Liberty Life Assurance Company of Boston (“Liberty Life”). The information contained in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial condition, results of operations and cash flows, are summarized in our 2017 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company’s results. Operating results for the nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018. All material inter-company accounts and transactions have been eliminated in consolidation.



## 2. New Accounting Standards

## Adoption of New Accounting Standards

The following table provides a description of our adoption of new Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board and the impact of the adoption on our financial statements. ASUs not listed below were assessed and determined to be either not applicable or not material in presentation or amount.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers and all related amendments	This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services and defines a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity’s performance obligation. Although the standard and all related amendments supersede nearly all existing revenue recognition guidance under GAAP, the guidance does not amend the accounting for insurance and investment contracts recognized in accordance with Accounting Standards Codification™ (“ASC”) Topic 944, Financial Services – Insurance, leases, financial instruments and guarantees.	January 1, 2018	We adopted the standard and all related amendments using the modified retrospective method. Our primary sources of revenue are recognized in accordance with ASC Topic 944, Financial Services – Insurance; as such, revenue within the scope of the new standard primarily includes commissions and advisory fees earned by our broker dealer operation. The adoption did not have a material impact on our consolidated financial condition, results of operations, stockholders’ equity or cash flows. There were no material changes in the timing or measurement of revenues based upon the guidance. As a result, there is no cumulative effect on retained earnings. For more information, see Note 15.



Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	These amendments require, among other things, the fair value measurement of investments in equity securities and certain other ownership interests that do not result in consolidation and are not accounted for under the equity method of accounting. The change in fair value of the impacted investments in equity securities must be recognized in net income in the period of the change in fair value. In addition, the amendments include certain enhancements to the presentation and disclosure requirements for financial assets and financial liabilities. The guidance does not apply to Federal Home Loan Bank (“FHLB”) stock. Early adoption of the ASU is generally not permitted, except as defined in the ASU. The amendments were adopted in the financial statements through a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption.	January 1, 2018	At the time of adoption, we had equity securities classified as available-for-sale (“AFS”) with a total carrying value of \$246 million. We classified, prospectively, \$110 million of equity securities within the scope of this ASU in a separate line on our Consolidated Balance Sheets. The remaining securities, consisting of \$136 million of FHLB stock, are classified in other investments on our Consolidated Balance Sheets and carried at cost. The cumulative-effect adjustment of adopting this ASU was \$1 million.
ASU 2018-02, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income	These amendments require a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act (“Tax Act”) of 2017. The amount of the reclassification is equal to the impact of the change in deferred taxes related to amounts recorded in AOCI resulting from the change in the statutory corporate tax rate from 35% to 21%. Early adoption is permitted and retrospective application is required.	January 1, 2018	We retrospectively reclassified \$641 million of stranded tax effects from AOCI to retained earnings in the period of adoption.

## Future Adoption of New Accounting Standards

The following table provides a description of future adoptions of new accounting standards that may have an impact on our financial statements when adopted:

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet as a right-of-use asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the right-of-use asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.	January 1, 2019	We continue to gather information to determine our leases that are within the scope of this standard. We do not expect there to be a significant difference in our pattern of lease expense recognition under this ASU.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	These amendments adopt a new model to measure and recognize credit losses for most financial assets. The method used to measure estimated credit losses for AFS debt securities will be unchanged from current GAAP; however, the amendments require credit losses to be recognized through an allowance rather than as a reduction to the amortized cost of those debt securities. The amendments will permit entities to recognize improvements in credit loss estimates on AFS debt securities by reducing the allowance account immediately through earnings. The amendments will be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.	January 1, 2020	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations, with a primary focus on our fixed maturity securities, mortgage loans and reinsurance recoverables.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	These amendments require an entity to shorten the amortization period for certain callable debt securities held at a premium so that the premium is amortized to the earliest call date. Early adoption is permitted, and the ASU requires adoption under a modified retrospective basis through a cumulative-effect adjustment to the beginning balance of retained earnings.	January 1, 2019	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	These amendments change both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments retain the threshold of highly effective for hedging relationships, remove the requirement to bifurcate between the portions of the hedging relationship that are effective and ineffective, record hedge item and hedging instrument results in the same financial statement line item, require quantitative assessment initially for all hedging relationships unless the hedging relationship meets the definition of either the shortcut method or critical terms match method and allow the contractual specified index rate to be designated as the hedged risk in a cash flow hedge of interest rate risk of a variable rate financial instrument. These amendments also eliminate the benchmark interest rate concept for variable rate instruments. Early adoption is permitted.	January 1, 2019	We do not currently expect the adoption of this guidance to have a material impact on our consolidated financial condition and results of operations.
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Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	These amendments make changes to the accounting and reporting for long-duration contracts issued by an insurance entity that will significantly change how insurers account for long-duration contracts, including how they measure, recognize and make disclosures about insurance liabilities and deferred acquisition costs (“DAC”). Under this ASU insurers will be required to review cash flow assumptions at least annually and update them if necessary. They also will have to make quarterly updates to the discount rate assumptions they use to measure the liability for future policyholder benefits. The ASU creates a new category of market risk benefits (i.e., features that protect the contract holder from capital market risk and expose the insurer to that risk) that insurers will have to measure at fair value. The ASU provides various transition methods by topic that entities may elect upon adoption. Early adoption is permitted.	January 1, 2021	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

### 3. Acquisition

As previously announced, on May 1, 2018, we completed the acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business (“Liberty Group Business”) and individual life and individual and group annuity business (the “Liberty Life Business”), from Liberty Mutual Insurance Company in a transaction accounted for under the acquisition method of accounting pursuant to Business Combinations Topic 805 (“Topic 805”). The acquisition enables us to increase our market share within the group protection marketplace.

In connection with the acquisition and pursuant to the Master Transaction Agreement (“MTA”), dated January 18, 2018, which was attached as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on January 22, 2018, Liberty Life sold the Liberty Life Business on May 1, 2018, by entering into reinsurance agreements and related ancillary documents (including administrative services agreements and transition services agreements) with Protective Life Insurance Company and its wholly-owned subsidiary, Protective Life and Annuity Insurance Company (together with Protective Life Insurance Company, “Protective”), providing for the reinsurance and administration of the Liberty Life Business.

Liberty Life’s excess capital of \$1.8 billion was paid to Liberty Mutual Insurance Company through an extraordinary dividend at the acquisition date. We paid \$1.5 billion of cash to Liberty Mutual Insurance Company to acquire the Liberty Group Business.

We recognized \$10 million and \$60 million of acquisition-related costs, pre-tax, for the three and nine months ended September 30, 2018, respectively. These costs are included in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

9

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The acquisition date fair values of certain assets and liabilities, including future contract benefits, intangible assets and related weighted average expected lives, commercial mortgage loans, reinsurance recoverables and deferred income taxes, are provisional and subject to revision within one year of the acquisition date. Under the terms of the MTA, a final balance sheet will be agreed upon at a later date. As such, our estimates of fair values are pending finalization, which may result in adjustments to goodwill. The following table presents the preliminary fair values (in millions) of the net assets acquired related to the Liberty Group Business as of the acquisition date:

	Preliminary Fair Value
Assets	
Investments	\$ 2,493
Mortgage loans on real estate	658
Cash and invested cash	107
Reinsurance recoverables	76
Premiums and fees receivable	83
Accrued investment income	24
Other intangible assets acquired	640
Other assets acquired	142
Separate account assets	99
Total assets acquired	\$ 4,322
Liabilities	
Future contract benefits	\$ 2,930
Other contract holder funds	46
Other liabilities acquired	120
Separate account liabilities	99
Total liabilities assumed	\$ 3,195
Net identifiable assets acquired	\$ 1,127
Goodwill	390
Net assets acquired	\$ 1,517

#### Identifiable Intangible Assets

The following table presents the fair value of identifiable intangible assets acquired (dollars in millions):

Weighted-  
Average

	Amortization	
	Fair	
	Value	Period
Value of customer relationships acquired	\$ 576	20
Value of distribution agreements	31	13
Value of business acquired	30	3
Insurance licenses	3	N/A
Total identifiable intangible assets	\$ 640	

The value of customer relationships acquired (“VOCRA”) and value of distribution agreements (“VODA”), included in other assets on our Consolidated Balance Sheets, reflects the estimated fair value of the customer relationships acquired and distribution agreements of the Liberty Group Business as of May 1, 2018. The value of the identifiable intangible assets was estimated using a discounted cash flow method. Significant inputs to the valuation models include estimates of expected premiums, persistency rates, investment returns, claim costs, expenses and discount rates based on a weighted average cost of capital. Similar to other specifically identifiable intangible assets, the carrying values of VOCRA and VODA will be amortized using a straight-line method and reviewed at least annually for indicators of impairment in value that are other-than-temporary.

For information on value of business acquired (“VOBA”), see Notes 1 and 8 in our 2017 Form 10-K.

The value of insurance licenses was estimated using the comparable transaction method under the market approach based on arms-length transactions in which certificate authority companies with life and health insurance licenses were purchased. The value of insurance licenses has an indefinite useful life.

## Goodwill

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from assets acquired and liabilities assumed that could not be individually identified. The goodwill recorded as part of the acquisition includes the expected synergies and other benefits that management believes will result from the acquisition, including an increase in distribution strength. The goodwill resulting from the acquisition was allocated to the Group Protection segment. The goodwill is not expected to be deductible for income tax purposes. For more information on goodwill, see Notes 1 and 10 in our 2017 Form 10-K.

## Future Contract Benefits

Unpaid claims acquired reflected within future contract benefits were recorded at estimated fair value. The reserve discount rate was based on the investment yield of the assets acquired with adjustments for risk margin. The actuarial classifications and methodologies were adjusted to be consistent with our accounting policies and reserve methodologies.

## Financial Information

Since the acquisition date of May 1, 2018, the revenues and net income of the business acquired have been included in our Consolidated Statements of Comprehensive Income (Loss) in the Group Protection segment and were \$929 million and \$26 million, respectively.

The following unaudited pro forma condensed consolidated results of operations of the Company assume that the acquisition of Liberty Life was completed on January 1, 2017 (in millions):

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Revenue	\$ 4,263	\$ 3,989	\$ 12,632	\$ 12,030
Net income	497	396	1,287	1,201



Pro forma adjustments include the revenue and net income of the acquired business for each period as well as amortization of identifiable intangible assets acquired and the fair value adjustment to acquired insurance reserves and investments. Other pro forma adjustments include the incremental increase to interest expense attributable to financing the acquisition; and the impact of reflecting acquisition and integration costs and investment expenses directly attributable to the business combination in 2017 instead of in 2018. Pro forma adjustments do not include retrospective adjustments to defer and amortize acquisition costs as would be recorded under our accounting policy.

#### Reinsurance

Pursuant to the reinsurance agreements, we sold the Liberty Life Business to Protective for a ceding commission of \$423 million. Our amounts recoverable from reinsurers increased significantly to \$18.3 billion as of September 30, 2018, from \$4.9 billion as of December 31, 2017, primarily as a result of this reinsurance transaction. As such, Protective now represents our largest reinsurance exposure. As we are not relieved of our liability, the liabilities and obligations associated with the reinsured policies remain on our Consolidated Balance Sheets with a corresponding reinsurance recoverable from Protective. To support its obligations under the reinsurance agreements, Protective has established trust accounts for our benefit that fully collateralize the related reinsurance recoverable. We recorded a deferred tax asset attributed to a tax loss carryforward arising from the reinsurance transaction with Protective.

#### 4. Variable Interest Entities

##### Consolidated VIEs

See Note 4 in our 2017 Form 10-K for a detailed discussion of our consolidated variable interest entities (“VIEs”), which information is incorporated herein by reference.

Asset information (dollars in millions) for the consolidated VIEs included on our Consolidated Balance Sheets was as follows:

	As of September 30, 2018			As of December 31, 2017		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Total return swap	1	587	-	1	573	-
Total assets	1	\$ 587	\$ -	1	\$ 573	\$ -

As of September 30, 2018, and December 31, 2017, there were no gains or losses for consolidated VIEs recognized on our Consolidated Statements of Comprehensive Income (Loss).

#### Unconsolidated VIEs

See Note 4 in our 2017 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

#### Limited Partnerships and Limited Liability Companies

We invest in certain limited partnerships (“LPs”) and limited liability companies (“LLCs”), including qualified affordable housing projects, that we have concluded are VIEs. We do not hold any substantive kick-out or participation rights in the LPs and LLCs, and we do not receive any performance fees or decision maker fees from the LPs and LLCs. Based on our analysis of the LPs and LLCs, we are not the primary beneficiary of the VIEs as we do not have the power to direct the most significant activities of the LPs and LLCs.

The carrying amounts of our investments in the LPs and LLCs are recognized in other investments on our Consolidated Balance Sheets and were \$1.7 billion and \$1.5 billion as of September 30, 2018, and December 31, 2017, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were \$25 million and \$31 million as of September 30, 2018, and December 31, 2017, respectively. We do not

have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We received returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits that were \$1 million and \$2 million for the nine months ended September 30, 2018 and 2017, respectively, which were recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss).

Our exposure to loss is limited to the capital we invest in the LPs and LLCs, and there have been no indicators of impairment that would require us to recognize an impairment loss related to the LPs and LLCs as of September 30, 2018.

## 5. Investments

### AFS Securities

See Note 1 in our 2017 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements. In addition, we adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, in 2018 that resulted in a new classification and measurement of our equity securities. See Note 2 for additional information.

The amortized cost, gross unrealized gains, losses and other-than-temporary impairment ("OTTI") and fair value of AFS securities (in millions) were as follows:

	As of September 30, 2018				Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	OTTI (1)	
Fixed maturity AFS securities:					
Corporate bonds	\$ 78,496	\$ 3,299	\$ 1,724	\$ (9 )	\$ 80,080
Asset-backed securities ("ABS")	934	41	7	(17)	985
U.S. government bonds	392	23	6	-	409
Foreign government bonds	418	41	-	-	459
Residential mortgage-backed securities ("RMBS")	3,267	113	114	(21)	3,287
Commercial mortgage-backed securities ("CMBS")	766	2	23	(3 )	748
Collateralized loan obligations ("CLOs")	1,371	-	14	(5 )	1,362
State and municipal bonds	4,588	656	26	-	5,218
Hybrid and redeemable preferred securities	576	62	25	-	613
Total AFS securities	\$ 90,808	\$ 4,237	\$ 1,939	\$ (55)	\$ 93,161



	As of December 31, 2017				Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	OTTI (1)	
Fixed maturity AFS securities:					
Corporate bonds	\$ 75,701	\$ 6,862	\$ 354	\$ (7 )	\$ 82,216
ABS	903	51	7	(27)	974
U.S. government bonds	527	41	1	-	567
Foreign government bonds	395	56	-	-	451
RMBS	3,327	155	39	(22)	3,465
CMBS	590	10	2	(2 )	600
CLOs	803	2	2	(5 )	808
State and municipal bonds	4,172	953	6	-	5,119
Hybrid and redeemable preferred securities	575	87	22	-	640
Total fixed maturity securities	86,993	8,217	433	(63)	94,840
Equity AFS securities	247	16	17	-	246
Total AFS securities	\$ 87,240	\$ 8,233	\$ 450	\$ (63)	\$ 95,086

(1) Includes unrealized (gains) and losses on impaired securities related to changes in the fair value of such securities subsequent to the impairment measurement date.

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of September 30, 2018, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 3,631	\$ 3,669
Due after one year through five years	17,430	17,509
Due after five years through ten years	17,493	17,440
Due after ten years	45,916	48,161
Subtotal	84,470	86,779
Structured securities (ABS, MBS, CLOs)	6,338	6,382
Total fixed maturity AFS securities	\$ 90,808	\$ 93,161

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

The fair value and gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) (“OCI”), of AFS securities (dollars in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	As of September 30, 2018					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	Gross Unrealized Losses and OTTI
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI		
Fixed maturity AFS securities:						
Corporate bonds	\$ 33,196	\$ 1,188	\$ 4,690	\$ 538	\$ 37,886	\$ 1,726
ABS	252	3	129	12	381	15
U.S. government bonds	169	4	18	2	187	6
RMBS	836	43	603	73	1,439	116
CMBS	624	18	57	5	681	23
CLOs	1,062	14	34	-	1,096	14
State and municipal bonds	724	15	75	11	799	26
Hybrid and redeemable preferred securities	31	2	132	22	163	24
Total AFS securities	\$ 36,894	\$ 1,287	\$ 5,738	\$ 663	\$ 42,632	\$ 1,950
Total number of AFS securities in an unrealized loss position						3,480

	As of December 31, 2017					
	Less Than or		Greater Than		Total	Gross
	Equal		Twelve Months			
	Fair	Gross	Fair	Gross	Fair	Losses and
Value	Unrealized	Value	Unrealized	Value	Losses and	
	OTTI	OTTI	OTTI	OTTI	OTTI	OTTI
Fixed maturity AFS securities:						
Corporate bonds	\$ 4,854	\$ 68	\$ 4,893	\$ 288	\$ 9,747	\$ 356
ABS	62	1	151	15	213	16
U.S. government bonds	156	-	19	1	175	1
RMBS	302	4	641	36	943	40
CMBS	113	-	60	3	173	3
CLOs	281	2	72	-	353	2
State and municipal bonds	34	-	93	6	127	6
Hybrid and redeemable						
preferred securities	20	-	126	22	146	22
Total fixed maturity securities	5,822	75	6,055	371	11,877	446
Equity AFS securities	22	14	8	3	30	17
Total AFS securities	\$ 5,844	\$ 89	\$ 6,063	\$ 374	\$ 11,907	\$ 463
Total number of AFS securities in an unrealized loss position						1,128

The fair value, gross unrealized losses, the portion of OTTI recognized in OCI (in millions) and number of AFS securities where the fair value had declined and remained below amortized cost by greater than 20% were as follows:

	As of September 30, 2018			
	Fair	Gross		Number
		Value	Unrealized	
	Losses			OTTI
	(1)			
Less than six months	\$ 131	\$ 47	\$ -	20
Six months or greater, but less than nine months	21	16	-	3

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Nine months or greater, but less than twelve months	39	16	-	4
Twelve months or greater	123	50	8	29
Total	\$ 314	\$ 129	\$ 8	56

As of December 31, 2017

	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	\$ 156	\$ 57	\$ 1	26
Six months or greater, but less than nine months	2	1	-	4
Nine months or greater, but less than twelve months	15	8	-	7
Twelve months or greater	215	78	10	49
Total	\$ 388	\$ 144	\$ 11	86

(1) We may reflect a security in more than one aging category based on various purchase dates.

We regularly review our investment holdings for OTTI. Our gross unrealized losses, including the portion of OTTI recognized in OCI, on fixed maturity AFS securities increased by \$1.5 billion for the nine months ended September 30, 2018. As discussed further below, we believe the unrealized loss position as of September 30, 2018, did not represent OTTI as (i) we did not intend to sell these fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell these fixed maturity AFS securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities.

Based upon this evaluation as of September 30, 2018, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.



As of September 30, 2018, the unrealized losses associated with our corporate bond securities were attributable primarily to widening credit spreads and rising interest rates since purchase. We performed a detailed analysis of the financial performance of the underlying issuers and determined that we expected to recover the entire amortized cost for each temporarily-impaired security.

As of September 30, 2018, the unrealized losses associated with our mortgage-backed securities (“MBS”) and ABS were attributable primarily to widening credit spreads and rising interest rates since purchase. We assessed for credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost of each temporarily-impaired security.

As of September 30, 2018, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of underlying issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the underlying issuers based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each temporarily-impaired security.

Changes in the amount of credit loss of OTTI recognized in net income (loss) where the portion related to other factors was recognized in OCI (in millions) on fixed maturity AFS securities were as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Balance as of beginning-of-period	\$ 375	\$ 390	\$ 378	\$ 430
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	2	8	4	13
Credit losses on securities for which an OTTI was previously recognized	-	1	1	4
Decreases attributable to:				
Securities sold, paid down or matured	(5 )	(21 )	(11 )	(69 )

Balance as of end-of-period                      \$ 372   \$ 378   \$ 372   \$ 378

During the nine months ended September 30, 2018 and 2017, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
- Deterioration of creditworthiness of the issuer;
- Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates; and
- Deterioration of the rating of the security by a rating agency.

We recognize the OTTI attributed to the noncredit portion as a separate component in OCI referred to as unrealized OTTI on fixed maturity AFS securities.

#### Mortgage Loans on Real Estate

See Note 1 in our 2017 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 22% and 21% of mortgage loans on real estate as of September 30, 2018, and December 31, 2017, respectively, and Texas which accounted for 12% of mortgage loans on real estate as of September 30, 2018, and December 31, 2017.

The following provides the current and past due composition of our mortgage loans on real estate (in millions):

	As of September 30, 2018	As of December 31, 2017
Current	\$ 12,578	\$ 10,762
60 to 90 days past due	-	-
Greater than 90 days past due	1	3
Valuation allowance associated with impaired mortgage loans on real estate	(1 )	(3 )
Unamortized premium (discount)	(17 )	-
Total carrying value	\$ 12,561	\$ 10,762

The number of impaired mortgage loans on real estate, each of which had an associated specific valuation allowance, and the carrying value of impaired mortgage loans on real estate (dollars in millions) were as follows:

	As of September 30, 2018	As of December 31, 2017
Number of impaired mortgage loans on real estate	1	3
Principal balance of impaired mortgage loans on real estate	\$ 4	\$ 11
Valuation allowance associated with impaired mortgage loans on real estate	(1 )	(3 )
Carrying value of impaired mortgage loans on real estate	\$ 3	\$ 8

The changes in the valuation allowance associated with impaired mortgage loans on real estate (in millions) were as follows:

For the Three Months Ended	For the Nine Months Ended
-------------------------------------	---------------------------------

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	September 30, 2018		September 30, 2017	
Balance as of beginning-of-period	\$ 2	\$ 2	\$ 3	\$ 2
Additions	-	-	-	-
Charge-offs, net of recoveries	(1 )	-	(2 )	-
Balance as of end-of-period	\$ 1	\$ 2	\$ 1	\$ 2

Additional information related to impaired mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Average carrying value for impaired mortgage loans on real estate	\$ 5	\$ 5	\$ 6	\$ 5
Interest income recognized on impaired mortgage loans on real estate	-	-	-	-
Interest income collected on impaired mortgage loans on real estate	-	-	-	-

As described in Note 1 in our 2017 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans on real estate, which were as follows (dollars in millions):

	As of September 30, 2018			As of December 31, 2017		
	Carrying Value	% of Total	Debt- Service Coverage Ratio	Carrying Value	% of Total	Debt- Service Coverage Ratio
Loan-to-Value Ratio						
Less than 65%	\$ 11,297	89.9%	2.30	\$ 9,642	89.6%	2.26
65% to 74%	1,187	9.5%	1.79	1,000	9.3%	1.94
75% to 100%	74	0.6%	0.95	112	1.0%	0.97
Greater than 100%	3	0.0%	0.21	8	0.1%	0.82
Total mortgage loans on real estate	\$ 12,561	100.0%		\$ 10,762	100.0%	

## Alternative Investments

As of September 30, 2018, and December 31, 2017, alternative investments included investments in 239 and 224 different partnerships, respectively, and the portfolios represented approximately 1% of our overall invested assets.

## Realized Gain (Loss) Related to Certain Investments

The detail of the realized gain (loss) related to certain investments (in millions) was as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Fixed maturity AFS securities: (1)				
Gross gains	\$ 14	\$ 7	\$ 30	\$ 19
Gross losses	(21)	(22)	(65)	(47)
Equity AFS securities:				
Gross gains	-	1	-	2
Gain (loss) on other investments (2)	1	-	6	(6)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(5)	(5)	(16)	(17)
Total realized gain (loss) related to certain investments, pre-tax	\$ (11)	\$ (19)	\$ (45)	\$ (49)

(1) These amounts are represented net of related fair value hedging activity. See Note 6 for more information.

(2) Includes market adjustments on equity securities still held of less than \$1 million and \$2 million for the three and nine months ended September 30, 2018, respectively.

Details underlying write-downs taken as a result of OTTI (in millions) that were recognized in net income (loss) and included in realized gain (loss) on AFS securities above, were as follows:

For the Nine

	For the Three Months Ended September 30, 2018		Months Ended September 30, 2017	
OTTI Recognized in Net Income (Loss)				
Fixed maturity AFS securities:				
Corporate bonds	\$ (2 )	\$ (8 )	\$ (4 )	\$ (13 )
ABS	-	(1 )	-	(2 )
RMBS	-	-	(1 )	(1 )
State and municipal bonds	-	-	-	(1 )
Gross OTTI recognized in net income (loss)	(2 )	(9 )	(5 )	(17 )
Associated amortization of DAC, VOBA, DSI and DFEL	-	1	-	1
Net OTTI recognized in net income (loss), pre-tax	\$ (2 )	\$ (8 )	\$ (5 )	\$ (16 )

We recognized less than \$1 million of OTTI in OCI for the three and nine months ended September 30, 2018. We recognized \$1 million of OTTI in OCI for the three and nine months ended September 30, 2017.

#### Determination of Credit Losses on Corporate Bonds and ABS

As of September 30, 2018, and December 31, 2017, we reviewed our corporate bond and ABS portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2018, and December 31, 2017, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2018, and December 31, 2017, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of \$3.2 billion and \$3.5 billion, respectively, and a fair value of \$3.1 billion and \$3.5 billion, respectively. As of September 30, 2018, and December 31, 2017, 98% of the fair value of our ABS portfolio was rated investment grade. As of September 30, 2018, and December 31, 2017, the portion of our ABS portfolio rated below investment grade had an amortized cost of \$46 million and a fair value of \$43 million. Based upon the analysis discussed above, we

believe as of September 30, 2018, and December 31, 2017, that we would recover the amortized cost of each investment grade corporate bond and ABS security.

#### Determination of Credit Losses on MBS

As of September 30, 2018, and December 31, 2017, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 10% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity, if defaulted. For first lien loans, we assume a minimum of 30% severity with higher severity assumed for investor properties and further adjusted by housing price assumptions. With the default rate timing curve and loan-level loss severity, we derive the future expected credit losses.

#### Payables for Collateral on Investments

The carrying value of the payables for collateral on investments (in millions) included on our Consolidated Balance Sheets and the fair value of the related investments or collateral consisted of the following:

	As of September 30, 2018		As of December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	\$ 366	\$ 366	\$ 765	\$ 765
Securities pledged under securities lending agreements (2)	117	113	222	213
Securities pledged under repurchase agreements (3)	149	185	530	588
Investments pledged for Federal Home Loan Bank of Indianapolis (“FHLBI”) (4)	3,580	5,413	2,900	4,235
Total payables for collateral on investments	\$ 4,212	\$ 6,077	\$ 4,417	\$ 5,801

- (1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for additional information.
- (2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
- (3) Our pledged securities under repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount between 80% to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our repurchase program is typically invested in fixed maturity AFS securities.
- (4) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

Increase (decrease) in payables for collateral on investments (in millions) consisted of the following:

	For the Nine Months Ended September 30, 2018 2017	
Collateral payable for derivative investments	\$ (399)	\$ 41
Securities pledged under securities lending agreements	(105)	(16)
Securities pledged under repurchase agreements	(381)	(2)
Investments pledged for FHLBI	680	(50)
Total increase (decrease) in payables for collateral on investments	\$ (205)	\$ (27)



We have elected not to offset our repurchase agreements and securities lending transactions in our financial statements. The remaining contractual maturities of repurchase agreements and securities lending transactions accounted for as secured borrowings (in millions) were as follows:

	As of September 30, 2018				Total
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	
Repurchase Agreements					
Corporate bonds	\$ -	\$ -	\$ -	\$ 149	\$ 149
Total	-	-	-	149	149
Securities Lending					
Corporate bonds	117	-	-	-	117
Total	117	-	-	-	117
Total gross secured borrowings	\$ 117	\$ -	\$ -	\$ 149	\$ 266

	As of December 31, 2017				Total
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	
Repurchase Agreements					
Corporate bonds	\$ -	\$ 100	\$ 280	\$ 150	\$ 530
Total	-	100	280	150	530
Securities Lending					
Corporate bonds	222	-	-	-	222
Total	222	-	-	-	222
Total gross secured borrowings	\$ 222	\$ 100	\$ 280	\$ 150	\$ 752

We accept collateral in the form of securities in connection with repurchase agreements. In instances where we are permitted to sell or re-pledge the securities received, we report the fair value of the collateral received and a related obligation to return the collateral in the financial statements. In addition, we receive securities in connection with securities borrowing agreements, which we are permitted to sell or re-pledge. As of September 30, 2018, the fair value of all collateral received that we are permitted to sell or re-pledge was \$528 million. As of September 30, 2018, we have re-pledged \$502 million of this collateral to cover initial margin on certain derivative investments.

## Investment Commitments

As of September 30, 2018, our investment commitments were \$1.5 billion, which included \$815 million of LPs, \$379 million of mortgage loans on real estate and \$334 million of private placement securities.

## Concentrations of Financial Instruments

As of September 30, 2018, and December 31, 2017, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$1.4 billion and \$1.3 billion, respectively, or 1% of our invested assets portfolio, and our investments in securities issued by the Federal National Mortgage Association with a fair value of \$1.2 billion and \$1.0 billion, respectively, or 1% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

As of September 30, 2018, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry and the financial services industry with a fair value of \$14.5 billion and \$13.7 billion, respectively, or 13% and 12%, respectively, of our invested assets portfolio. As of December 31, 2017, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry and the utilities industry with a fair value of \$15.0 billion and \$14.3 billion, respectively, or 13% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

## 6. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, basis risk and credit risk. See Note 1 in our 2017 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2017 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy, which information is incorporated herein by reference. See Note 14 for additional disclosures related to the fair value of our derivative instruments.

We have derivative instruments with off-balance-sheet risks whose notional or contract amounts exceed the related credit exposure. Outstanding derivative instruments with off-balance-sheet risks (in millions) were as follows:

	As of September 30, 2018			As of December 31, 2017		
	Notional Amounts	Fair Value Asset	Liability	Notional Amounts	Fair Value Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	\$ 2,827	\$ 121	\$ 42	\$ 3,007	\$ 46	\$ 84
Foreign currency contracts (1)	2,085	104	71	1,804	79	79
Total cash flow hedges	4,912	225	113	4,811	125	163
Fair value hedges:						
Interest rate contracts (1)	1,268	30	112	1,438	254	174
Non-Qualifying Hedges						
Interest rate contracts (1)	90,138	318	233	72,937	657	127
Foreign currency contracts (1)	87	-	-	22	-	-
Equity market contracts (1)	24,967	534	140	31,090	562	557
Credit contracts (1)	-	-	-	52	-	-
Embedded derivatives:						
Guaranteed living benefit ("GLB")						
direct (2)	-	1,648	-	-	903	-
GLB ceded (2) (3)	-	35	193	-	51	67
Reinsurance related (4)	-	-	20	-	-	57
Indexed annuity and IUL contracts (2) (5)	-	44	1,571	-	11	1,418
Total derivative instruments	\$ 121,372	\$ 2,834	\$ 2,382	\$ 110,350	\$ 2,563	\$ 2,563

(1) Reported in derivative investments and other liabilities on our Consolidated Balance Sheets.

(2) Reported in other assets on our Consolidated Balance Sheets.

(3) Reported in other liabilities on our Consolidated Balance Sheets.

(4) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

(5) Reported in future contract benefits on our Consolidated Balance Sheets.

The maturity of the notional amounts of derivative instruments (in millions) was as follows:

Remaining Life as of September 30, 2018

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	Less Than 1 Year	1 - 5 Years	6 - 10 Years	11 - 30 Years	Over 30 Years	Total
Interest rate contracts (1)	\$ 10,907	\$ 14,802	\$ 47,193	\$ 20,118	\$ 1,213	\$ 94,233
Foreign currency contracts (2)	141	256	635	1,130	10	2,172
Equity market contracts	18,103	3,615	115	14	3,120	24,967
Total derivative instruments with notional amounts	\$ 29,151	\$ 18,673	\$ 47,943	\$ 21,262	\$ 4,343	\$ 121,372

(1) As of September 30, 2018, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.

(2) As of September 30, 2018, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was September 2049.

The change in our unrealized gain (loss) on derivative instruments in AOCI (in millions) was as follows:

	For the Nine Months Ended September 30, 2018 2017	
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	\$ (29 )	\$ 49
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cumulative effect from adoption of new accounting standard	(6 )	-
Cash flow hedges:		
Interest rate contracts	117	(15 )
Foreign currency contracts	(19 )	46
Change in foreign currency exchange rate adjustment	69	(119)
Change in DAC, VOBA, DSI and DFEL	8	(3 )
Income tax benefit (expense)	(37 )	32
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	3	3
Interest rate contracts (2)	(6 )	(13 )
Foreign currency contracts (1)	18	12
Foreign currency contracts (3)	-	5
Associated amortization of DAC, VOBA, DSI and DFEL	(1 )	(1 )
Income tax benefit (expense)	(3 )	(2 )
Balance as of end-of-period	\$ 92	\$ (14 )

- (1) The OCI offset is reported within net investment income on our Consolidated Statements of Comprehensive Income (Loss).
- (2) The OCI offset is reported within interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
- (3) The OCI offset is reported within realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The gains (losses) on derivative instruments (in millions) recorded within income (loss) from continuing operations on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	\$ 1	\$ 2	\$ 3	\$ 3
Interest rate contracts (2)	(4 )	(5 )	(6 )	(13 )
Foreign currency contracts (1)	7	4	18	12
Foreign currency contracts (3)	-	-	-	5
Total cash flow hedges	4	1	15	7
Fair value hedges:				
Interest rate contracts (1)	(2 )	(5 )	(11 )	(18 )
Interest rate contracts (2)	5	6	11	21
Interest rate contracts (3)	17	2	64	2
Total fair value hedges	20	3	64	5
Non-Qualifying Hedges				
Interest rate contracts (3)	(167)	18	(577)	161
Foreign currency contracts (3)	-	1	2	1
Equity market contracts (3)	(199)	(347)	(280)	(1,163)
Equity market contracts (4)	10	6	11	21
Embedded derivatives:				
GLB (3)	333	233	603	784
Reinsurance related (3)	5	3	37	3
Indexed annuity and IUL contracts (3)	(164)	(46 )	(175)	(230 )
Total derivative instruments	\$ (158)	\$ (128)	\$ (300)	\$ (411 )

- (1) Reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss).
- (2) Reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
- (3) Reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (4) Reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

Gains (losses) recognized as a component of OCI (in millions) on derivative instruments designated and qualifying as cash flow hedges were as follows:

For the Nine

	For the Three Months Ended September 30, 2018		Months Ended September 30, 2017	
Offset to net investment income	\$ 8	\$ 6	\$ 21	\$ 15
Offset to realized gain (loss)	-	-	-	5
Offset to interest and debt expense	(4 )	(5 )	(6 )	(13 )

As of September 30, 2018, \$29 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the nine months ended September 30, 2018 and 2017, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

As of September 30, 2018, we did not have any exposure related to credit default swaps for which we are the seller.

As of December 31, 2017 information related to our credit default swaps for which we are the seller (dollars in millions) was as follows:

As of December 31, 2017

Credit Contract Type	Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation	Number of Instruments	Fair Value	Maximum Potential Payout
Basket credit default swaps	12/20/2022	(3)	(4)	BBB+	1	\$ 1	\$ 52
					1	\$ 1	\$ 52

- (1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
- (2) Broker quotes are used to determine the market value of our credit default swaps.
- (3) Credit default swaps were entered into in order to hedge the liability exposure on certain variable annuity products.
- (4) Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

Details underlying the associated collateral of our credit default swaps for which we are the seller if credit risk-related contingent features were triggered (in millions) were as follows:

	As of September 30, 2018	As of December 31, 2017
Maximum potential payout	\$ -	\$ 52
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	\$ -	\$ 52

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post collateral if the market value was less than zero.



## Credit Risk

We are exposed to credit losses in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk (“NPR”). The NPR is based upon assumptions for each counterparty’s credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of September 30, 2018, the NPR adjustment was zero. The credit risk associated with such agreements is minimized by entering into agreements with financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association (“ISDA”) Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2018, and December 31, 2017, our exposure was zero.

The amounts recognized (in millions) by S&P credit rating of counterparty, for which we had the right to reclaim cash collateral or were obligated to return cash collateral, were as follows:

S&P Credit Rating of Counterparty	As of September 30, 2018		As of December 31, 2017	
	Collateral Posted by Counter- Party (Held by LNC) Party)	Collateral Posted by Counter- Party (Held by LNC) Party)	Collateral Posted by Counter- Party (Held by LNC) Party)	Collateral Posted by Counter- Party (Held by LNC) Party)
AA-	\$ 36	\$ (22 )	\$ 116	\$ (1 )
A+	177	(111 )	242	(453 )
A	40	(1 )	170	(120 )
A-	113	-	237	(3 )
BBB+	-	-	-	(4 )
	\$ 366	\$ (134 )	\$ 765	\$ (581 )

#### Balance Sheet Offsetting

Information related to the effects of offsetting (in millions) was as follows:

	As of September 30, 2018		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	\$ 957	\$ 1,727	\$ 2,684
Gross amounts offset	(251 )	-	(251 )
Net amount of assets	706	1,727	2,433
Gross amounts not offset:			
Cash collateral	(366 )	-	(366 )
Non-cash collateral	(80 )	-	(80 )

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Net amount	\$ 260	\$ 1,727	\$ 1,987
Financial Liabilities			
Gross amount of recognized liabilities	\$ 879	\$ 1,784	\$ 2,663
Gross amounts offset	(149 )	-	(149 )
Net amount of liabilities	730	1,784	2,514
Gross amounts not offset:			
Cash collateral	(134 )	-	(134 )
Non-cash collateral	(420 )	-	(420 )
Net amount	\$ 176	\$ 1,784	\$ 1,960

24

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	As of December 31, 2017		
	Derivative	Embedded	
	Instruments	Instruments	Total
<b>Financial Assets</b>			
Gross amount of recognized assets	\$ 1,301	\$ 965	\$ 2,266
Gross amounts offset	(386 )	-	(386 )
Net amount of assets	915	965	1,880
Gross amounts not offset:			
Cash collateral	(765 )	-	(765 )
Net amount	\$ 150	\$ 965	\$ 1,115
<b>Financial Liabilities</b>			
Gross amount of recognized liabilities	\$ 955	\$ 1,542	\$ 2,497
Gross amounts offset	(296 )	-	(296 )
Net amount of liabilities	659	1,542	2,201
Gross amounts not offset:			
Cash collateral	(581 )	-	(581 )
Net amount	\$ 78	\$ 1,542	\$ 1,620

## 7. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 8% and 12% for the three and nine months ended September 30, 2018, respectively, compared to 18% and 17% for the corresponding periods in 2017. The effective tax rate on pre-tax income was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rates of 21% and 35% for the three and nine months ended September 30, 2018 and 2017, respectively, were the result of the separate account dividends-received deduction, certain tax preferred investment income, foreign tax credits and other tax preference items. The current quarter also includes a tax benefit to net income from the impact of the reduced corporate tax rate under the Tax Act on our adoption of a recent Internal Revenue Service pronouncement related to variable annuity contracts.

The SEC previously issued rules that allow for a one year measurement period after the enactment of the Tax Act to finalize calculations and recording of the related tax impacts. Subsequent to the Tax Act, we have continued to review and analyze the provisions of the Tax Act, including the actual and potential impact of the reduction in the U.S. federal corporate income tax rate and the impact of specific life insurance provisions on our financial statements. While we do not anticipate any significant changes to amounts currently recorded, any additional adjustments to amounts recorded as a result of the Tax Act will be made during 2018.

## 8. Guaranteed Benefit Features

Information on the guaranteed death benefit (“GDB”) features outstanding (dollars in millions) was as follows:

	As of September 30, 2018 (1)	As of December 31, 2017 (1)
<b>Return of Net Deposits</b>		
Total account value	\$ 98,623	\$ 96,941
Net amount at risk (2)	93	81
Average attained age of contract holders	64 years	64 years
<b>Minimum Return</b>		
Total account value	\$ 103	\$ 108
Net amount at risk (2)	16	18
Average attained age of contract holders	76 years	76 years
Guaranteed minimum return	5%	5%
<b>Anniversary Contract Value</b>		
Total account value	\$ 26,308	\$ 26,596
Net amount at risk (2)	438	417
Average attained age of contract holders	71 years	70 years

(1) Our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.

(2) Represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

The determination of GDB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following summarizes the balances of and changes in the liabilities for GDBs (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Nine Months Ended September 30,	
	2018	2017
Balance as of beginning-of-year	\$ 100	\$ 110
Changes in reserves	18	4
Benefits paid	(11)	(14)
Balance as of end-of-period	\$ 107	\$ 100

#### Variable Annuity Contracts

Account balances of variable annuity contracts, including those with guarantees, (in millions) were invested in separate account investment options as follows:

	As of September 30, 2018	As of December 31, 2017
Asset Type		
Domestic equity	\$ 61,732	\$ 59,647
International equity	20,598	20,837
Fixed income	40,529	40,626
Total	\$ 122,859	\$ 121,110
Percent of total variable annuity separate account values	98%	99%

#### Secondary Guarantee Products

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 35% of

total life insurance in-force reserves as of September 30, 2018, and December 31, 2017. UL and VUL products with secondary guarantees represented 38% and 34% of total sales for the three and nine months ended September 30, 2018, respectively, compared to 26% and 27% for the corresponding periods in 2017.

## 9. Liability for Unpaid Claims

Changes in the liability for unpaid claims (in millions), were as follows:

	For the Nine Months Ended September 30,	
	2018	2017
Balance as of beginning-of-year	\$ 2,222	\$ 2,242
Reinsurance recoverable	57	69
Net balance as of beginning-of-year	2,165	2,173
Business acquired (1)	2,842	-
Incurred related to:		
Current year	1,640	909
Prior years		
Interest	85	53
All other incurred	(159 )	(85 )
Total incurred	1,566	877
Paid related to:		
Current year	(663 )	(458 )
Prior years	(796 )	(440 )
Total paid	(1,459)	(898 )
Net balance as of end-of-period	5,114	2,152
Reinsurance recoverable	141	57
Balance as of end-of-period	\$ 5,255	\$ 2,209

(1) Represents Liberty group life and disability reserves, net, as of May 1, 2018, subject to finalization of acquisition date fair values. See Note 3 for additional information.

The majority of the reserves included in the roll forward are for long-term disability claims. The interest rate assumption is an important part of the reserving process due to the long benefit period for these claims. Interest accrued on prior year reserves has been calculated on the opening reserve balance less one-half of the prior year incurred period's claim payments at our average reserve discount rate for the respective periods.

“Incurred related to prior years - All other incurred” reflected in the preceding table is primarily impacted by the level of claim resolutions in the period compared to that which is expected by the reserve assumption. A negative number implies a favorable result where claim resolutions were more favorable than assumed. Our claim resolution rate



assumption used in determining reserves is our expectation of the resolution rate we will experience over the long-term life of the block of claims. It will vary from actual experience in any one period, both favorably and unfavorably.

A reconciliation of future contract benefits as reported in our Consolidated Balance Sheets to the liability for unpaid claims (in millions), was as follows:

	As of September 30,	
	2018	2017
Future contract benefits	\$ 33,988	\$ 22,547
Less:		
Life and annuity reserves and claims due	27,193	18,698
Accident and health active life reserves	1,540	1,640
Liability for unpaid claims	\$ 5,255	\$ 2,209

## 10. Contingencies and Commitments

Regulatory bodies, such as state insurance departments, the SEC, Financial Industry Regulatory Authority and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, laws governing the activities of broker-dealers, registered investment advisors and unclaimed property laws.

LNC is involved in various pending or threatened legal or regulatory proceedings, including purported class actions, arising from the conduct of business both in the ordinary course and otherwise. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding verdicts obtained in the jurisdiction for similar matters. This variability in pleadings, together with the actual experiences of LNC in litigating or resolving through settlement numerous claims over an extended period of time, demonstrates to management that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value.

Due to the unpredictable nature of litigation, the outcome of a litigation matter and the amount or range of potential loss at particular points in time is normally difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law in the context of the pleadings or evidence presented, whether by motion practice, or at trial or on appeal. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the relevant evidence and applicable law.

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of September 30, 2018. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial condition.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual

has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of September 30, 2018, we estimate the aggregate range of reasonably possible losses to be up to approximately \$50 million.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts and the progress of settlement negotiations. On a quarterly and annual basis, we review relevant information with respect to litigation contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

Certain reinsurers have sought rate increases on certain yearly renewable term treaties. We are disputing the requested rate increases under these treaties. We have initiated and will initiate arbitration proceedings, as necessary, under these treaties in order to protect our contractual rights. Additionally, reinsurers may initiate arbitration proceedings against us. We believe it is unlikely the outcome of these disputes will have a material adverse effect on our financial condition. For more information about reinsurance, see Note 9 in our 2017 Form 10-K.

See Note 13 in our 2017 Form 10-K and Note 10 in our Form 10-Q for the quarters ended March 31, 2018, and June 30, 2018, for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

## 11. Shares and Stockholders' Equity

## Common Shares

The changes in our common stock (number of shares) were as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
<b>Common Stock</b>				
Balance as of beginning-of-period	217,294,051	222,237,262	218,090,114	226,335,105
Stock issued for exercise of warrants	97,076	2,464	119,942	337,394
Stock compensation/issued for benefit plans	38,642	139,179	675,608	1,600,465
Retirement/cancellation of shares	(2,652,963 )	(2,834,287 )	(4,108,858 )	(8,728,346 )
Balance as of end-of-period	214,776,806	219,544,618	214,776,806	219,544,618
<b>Common Stock as of End-of-Period</b>				
Basic basis	214,776,806	219,544,618	214,776,806	219,544,618
Diluted basis	217,390,897	222,701,021	217,390,897	222,701,021

Our common stock is without par value.

## Average Shares

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted earnings (loss) per common share was as follows:

For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
2018	2017	2018	2017

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Weighted-average shares, as used in basic calculation	215,901,268	220,813,693	217,413,480	223,311,993
Shares to cover exercise of outstanding warrants	579,882	668,103	620,580	795,312
Shares to cover non-vested stock	1,467,953	1,614,405	1,512,297	1,572,250
Average stock options outstanding during the period	1,700,026	2,275,826	1,807,340	2,432,171
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(86,040 )	(94,338 )	(86,335 )	(116,577 )
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(1,082,651 )	(1,361,094 )	(1,090,868 )	(1,481,524 )
Shares repurchasable from measured but unrecognized stock option expense	(11,209 )	(44,579 )	(17,381 )	(60,539 )
Average deferred compensation shares	-	-	936,355	926,612
Weighted-average shares, as used in diluted calculation	218,469,229	223,872,016	221,095,468	227,379,698

In the event the average market price of LNC common stock exceeds the issue price of stock options and the options have a dilutive effect to our earnings per share (“EPS”), such options will be shown in the table above.

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to all or a portion of their deferral amounts. For the nine months ended September 30, 2018 and 2017, the effect of settling this obligation in LNC stock (“equity classification”) was more dilutive than the scenario of settling in cash (“liability classification”). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was \$6 million and \$(5) million for the nine months ended September 30, 2018 and 2017, respectively.

## AOCI

The following summarizes the components and changes in AOCI (in millions):

	For the Nine Months Ended September 30,	
	2018	2017
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	\$ 3,486	\$ 1,784
Cumulative effect from adoption of new accounting standards	674	-
Unrealized holding gains (losses) arising during the period	(5,520)	2,385
Change in foreign currency exchange rate adjustment	(68 )	112
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	1,538	(468 )
Income tax benefit (expense)	858	(717 )
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(35 )	(26 )
Associated amortization of DAC, VOBA, DSI and DFEL	(15 )	(16 )
Income tax benefit (expense)	11	15
Balance as of end-of-period	\$ 1,007	\$ 3,123
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	\$ 44	\$ 25
(Increases) attributable to:		
Cumulative effect from adoption of new accounting standards	9	-
Gross OTTI recognized in OCI during the period	-	(1 )
Change in DAC, VOBA, DSI and DFEL	-	-
Income tax benefit (expense)	-	-
Decreases attributable to:		
Changes in fair value, sales, maturities or other settlements of AFS securities	(8 )	29
Change in DAC, VOBA, DSI and DFEL	(10 )	(5 )
Income tax benefit (expense)	4	(8 )
Balance as of end-of-period	\$ 39	\$ 40
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	\$ (29 )	\$ 49
Cumulative effect from adoption of new accounting standard	(6 )	-
Unrealized holding gains (losses) arising during the period	98	31
Change in foreign currency exchange rate adjustment	69	(119 )
Change in DAC, VOBA, DSI and DFEL	8	(3 )
Income tax benefit (expense)	(37 )	32
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	15	7
Associated amortization of DAC, VOBA, DSI and DFEL	(1 )	(1 )

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Income tax benefit (expense)	(3 )	(2 )
Balance as of end-of-period	\$ 92	\$ (14 )
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	\$ (14 )	\$ (27 )
Foreign currency translation adjustment arising during the period	(6 )	11
Balance as of end-of-period	\$ (20 )	\$ (16 )
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	\$ (257 )	\$ (265 )
Cumulative effect from adoption of new accounting standard	(35 )	-
Adjustment arising during the period	10	(9 )
Balance as of end-of-period	\$ (282 )	\$ (274 )

The following summarizes the reclassifications out of AOCI (in millions) and the associated line item in the Consolidated Statements of Comprehensive Income (Loss):

	For the Nine Months Ended September 30,		
	2018	2017	
<b>Unrealized Gain (Loss) on AFS Securities</b>			
Gross reclassification	\$ (35)	\$ (26)	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(15)	(16)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(50)	(42)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	11	15	Federal income tax expense (benefit)
Reclassification, net of income tax	\$ (39)	\$ (27)	Net income (loss)
<b>Unrealized OTTI on AFS Securities</b>			
Gross reclassification	\$ (1 )	\$ 6	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	-	(1 )	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(1 )	5	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	-	(2 )	Federal income tax expense (benefit)
Reclassification, net of income tax	\$ (1 )	\$ 3	Net income (loss)
<b>Unrealized Gain (Loss) on Derivative Instruments</b>			
Gross reclassifications:			
Interest rate contracts	\$ 3	\$ 3	Net investment income
Interest rate contracts	(6 )	(13)	Interest and debt expense
Foreign currency contracts	18	12	Net investment income
Foreign currency contracts	-	5	Total realized gain (loss)
Total gross reclassifications	15	7	
Associated amortization of DAC, VOBA, DSI and DFEL	(1 )	(1 )	Commissions and other expenses
Reclassifications before income tax benefit (expense)	14	6	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(3 )	(2 )	Federal income tax expense (benefit)
Reclassifications, net of income tax	\$ 11	\$ 4	Net income (loss)





## 12. Realized Gain (Loss)

Details underlying realized gain (loss) (in millions) reported on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Total realized gain (loss) related to certain investments (1)	\$ (11)	\$ (19)	\$ (45)	\$ (49 )
Realized gain (loss) on the mark-to-market on certain instruments (2)	(10)	(2 )	14	3
Indexed annuity and IUL contracts net derivatives results: (3)				
Gross gain (loss)	(7 )	-	(14)	(17 )
Associated amortization of DAC, VOBA, DSI and DFEL	(2 )	(1 )	(2 )	(1 )
Variable annuity net derivatives results: (4)				
Gross gain (loss)	(32)	(41)	(10)	(45 )
Associated amortization of DAC, VOBA, DSI and DFEL	7	7	6	4
Total realized gain (loss)	\$ (55)	\$ (56)	\$ (51)	\$ (105)

(1) See “Realized Gain (Loss) Related to Certain Investments” section in Note 5.

(2) Represents changes in the fair values of certain derivative investments (not including those associated with our variable and indexed annuity and IUL contracts net derivatives results), reinsurance related embedded derivatives and trading securities.

(3) Represents the net difference between the change in the fair value of the S&P 500 Index ® call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity and IUL contracts along with 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.

(4) Includes the net difference in the change in embedded derivative reserves of our GLB riders and the change in the fair value of the derivative instruments we own to hedge the change in embedded derivative reserves on our GLB riders and the benefit ratio unlocking on our GLB and GDB riders, including the cost of purchasing the hedging instruments.

## 13. Stock-Based Incentive Compensation Plans

We sponsor stock-based incentive compensation plans for our employees and directors and for the employees and agents of our subsidiaries that provide for the issuance of stock options, performance shares (performance-vested shares as opposed to service-vested shares), stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and deferred stock units (“DSUs”). We issue new shares to satisfy option exercises and vested performance shares and RSUs.

LNC stock-based awards granted were as follows:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
10-year LNC stock options	-	481,404
Performance shares	-	156,676
RSUs	1,202	695,471
Non-employee:		
SARs	-	14,692
Agent stock options	-	32,400
Director DSUs	7,184	21,682

## 14. Fair Value of Financial Instruments

The carrying values and estimated fair values of our financial instruments (in millions) were as follows:

	As of September 30, 2018		As of December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
AFS securities:				
Fixed maturity securities	\$ 93,161	\$ 93,161	\$ 94,840	\$ 94,840
Equity securities	-	-	246	246
Trading securities	1,440	1,440	1,620	1,620
Equity securities	112	112	-	-
Mortgage loans on real estate	12,561	12,239	10,762	10,877
Derivative investments (1)	706	706	915	915
Other investments	2,204	2,204	2,296	2,296
Cash and invested cash	1,460	1,460	1,628	1,628
Other assets:				
GLB direct embedded derivatives	1,648	1,648	903	903
GLB ceded embedded derivatives	35	35	51	51
Indexed annuity ceded embedded derivatives	44	44	11	11
Separate account assets	147,692	147,692	144,219	144,219
<b>Liabilities</b>				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(1,571 )	(1,571 )	(1,418 )	(1,418 )
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(562 )	(562 )	(592 )	(592 )
Account values of certain investment contracts	(33,684 )	(34,577 )	(32,370 )	(36,200 )
Short-term debt	-	-	(450 )	(452 )
Long-term debt	(5,804 )	(5,795 )	(4,894 )	(5,042 )
Reinsurance related embedded derivatives	(20 )	(20 )	(57 )	(57 )
Other liabilities:				
Derivative liabilities (1)	(197 )	(197 )	(338 )	(338 )
GLB ceded embedded derivatives	(193 )	(193 )	(67 )	(67 )

(1) We have master netting agreements with each of our derivative counterparties, which allow for the netting of our derivative asset and liability positions by counterparty.

Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value on our Consolidated Balance Sheets. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price or the fair value of the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 2 within the fair value hierarchy.

Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. Other investments also include FHLB stock carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The inputs used to measure the fair value of our LPs, other privately held investments and FHLB stock are classified as Level 3 within the fair value hierarchy. The remaining assets in other investments include

cash collateral receivables and securities that are not LPs or other privately held investments. The inputs used to measure the fair value of these assets are classified as Level 1 within the fair value hierarchy.

#### Separate Account Assets

Separate account assets are primarily carried at fair value. A portion of our separate account assets includes LPs, which are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. The inputs used to measure the fair value of the separate account asset LPs are classified as Level 3 within the fair value hierarchy.

#### Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of September 30, 2018, and December 31, 2017, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

#### Short-Term and Long-Term Debt

The fair value of short-term and long-term debt is based on quoted market prices. The inputs used to measure the fair value of our short-term and long-term debt are classified as Level 2 within the fair value hierarchy.

#### Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2018, or December 31, 2017, and we noted no changes in our valuation methodologies between these periods.



The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in “Summary of Significant Accounting Policies” in Note 1 of our 2017 Form 10-K:

	As of September 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	\$ -	\$ 76,871	\$ 3,209	\$ 80,080
ABS	-	954	31	985
U.S. government bonds	391	18	-	409
Foreign government bonds	-	351	108	459
RMBS	-	3,280	7	3,287
CMBS	-	725	23	748
CLOs	-	1,311	51	1,362
State and municipal bonds	-	5,218	-	5,218
Hybrid and redeemable preferred securities	74	462	77	613
Trading securities	43	1,379	18	1,440
Equity securities	28	58	26	112
Derivative investments (1)	-	572	535	1,107
Other investments	149	-	-	149
Cash and invested cash	-	1,460	-	1,460
Other assets:				
GLB direct embedded derivatives	-	-	1,648	1,648
GLB ceded embedded derivatives	-	-	35	35
Indexed annuity ceded embedded derivatives	-	-	44	44
Separate account assets	764	146,894	-	147,658
Total assets	\$ 1,449	\$ 239,553	\$ 5,812	\$ 246,814
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	\$ -	\$ -	\$ (1,571 )	\$ (1,571 )
Reinsurance related embedded derivatives	-	(20 )	-	(20 )
Other liabilities:				



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Derivative liabilities (1)	-	(417 )	(181 )	(598 )
GLB ceded embedded derivatives	-	-	(193 )	(193 )
Total liabilities	\$ -	\$ (437 )	\$ (1,945 )	\$ (2,382 )

35

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	As of December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets</b>				
<b>Investments:</b>				
<b>Fixed maturity AFS securities:</b>				
Corporate bonds	\$ -	\$ 79,125	\$ 3,091	\$ 82,216
ABS	-	947	27	974
U.S. government bonds	556	6	5	567
Foreign government bonds	-	341	110	451
RMBS	-	3,453	12	3,465
CMBS	-	594	6	600
CLOs	-	717	91	808
State and municipal bonds	-	5,119	-	5,119
Hybrid and redeemable preferred securities	71	493	76	640
Equity AFS securities	28	56	162	246
Trading securities	73	1,498	49	1,620
Derivative investments (1)	-	994	603	1,597
Other investments	150	-	-	150
Cash and invested cash	-	1,628	-	1,628
<b>Other assets:</b>				
GLB direct embedded derivatives	-	-	903	903
GLB ceded embedded derivatives	-	-	51	51
Indexed annuity ceded embedded derivatives	-	-	11	11
Separate account assets	814	143,405	-	144,219
<b>Total assets</b>	<b>\$ 1,692</b>	<b>\$ 238,376</b>	<b>\$ 5,197</b>	<b>\$ 245,265</b>
<b>Liabilities</b>				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	\$ -	\$ -	\$ (1,418 )	\$ (1,418 )
Long-term debt	-	(1,127 )	-	(1,127 )
Reinsurance related embedded derivatives	-	(57 )	-	(57 )
<b>Other liabilities:</b>				
Derivative liabilities (1)	-	(447 )	(573 )	(1,020 )
GLB ceded embedded derivatives	-	-	(67 )	(67 )
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ (1,631 )</b>	<b>\$ (2,058 )</b>	<b>\$ (3,689 )</b>

(1) Derivative investment assets and liabilities presented within the fair value hierarchy are presented on a gross basis by derivative type and not on a master netting basis by counterparty.

36

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The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any effect of amortization of DAC, VOBA, deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”). The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	For the Three Months Ended September 30, 2018					
	Beginning in	Items	Gains	Issuances,	Transfers	Ending
	Fair	Included	(Losses)	Sales,	Into or	Fair
	Value	Net	in	Maturities,	Level 3,	Value
		Income	OCI	Settlements,	of	
			and	Calls,	Level 3,	
			Other (1)	Net	Net (3)	
Investments: (5)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 3,181	\$ 1	\$ (30 )	\$ 88	\$ (31 )	\$ 3,209
ABS	31	-	-	-	-	31
Foreign government bonds	108	-	-	-	-	108
RMBS	-	-	-	7	-	7
CMBS	5	-	-	18	-	23
CLOs	145	-	-	17	(111 )	51
Hybrid and redeemable preferred securities	78	-	(1 )	-	-	77
Trading securities	22	-	-	2	(6 )	18
Equity securities	26	-	-	-	-	26
Derivative investments	93	(115 )	(55 )	431	-	354
Other assets: (6)						
GLB direct embedded derivatives	1,248	400	-	-	-	1,648
GLB ceded embedded derivatives	41	(6 )	-	-	-	35
Indexed annuity ceded embedded derivatives	29	4	-	11	-	44
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6)	(1,400)	(164 )	-	(7 )	-	(1,571)
Other liabilities – GLB ceded embedded derivatives (6)	(131 )	(62 )	-	-	-	(193 )
Total, net	\$ 3,476	\$ 58	\$ (86 )	\$ 567	\$ (148 )	\$ 3,867



	For the Three Months Ended September 30, 2017					
			Gains	Issuances,	Transfers	
		Items	(Losses)	Sales	Into or	
	Beginning in	Included	in	Maturities,	Out	Ending
	Fair	Net	OCI	Settlements,	Level 3,	Fair
	Value	Income	and	Calls,	Net (3)	Value
			Other (1)	Net		
Investments: (5)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 2,517	\$ 4	\$ 35	\$ (35 )	\$ 59	\$ 2,580
ABS	43	-	(1 )	-	(15 )	27
U.S. government bonds	5	-	-	-	-	5
Foreign government bonds	109	-	1	-	-	110
RMBS	7	-	-	6	-	13
CMBS	21	-	-	(1 )	(14 )	6
CLOs	28	-	-	15	(28 )	15
Hybrid and redeemable preferred securities	82	-	3	-	(9 )	76
Equity AFS securities	183	-	(1 )	9	(1 )	190
Trading securities	59	-	-	(10 )	1	50
Derivative investments	155	(13 )	9	(85 )	-	66
Other assets: (6)						
GLB direct embedded derivatives	298	272	-	-	-	570
GLB ceded embedded derivatives	85	(32 )	-	-	-	53
Indexed annuity ceded embedded derivatives	-	-	-	3	-	3
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6)	(1,268)	(47 )	-	(3 )	-	(1,318)
Other liabilities – GLB ceded embedded derivatives (6)	-	(7 )	-	-	-	(7 )
Total, net	\$ 2,324	\$ 177	\$ 46	\$ (101 )	\$ (7 )	\$ 2,439

	For the Nine Months Ended September 30, 2018					
	Beginning in	Items	Gains	Issuances,	Transfers	Ending
	Fair	Included	(Losses)	Sales,	Into or	Fair
	Value	Net	in	Maturities,	Out	Value
		Income	OCI	Settlements,	Level 3,	
			and	Calls,	Net (3)(4)	
			Other (1)	Net (2)		
Investments: (5)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 3,091	\$ 7	\$ (137 )	\$ 319	\$ (71 )	\$ 3,209
ABS	27	-	(1 )	5	-	31
U.S. government bonds	5	-	-	(5 )	-	-
Foreign government bonds	110	-	(2 )	-	-	108
RMBS	12	-	-	7	(12 )	7
CMBS	6	1	-	37	(21 )	23
CLOs	91	-	-	164	(204 )	51
Hybrid and redeemable preferred securities	76	-	1	-	-	77
Equity AFS securities	162	-	-	-	(162 )	-
Trading securities	49	(5 )	-	(20 )	(6 )	18
Equity securities	-	-	-	-	26	26
Derivative investments	30	106	(113 )	331	-	354
Other assets: (6)						
GLB direct embedded derivatives	903	745	-	-	-	1,648
GLB ceded embedded derivatives	51	(16 )	-	-	-	35
Indexed annuity ceded embedded derivatives	11	4	-	29	-	44
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6)	(1,418)	(175 )	-	22	-	(1,571)
Other liabilities – GLB ceded embedded derivatives (6)	(67 )	(126 )	-	-	-	(193 )
Total, net	\$ 3,139	\$ 541	\$ (252 )	\$ 889	\$ (450 )	\$ 3,867

	For the Nine Months Ended September 30, 2017					
		Items	Gains	Issuances,	Transfers	
	Beginning in	Included	(Losses)	Sales,	Into or	Ending
	Fair	Net	in	Maturities,	Out	Fair
	Value	Income	OCI	Settlements,	Level 3,	Value
			and	Calls,	Net (3)	
			Other (1)	Net		
Investments: (5)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 2,405	\$ 15	\$ 153	\$ (182 )	\$ 189	\$ 2,580
ABS	33	-	-	-	(6 )	27
U.S. government bonds	-	-	-	-	5	5
Foreign government bonds	111	-	(1 )	-	-	110
RMBS	3	-	-	10	-	13
CMBS	7	-	1	54	(56 )	6
CLOs	68	-	-	33	(86 )	15
State and municipal bonds	-	(1 )	-	-	1	-
Hybrid and redeemable preferred securities	76	-	14	-	(14 )	76
Equity AFS securities	177	1	(2 )	15	(1 )	190
Trading securities	65	2	8	(26 )	1	50
Derivative investments	(93 )	(25 )	97	87	-	66
Other assets: (6)						
GLB direct embedded derivatives	-	570	-	-	-	570
GLB ceded embedded derivatives	203	(150 )	-	-	-	53
Indexed annuity ceded embedded derivatives	-	-	-	3	-	3
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6)	(1,139)	(230 )	-	51	-	(1,318)
Other liabilities: (6)						
GLB direct embedded derivatives	(371 )	371	-	-	-	-
GLB ceded embedded derivatives	-	(7 )	-	-	-	(7 )
Total, net	\$ 1,545	\$ 546	\$ 270	\$ 45	\$ 33	\$ 2,439

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).

(2) Net issuances, sales, maturities, settlements, calls, net include financial instruments acquired from Liberty Life as follows: corporate bonds of \$67 million and ABS of \$17 million.

(3) Transfers into or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-year. For AFS and trading securities, the difference between beginning-of-period amortized cost and beginning-of-period fair value was included in OCI and earnings, respectively, in the prior period.

(4) Transfers into or out of Level 3 for FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets.

(5)



Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

<sup>(6)</sup> Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The following provides the components of the items included in issuances, sales, maturities, settlements and calls, net, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, (in millions) as reported above:

	For the Three Months Ended September 30, 2018					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 162	\$ -	\$ (1 )	\$ (65 )	\$ (8 )	\$ 88
RMBS	7	-	-	-	-	7
CMBS	18	-	-	-	-	18
CLOs	17	-	-	-	-	17
Trading securities	2	-	-	-	-	2
Derivative investments	96	455	(120 )	-	-	431
Other assets – indexed annuity ceded embedded derivatives	11	-	-	-	-	11
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(83 )	-	-	76	-	(7 )
Total, net	\$ 230	\$ 455	\$ (121 )	\$ 11	\$ (8 )	\$ 567

	For the Three Months Ended September 30, 2017					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 167	\$ (114)	\$ (19 )	\$ (43 )	\$ (26)	\$ (35 )
RMBS	6	-	-	-	-	6
CMBS	-	-	-	(1 )	-	(1 )
CLOs	15	-	-	-	-	15
Equity AFS securities	10	(1 )	-	-	-	9
Trading securities	-	(10 )	-	-	-	(10 )
Derivative investments	50	(23 )	(112 )	-	-	(85 )
Other assets – indexed annuity ceded						

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embedded derivatives	3	-	-	-	-	3
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(14)	-	-	11	-	(3 )
Total, net	\$ 237	\$ (148)	\$ (131 )	\$ (33 )	\$ (26)	\$ (101)

## For the Nine Months Ended September 30, 2018

	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 785	\$ (156)	\$ (3 )	\$ (238 )	\$ (69)	\$ 319
ABS	22	(17 )	-	-	-	5
U.S. government bonds	-	(5 )	-	-	-	(5 )
RMBS	7	-	-	-	-	7
CMBS	39	-	-	(2 )	-	37
CLOs	164	-	-	-	-	164
Trading securities	4	(24 )	-	-	-	(20 )
Equity securities	1	(1 )	-	-	-	-
Derivative investments	225	460	(354 )	-	-	331
Other assets – indexed annuity ceded embedded derivatives	29	-	-	-	-	29
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(158 )	-	-	180	-	22
Total, net	\$ 1,118	\$ 257	\$ (357 )	\$ (60 )	\$ (69)	\$ 889

## For the Nine Months Ended September 30, 2017

	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 367	\$ (179)	\$ (66 )	\$ (170 )	\$ (134)	\$ (182)
RMBS	10	-	-	-	-	10
CMBS	55	-	-	(1 )	-	54
CLOs	33	-	-	-	-	33
Equity AFS securities	18	(3 )	-	-	-	15
Trading securities	2	(27 )	-	(1 )	-	(26 )
Derivative investments	145	243	(301 )	-	-	87
Other assets – indexed annuity ceded embedded derivatives	3	-	-	-	-	3
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(45 )	-	-	96	-	51
Total, net	\$ 588	\$ 34	\$ (367 )	\$ (76 )	\$ (134)	\$ 45

The following summarizes changes in unrealized gains (losses) included in net income, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, related to financial instruments carried at fair value classified within Level 3 that we still held (in millions):

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Derivative investments	\$ (1 )	\$ (83 )	\$ 105	\$ (159 )
Embedded derivatives:				
Indexed annuity and IUL contracts	(11 )	2	(18 )	(13 )
GLB	576	428	1,264	1,352
Total, net (1)	\$ 564	\$ 347	\$ 1,351	\$ 1,180

(1) Included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The following provides the components of the transfers into and out of Level 3 (in millions) as reported above:

	For the Three Months Ended September 30, 2018			For the Three Months Ended September 30, 2017		
	Transfers Into Level 3	Out of Level 3	Total	Transfers Into Level 3	Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 11	\$ (42 )	\$ (31 )	\$ 116	\$ (57 )	\$ 59
ABS	-	-	-	-	(15 )	(15 )
CMBS	-	-	-	-	(14 )	(14 )
CLOs	-	(111 )	(111 )	-	(28 )	(28 )
Hybrid and redeemable preferred securities	-	-	-	-	(9 )	(9 )
Equity AFS securities	-	-	-	-	(1 )	(1 )
Trading securities	-	(6 )	(6 )	1	-	1
Total, net	\$ 11	\$ (159 )	\$ (148 )	\$ 117	\$ (124 )	\$ (7 )

	For the Nine Months Ended September 30, 2018			For the Nine Months Ended September 30, 2017		
	Transfers Into Level 3	Out of Level 3	Total	Transfers Into Level 3	Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 54	\$ (125 )	\$ (71 )	\$ 277	\$ (88 )	\$ 189
ABS	-	-	-	15	(21 )	(6 )
U.S. government bonds	-	-	-	5	-	5
RMBS	-	(12 )	(12 )	-	-	-
CMBS	-	(21 )	(21 )	3	(59 )	(56 )
CLOs	-	(204 )	(204 )	30	(116 )	(86 )
State and municipal bonds	-	-	-	2	(1 )	1
Hybrid and redeemable preferred securities	-	-	-	-	(14 )	(14 )
Equity AFS securities	-	(162 )	(162 )	-	(1 )	(1 )

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Trading securities	-	(6 )	(6 )	4	(3 )	1
Equity securities	26	-	26	-	-	-
Total, net	\$ 80	\$ (530 )	\$ (450)	\$ 336	\$ (303 )	\$ 33

Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the three and nine months ended September 30, 2018 and 2017, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available. In 2018, transfers into or out of Level 3 also include FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets. Transfers into and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the three and nine months ended September 30, 2018 and 2017, the transfers between Levels 1 and 2 of the fair value hierarchy were less than \$1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of September 30, 2018:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading securities:				
Corporate bonds	\$ 2,445	Discounted cash flow	Liquidity/duration adjustment (1)	0.5 % - 24.8 %
ABS	23	Discounted cash flow	Liquidity/duration adjustment (1)	3.0 % - 3.0 %
Foreign government bonds Hybrid and redeemable	78	Discounted cash flow	Liquidity/duration adjustment (1)	1.1 % - 2.8 %
preferred securities	4	Discounted cash flow	Liquidity/duration adjustment (1)	1.8 % - 1.8 %
Equity securities	21	Discounted cash flow	Liquidity/duration adjustment (1)	4.5 % - 5.1 %
Other assets:				
GLB direct and ceded				
embedded derivatives	1,683	Discounted cash flow	Long-term lapse rate (2)	1 % - 30 %
			Utilization of guaranteed withdrawals (3)	85 % - 100 %
			Claims utilization factor (4)	60 % - 100 %
			Premiums utilization factor (4)	80 % - 115 %
			NPR (5)	0.01 % - 0.32 %
			Mortality rate (6)	(8)
			Volatility (7)	1 % - 29 %
Indexed annuity ceded				
embedded derivatives	44	Discounted cash flow	Lapse rate (2)	1 % - 9 %
			Mortality rate (6)	(8)
Liabilities				
Future contract benefits – indexed annuity and IUL contracts				



		Discounted					
embedded derivatives	\$ (1,571)	cash flow	Lapse rate (2)	1	%	-	9 %
			Mortality rate (6)				(8)
Other liabilities – GLB ceded							
		Discounted					
embedded derivatives	(193 )	cash flow	Long-term lapse rate (2)	1	%	-	30 %
			Utilization of guaranteed				
			withdrawals (3)	85	%	-	100 %
			Claims utilization factor (4)	60	%	-	100 %
			Premiums utilization factor (4)	80	%	-	115 %
			NPR (5)	0.01	%	-	0.32 %
			Mortality rate (6)				(8)
			Volatility (7)	1	%	-	29 %

- (1) The liquidity/duration adjustment input represents an estimated market participant composite of adjustments attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.
- (2) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits. The range for indexed annuity and IUL contracts represents the lapse rates during the surrender charge period.
- (3) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.
- (4) The utilization factors are applied to the present value of claims or premiums, as appropriate, in the GLB reserve calculation to estimate the impact of inefficient withdrawal behavior, including taking less than or more than the maximum guaranteed withdrawal.
- (5) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.
- (6) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as gender, will die.
- (7) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed-income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.
- (8) The mortality rate is based on a combination of company and industry experience, adjusted for improvement factors.

From the table above, we have excluded Level 3 fair value measurements obtained from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability. Significant increases or decreases in any of the quotes received from a third-party broker-dealer may result in a significantly higher or lower fair value measurement.

Changes in any of the significant inputs presented in the table above may result in a significant change in the fair value measurement of the asset or liability as follows:

- Investments – An increase in the liquidity/duration adjustment input would result in a decrease in the fair value measurement.
- Indexed annuity and IUL contracts embedded derivatives – For direct embedded derivatives, an increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.
- GLB embedded derivatives – Assuming our GLB direct embedded derivatives are in a liability position: an increase in our lapse rate, NPR or mortality rate inputs would result in a decrease in the fair value measurement; and an increase in the utilization of guaranteed withdrawal or volatility inputs would result in an increase in the fair value measurement.

For each category discussed above, the unobservable inputs are not inter-related; therefore, a directional change in one input will not affect the other inputs.

As part of our ongoing valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see “Summary of Significant Accounting Policies” in Note 1 of our 2017 Form 10-K.

## 15. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. As discussed in Note 3, we completed the acquisition of Liberty Life during the second quarter of 2018. Related results are included within the Group Protection segment. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 21 of our 2017 Form 10-K for a brief description of these segments and Other Operations.

Segment operating revenues and income (loss) from operations are internal measures used by our management and Board of Directors to evaluate and assess the results of our segments. Income (loss) from operations is GAAP net income excluding the after-tax effects of the following items, as applicable:

- Realized gains and losses associated with the following (“excluded realized gain (loss)”):
  - § Sales or disposals and impairments of securities;
  - § Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities;
  - § Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
  - § Changes in the fair value of the embedded derivatives of our GLB riders reflected within variable annuity net derivative results accounted for at fair value;
  - § Changes in the fair value of the derivatives we own to hedge our GLB riders reflected within variable annuity net derivative results;
  - § Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value; and
  - § Changes in the fair value of equity securities;
- Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
- Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
- Gains (losses) on early extinguishment of debt;
- Losses from the impairment of intangible assets;
- Income (loss) from discontinued operations;
- Acquisition and integration costs related to mergers and acquisitions; and
- Income (loss) from the initial adoption of new accounting standards, regulations, and policy changes including the net impact from the Tax Cuts and Jobs Act.

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

- Excluded realized gain (loss);
- Revenue adjustments from the initial adoption of new accounting standards;
- Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking; and

- Amortization of deferred gains arising from reserve changes on business sold through reinsurance.

We use our prevailing corporate federal income tax rates of 21% and 35%, where applicable, while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Operating revenues:				
Annuities	\$ 1,118	\$ 1,073	\$ 3,297	\$ 3,211
Retirement Plan Services	294	291	878	863
Life Insurance	1,766	1,614	5,106	4,874
Group Protection	1,128	564	2,618	1,646
Other Operations	56	65	182	220
Excluded realized gain (loss), pre-tax	(98 )	(97 )	(188 )	(229 )
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	-	-	-	1
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	1	-	2
Total revenues	\$ 4,264	\$ 3,511	\$ 11,893	\$ 10,588

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income (Loss)				

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Income (loss) from operations:				
Annuities	\$ 302	\$ 277	\$ 844	\$ 809
Retirement Plan Services	40	35	125	109
Life Insurance	176	121	470	384
Group Protection	63	41	137	83
Other Operations	(71 )	(20 )	(171 )	(71 )
Excluded realized gain (loss), after-tax	(77 )	(63 )	(149 )	(149 )
Gain (loss) on early extinguishment of debt, after-tax	-	(3 )	(18 )	(3 )
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	-	1
Benefit ratio unlocking, after-tax	33	30	32	101
Net impact from the Tax Cuts and Jobs Act	32	-	19	-
Acquisition and integration costs related to mergers and acquisitions, after-tax	(8 )	-	(47 )	-
Net income (loss)	\$ 490	\$ 418	\$ 1,242	\$ 1,264

## Revenue from Contracts with Customers

As discussed in Note 2, we adopted ASU 2014-09, Revenue from Contracts with Customers, as of January 1, 2018, that applies primarily to commissions and advisory fees earned by our broker dealer operation. The following table illustrates the revenue recognized from contracts with customers reported within fee income and other revenues on our Consolidated Statements of Comprehensive Income (Loss) and timing of revenue recognition by segment (in millions):

	For the Three Months Ended September 30, 2018					
	Retirement					Total
	Plan Annuities	Services	Life Insurance	Group Protection	Other Operations	
Revenue from Contracts with Customers						
Fee income	\$ 137	\$ 42	\$ 6	\$ -	\$ -	\$ 185
Other revenues	120	5	2	41	-	168
Total revenue from contracts with customers	\$ 257	\$ 47	\$ 8	\$ 41	\$ -	\$ 353
Timing of Revenue Recognition						
Satisfaction of performance obligation:						
Transferred at a point in time	\$ 17	\$ 1	\$ 3	\$ -	\$ -	\$ 21
Transferred over time	240	46	5	41	-	332
Total revenue from contracts with customers	\$ 257	\$ 47	\$ 8	\$ 41	\$ -	\$ 353
For the Nine Months Ended September 30, 2018						
Retirement						
	Plan Annuities	Services	Life Insurance	Group Protection	Other Operations	Total
Revenue from Contracts with Customers						
Fee income	\$ 403	\$ 126	\$ 17	\$ -	\$ -	\$ 546
Other revenues	359	14	7	73	-	453
Total revenue from contracts with customers	\$ 762	\$ 140	\$ 24	\$ 73	\$ -	\$ 999
Timing of Revenue Recognition						
Satisfaction of performance obligation:						
Transferred at a point in time	\$ 53	\$ 3	\$ 6	\$ -	\$ -	\$ 62
Transferred over time	709	137	18	73	-	937
Total revenue from contracts with customers	\$ 762	\$ 140	\$ 24	\$ 73	\$ -	\$ 999

Revenue recognized from contracts with customers included in fee income consists primarily of wholesaling-related 12b-1 fees and net investment advisory fees. The 12b-1 fees are received from separate account fund sponsors as compensation for servicing the underlying mutual funds. The net investment advisory fees are related to asset management of certain separate account funds. Such revenues are recorded based on a contractual percentage of the market value of mutual fund assets over the period shares are owned by customers, and on a contractual percentage of the customer's managed assets over the period advisory services are provided, respectively.

Revenue recognized from contracts with customers included in other revenues primarily relates to our retail sales network and consists of commission revenue for the sale of non-affiliated securities recorded on a trade-date basis and advisory fee income. Advisory fee income is asset-based revenues recorded as earned based on a contractual percentage of customer account values.

Item 2. 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 September 30, 2018, compared with December 31, 2017, and the results of operations for the three and nine months ended September 30, 2018, compared with the corresponding periods in 2017 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. On May 1, 2018, we completed our acquisition of Liberty Life Assurance Company of Boston ("Liberty Life"). Beginning on May 1, 2018, the results of operations and financial condition of Liberty Life, were consolidated with LNC. Accordingly, all financial information presented herein for the three and nine months ended September 30, 2018, includes the accounts of LNC for these periods and the accounts of Liberty Life since May 1, 2018.

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 I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly reports on Form 10-Q filed in 2018; and our current reports on Form 8-K filed in 2018. For more detailed information on the risks and uncertainties associated with the Company's business activities, see the risks described in "Part I – Item 1A. Risk Factors" in our 2017 Form 10-K as updated by "Part II – Item 1A. Risk Factors" in our first and second quarter 2018 Forms 10-Q.

In this report, in addition to providing consolidated revenues and net income (loss) that are United States of America generally accepted accounting principles ("GAAP") financial measures, we also provide certain non-GAAP financial measures as we believe they are meaningful to evaluate and assess the results of our operating segments. Operating revenues and income (loss) from operations are the primary non-GAAP financial measures our management believes that explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses. We have excluded certain GAAP items that 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. These non-GAAP financial measures should not be viewed as a substitute for GAAP financial measures. For additional information see Note 15.

**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 the 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; our ability to conduct business and our captive reinsurance arrangements as well as restrictions on the payment of revenue sharing and 12b-1 distribution fees; the impact of U.S. federal tax reform legislation on our business, earnings and capital; and the impact of the decision vacating the Department of Labor’s fiduciary regulation as well as any “best interest” standards of care adopted by the Securities and Exchange Commission (“SEC”) or other state regulators;
- Actions taken by reinsurers to raise rates on in-force business;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits (“EGPs”) and demand for our products;
- Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;

- Uncertainty about the effect of continuing promulgation and implementation of rules and regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us, 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;
- 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 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;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
- Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems from cyberattacks or other breaches of our data security systems;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including the successful implementation of integration strategies or the achievement of anticipated synergies and operational efficiencies related to an acquisition;
- The adequacy and collectability 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 evolving market preferences and the changing demographics of our client base; and
- The unanticipated loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the SEC include additional factors that could affect our businesses and financial performance. 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 primarily include fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, indexed universal life insurance (“IUL”), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in “Part I – Item 1. Business” of our 2017 Form 10-K. We provide information about our segments’ and Other Operations’ operating revenue and expense line items and realized gain (loss), key drivers of changes and historical details underlying the line items below. As discussed in Note 3, on May 1, 2018, we completed our acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business and individual life and individual and group annuity business in a transaction accounted for under the acquisition method of accounting. We ceded insurance policies relating to individual life and individual and group annuity business to third-party reinsurers. The operating

results of Liberty Life are included in our Group Protection segment beginning on May 1, 2018. The acquisition enables us to increase our market share within the group protection marketplace. For factors that could cause actual results to differ materially from those set forth, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2017 Form 10-K as updated by “Part II – Item 1A. Risk Factors” in our first and second quarter 2018 Forms 10-Q.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary” of our 2017 Form 10-K.

#### Critical Accounting Policies and Estimates

The MD&A included in our 2017 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the “Critical Accounting Policies and Estimates” provided in our 2017 Form 10-K, and therefore, should be read in conjunction with that disclosure.

#### DAC, VOBA, DSI and DFEL

#### Unlocking

As stated in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical

Accounting Policies and Estimates – Unlocking” in our 2017 Form 10-K, we conduct our annual comprehensive review of the

assumptions and projection models underlying the amortization of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life

insurance and annuity products in the third quarter of each year. As a result of this review, we recorded unlocking that resulted in increases and decreases to the carrying values of these items. See “DAC, VOBA, DSI and DFEL” in Note 1 of our 2017 Form 10-K for a detailed discussion of our unlocking process.

Details underlying the effect to net income (loss) from our unlocking as a result of our annual comprehensive review (in millions) were as follows:

	For the Three Months Ended September 30, 2018 2017	
Income (loss) from operations:		
Annuities	\$ 13	\$ 15
Retirement Plan Services	(2 )	(1 )
Life Insurance	(20)	(16)
Excluded realized gain (loss)	8	(20)
Net income (loss)	\$ (1 )	\$ (22)

Unlocking was driven primarily by the following:

#### 2018

- For Annuities, favorable unlocking was driven by updates to our capital markets and policyholder behavior assumptions and other items, partially offset by unfavorable updates to our interest rate assumptions.
- For Retirement Plan Services, unfavorable unlocking was driven by updates to our interest rate and maintenance expense assumptions, partially offset by favorable updates to our policyholder behavior assumptions and other items.
- For Life Insurance, unfavorable unlocking was driven by updates to our mortality margin and reinsurance assumptions and other items, partially offset by favorable updates to our investment allocation and performance, morbidity and policyholder behavior assumptions.
- For excluded realized gain (loss), favorable unlocking was driven by updates to our policyholder behavior and capital markets assumptions and other items, partially offset by unfavorable updates to our separate account fees assumptions.

#### 2017

- For Annuities, favorable unlocking was driven by updates to our policyholder behavior and separate account fees assumptions and other items, partially offset by unfavorable updates to our interest rate assumptions.
- For Retirement Plan Services, unfavorable unlocking was driven by updates to our interest rate and separate account fees assumptions, partially offset by favorable updates to our maintenance expense assumptions and other items.

- For Life Insurance, unfavorable unlocking was driven by updates to our mortality margin and interest rate assumptions, partially offset by favorable updates to our policyholder behavior, morbidity and maintenance expense assumptions and other items.

- For excluded realized gain (loss), unfavorable unlocking was driven by updates to our separate account fees and capital markets assumptions and other items.

#### Reversion to the Mean

As variable fund returns do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean (“RTM”) process, as discussed in our 2017 Form 10-K.

If we had unlocked our RTM assumption as of September 30, 2018, we would have recorded a favorable unlocking of approximately \$215 million, pre-tax, for Annuities, approximately \$50 million, pre-tax, for Life Insurance and approximately \$30 million, pre-tax, for Retirement Plan Services.

#### Investments

#### Investment Valuation

The following summarizes our fixed maturity available-for-sale (“AFS”) securities, trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions) as of September 30, 2018:

	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	\$ 685	\$ 78,463	\$ -	\$ 79,148
Priced by independent broker quotations	-	-	1,333	1,333
Priced by matrices	-	12,319	-	12,319
Priced by other methods (1)	-	-	2,571	2,571

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Total	\$ 685	\$ 90,782	\$ 3,904	\$ 95,371
Percent of total	1%	95%	4%	100%

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

For more information about the valuation of our financial instruments carried at fair value, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation” in our 2017 Form 10-K and Note 14 herein.

### Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 6 of this report and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2017 Form 10-K.

### Guaranteed Living Benefits

Within our individual annuity business, 64% and 65% of our variable annuity account values contained guaranteed living benefits (“GLB”) features as of September 30, 2018 and 2017, respectively. Underperforming equity markets increase our exposure to potential benefits with the GLB features. A contract with a GLB feature is “in the money” if the contract holder’s account balance falls below the present value of guaranteed withdrawal or income benefits, assuming no lapses. As of September 30, 2018 and 2017, 7% and 6%, respectively, of all in-force contracts with a GLB feature were “in the money,” and our exposure, after reinsurance, as of September 30, 2018 and 2017, was \$451 million and \$402 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will continue to receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account 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.



For information on our estimates of the potential instantaneous effect to net income (loss) that could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities, see our discussion in “Part II – Item 7. Management’s

Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Derivatives – GLB” in our 2017 Form 10-K.

### Acquisitions and Dispositions

For information about acquisitions and divestitures, see Notes 3 and 24 in our 2017 Form 10-K and Note 3 herein.

### RESULTS OF CONSOLIDATED OPERATIONS

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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Net Income (Loss)				
Income (loss) from operations:				
Annuities	\$ 302	\$ 277	\$ 844	\$ 809
Retirement Plan Services	40	35	125	109
Life Insurance	176	121	470	384
Group Protection	63	41	137	83
Other Operations	(71 )	(20 )	(171 )	(71 )
Excluded realized gain (loss), after-tax	(77 )	(63 )	(149 )	(149 )
Gain (loss) on early extinguishment of debt, after-tax	-	(3 )	(18 )	(3 )
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	-	1
Benefit ratio unlocking, after-tax	33	30	32	101
Net impact from the Tax Cuts and Jobs Act	32	-	19	-
Acquisition and integration costs related to mergers and acquisitions, after-tax	(8 )	-	(47 )	-
Net income (loss)	\$ 490	\$ 418	\$ 1,242	\$ 1,264

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Deposits				
Annuities	\$ 3,080	\$ 1,916	\$ 8,589	\$ 5,924
Retirement Plan Services	3,328	1,908	7,905	6,138
Life Insurance	1,523	1,462	4,575	4,422
Total deposits	\$ 7,931	\$ 5,286	\$ 21,069	\$ 16,484
Net Flows				
Annuities (1)	\$ (81 )	\$ (841 )	\$ (814 )	\$ (2,484 )
Retirement Plan Services (1)	1,411	442	2,373	1,003
Life Insurance	1,080	1,064	3,240	3,090
Total net flows (1)	\$ 2,410	\$ 665	\$ 4,799	\$ 1,609

(1) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

	As of September 30,	
	2018	2017
Account Values		
Annuities	\$ 139,285	\$ 133,664
Retirement Plan Services	72,505	64,829
Life Insurance	50,587	47,915
Total account values	\$ 262,377	\$ 246,408

Comparison of the Three Months Ended September 30, 2018 to 2017

Net income increased due primarily to the following:

- Growth in average account values, business in force and group earned premiums.
- Lower federal income tax expense.
- More favorable investment income on alternative investments.
- The effect of unlocking.
- The acquisition of Liberty Life effective May 1, 2018.

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

- Acquisition and integration costs incurred as part of our acquisition and higher strategic digitization expense.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.
- Lower prepayment and bond make-whole premiums.

Comparison of the Nine Months Ended September 30, 2018 to 2017

Net income decreased due primarily to the following:

- Higher losses on variable annuity net derivatives results.
- Acquisition and integration costs incurred as part of our acquisition and higher strategic digitization expense.
- Less favorable investment income on alternative investments and lower prepayment and bond make-whole premiums.
- Lower amortization of deferred gain on business sold through reinsurance in 2018 as a gain was fully amortized during the second quarter of 2017.
- Loss on the early extinguishment of debt.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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

- Growth in average account values, business in force and group earned premiums.

- Lower federal income tax expense.
- The acquisition of Liberty Life effective May 1, 2018.
- The effect of unlocking.

## RESULTS OF ANNUITIES

## Income (Loss) from Operations

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating Revenues				
Insurance premiums (1)	\$ 102	\$ 82	\$ 282	\$ 312
Fee income	598	574	1,771	1,660
Net investment income	251	260	743	779
Operating realized gain (loss) (2)	46	44	142	134
Other revenues (3)	121	113	359	326
Total operating revenues	1,118	1,073	3,297	3,211
Operating Expenses				
Interest credited	145	145	437	438
Benefits (1)	149	135	477	502
Commissions and other expenses	474	443	1,398	1,331
Total operating expenses	768	723	2,312	2,271
Income (loss) from operations before taxes	350	350	985	940
Federal income tax expense (benefit)	48	73	141	131
Income (loss) from operations	\$ 302	\$ 277	\$ 844	\$ 809

(1) Insurance premiums include primarily our income annuities that have a corresponding offset in benefits. Benefits include changes in income annuity reserves driven by premiums.

(2) See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

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

## Comparison of the Three Months Ended September 30, 2018 to 2017

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

- Lower federal income tax expense due to the change in the marginal corporate income tax rate, partially offset by changes to the separate account dividends-received deduction (“DRD”), as a result of the Tax Cuts and Jobs Act (“Tax Act”).
- Higher fee income driven by higher average daily variable account values, partially offset by the effect of unlocking.

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

- Higher commissions and other expenses due to the effect of unlocking and higher average account values, resulting in higher trail commissions.
- Lower net investment income, net of interest credited, driven by lower prepayments and bond make-whole premiums.

Comparison of the Nine Months Ended September 30, 2018 to 2017

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

- Higher fee income driven by higher average daily variable account values, partially offset by the effect of unlocking.
- Lower benefits due to the effect of unlocking.

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

- Higher commissions and other expenses due to higher average account values, resulting in higher trail commissions, and the effect of unlocking.
- Lower net investment income, net of interest credited, driven by spread compression due to average new money rates trailing our current portfolio yields, lower prepayments and bond make-whole premiums and less favorable investment income on alternative investments within our surplus portfolio.

See “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” above for more information about unlocking.

## Additional Information

For the nine months ended September 30, 2018, the federal income tax expense was primarily impacted by the lower marginal corporate income tax rate and tax law changes to the separate account DRD as a result of the Tax Act and other items. For the nine months ended September 30, 2017, the federal income tax expense was driven by one-time and run-rate adjustments primarily associated with our separate account DRD.

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 can significantly impact future income from operations.

The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused by full surrenders, deaths and other contract benefits. These outflows as a percentage of average account values were 9% for the three and nine months ended September 30, 2018 and 2017.

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 interest rate risk, see “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 – 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” in our 2017 Form 10-K.

## Fee Income

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

For the Three    For the Nine



	Months		Months Ended	
	Ended		September 30,	
	September 30,	September 30,	2018	2017
	2018	2017	2018	2017
Fee Income				
Mortality, expense and other assessments	\$ 595	\$ 562	\$ 1,754	\$ 1,634
Surrender charges	7	7	23	24
DFEL:				
Deferrals	(10 )	(9 )	(29 )	(28 )
Amortization, net of interest:				
Amortization, net of interest, excluding unlocking	8	8	25	24
Unlocking	(2 )	6	(2 )	6
Total fee income	\$ 598	\$ 574	\$ 1,771	\$ 1,660

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	As of or For the Three Months Ended September 30,		As of or For the Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Variable Account Value Information</b>				
Variable annuity deposits (1)	\$ 1,305	\$ 998	\$ 3,902	\$ 3,247
Increases (decreases) in variable annuity account values:				
Net flows (1)(2)	(1,097 )	(1,148 )	(3,425 )	(3,413 )
Change in market value (1)(2)	3,378	3,928	4,886	12,414
Contract holder assessments (1)	(629 )	(598 )	(1,865 )	(1,765 )
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	721	472	2,238	1,202
Variable annuity account values (1)	116,177	111,354	116,177	111,354
Average daily variable annuity account values (1)	115,672	109,991	115,140	107,910
Average daily S&P 500 (3)	2,849	2,465	2,762	2,396

(1) Excludes the fixed portion of variable.

(2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

(3) We generally use the Standard & Poor's ("S&P") 500 index as a benchmark for the performance of our variable account values. The account values of our variable annuity contracts are invested by our policyholders in a variety of investment options including, but not limited to, domestic and international equity securities and fixed income, which do not necessarily align with S&P 500 index performance. See Note 8 for additional information.

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 variable fund returns. Charges on GLB riders are assessed based on a contractual rate that is applied either to the account value or the guaranteed amount. 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. Fee income includes charges on both our variable and fixed annuity products, but excludes the attributed fees on our GLB riders; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2017 Form 10-K for discussion of these attributed fees.



## Net Investment Income and Interest Credited

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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
<b>Net Investment Income</b>				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 208	\$ 209	\$ 616	\$ 630
Commercial mortgage loan prepayment and bond make-whole premiums (1)	6	15	18	31
Surplus investments (2)	37	36	109	118
Total net investment income	\$ 251	\$ 260	\$ 743	\$ 779
<b>Interest Credited</b>				
Amount provided to contract holders	\$ 149	\$ 139	\$ 446	\$ 424
DSI deferrals	(11)	(5)	(33)	(11)
Interest credited before DSI amortization	138	134	413	413
DSI amortization:				
Amortization, excluding unlocking	7	7	24	21
Unlocking	-	4	-	4
Total interest credited	\$ 145	\$ 145	\$ 437	\$ 438

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.

(2) 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. See “Consolidated Investments – Alternative Investments” below for more information on alternative investments.

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
<b>Interest Rate Spread</b>				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	3.89%	3.94%	3.86%	4.00%

Commercial mortgage loan prepayment and bond make-whole premiums	0.13%	0.33%	0.11%	0.21%
Net investment income yield on reserves	4.02%	4.27%	3.97%	4.21%
Interest rate credited to contract holders	2.24%	2.29%	2.26%	2.36%
Interest rate spread	1.78%	1.98%	1.71%	1.85%

	As of or For the Three Months Ended September 30, 2018		As of or For the Nine Months Ended September 30, 2017	
<b>Fixed Account Value Information</b>				
Fixed annuity deposits (1)	\$ 1,775	\$ 919	\$ 4,687	\$ 2,677
Increases (decreases) in fixed annuity account values:				
Net flows (1)(2)	1,016	307	2,611	929
Contract holder assessments (1)	(8 )	(8 )	(25 )	(23 )
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(721 )	(472 )	(2,238 )	(1,202 )
Reinvested interest credited (1)	252	206	545	640
Fixed annuity account values (1)	23,108	22,311	23,108	22,311
Average fixed account values (1)	22,967	22,313	22,775	22,259
Average invested assets on reserves	18,308	18,326	18,417	18,278

(1) Includes the fixed portion of variable.

(2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

A portion of our investment income earned is credited to the contract holders of our deferred 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 make-whole 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 (in millions) were as follows:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Benefits				
Net death and other benefits, excluding unlocking	\$ 175	\$ 152	\$ 503	\$ 519
Unlocking	(26)	(17)	(26)	(17)
Total benefits	\$ 149	\$ 135	\$ 477	\$ 502

Benefits for this segment include changes in income annuity reserves driven by premiums, changes in benefit reserves and costs associated with the hedging of our benefit ratio unlocking on benefit reserves associated with our variable annuity guaranteed death benefit and GLB riders. For a corresponding offset of changes in income annuity reserves, see footnote 1 of “Income (Loss) from Operations” above.

## Commissions and Other Expenses

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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Commissions and Other Expenses				
Commissions:				
Deferrable	\$ 129	\$ 76	\$ 353	\$ 243
Non-deferrable	149	140	434	419
General and administrative expenses	107	102	309	308
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	1	1	3	3
Taxes, licenses and fees	8	7	25	25
Total expenses incurred, excluding broker-dealer DAC deferrals	394	326	1,124	998
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest DAC and VOBA amortization, net of interest:	(147 )	(90 )	(401 )	(285 )
Amortization, net of interest, excluding unlocking	247	236	723	713
Unlocking	103	101	318	300
Broker-dealer expenses incurred	7	(4 )	7	(4 )
Total commissions and other expenses	117	110	350	322
	\$ 474	\$ 443	\$ 1,398	\$ 1,331
DAC Deferrals				
As a percentage of sales/deposits	4.8%	4.7%	4.7%	4.8%

(1) Includes reimbursements to Annuities from the Life Insurance segment for reserve financing, net of expenses incurred by Annuities for its use of letters of credit ("LOCs"). The inter-segment amounts are not reported on our Consolidated Statements of Comprehensive Income (Loss).

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain types of 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.





## RESULTS OF RETIREMENT PLAN SERVICES

## Income (Loss) from Operations

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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Operating Revenues				
Fee income	\$ 65	\$ 63	\$ 194	\$ 183
Net investment income	223	223	668	666
Other revenues (1)	6	5	16	14
Total operating revenues	294	291	878	863
Operating Expenses				
Interest credited	140	136	414	401
Benefits	-	-	1	1
Commissions and other expenses	107	107	317	314
Total operating expenses	247	243	732	716
Income (loss) from operations before taxes	47	48	146	147
Federal income tax expense (benefit)	7	13	21	38
Income (loss) from operations	\$ 40	\$ 35	\$ 125	\$ 109

(1) Consists primarily of mutual fund account program revenues from mid to large employers.

## Comparison of the Three and Nine Months Ended September 30, 2018 to 2017

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

- Lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.
- Higher fee income driven by higher average daily variable account values.

The increase in income from operations was partially offset by lower net investment income, net of interest credited, driven by lower prepayment and bond make-whole premiums and spread compression due to average new money rates trailing our current portfolio yields.

When comparing the nine months ended September 30, 2018 to 2017, the increase in income from operations was also partially offset by less favorable investment income on alternative investments within our surplus portfolio.

See “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” above for information about unlocking.

#### Additional Information

Net flows in this business fluctuate based on the timing of larger plans being implemented on our platform and terminating over the course of the year.

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 can significantly impact future income from operations. The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused primarily by plan sponsor terminations and participant withdrawals. These outflows as a percentage of average account values were 11% for the three and nine months ended September 30, 2018 compared to 9% and 11% for the corresponding periods in 2017.

Our net flows are negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Net Flows By Market table below as “Multi-Fund® and other”), which are among our higher margin product lines in this segment, due to the fact that they are mature blocks with low distribution and servicing costs. The proportion of these products to our total account values was 23% and 26% as of September 30, 2018 and 2017, respectively. Due to this expected overall shift in business mix toward products with lower returns, new deposit production continues to 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 either a quarterly or semi-annual basis. Our ability to retain quarterly or semi-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 interest rate risk, see “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 – 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” in our 2017 Form 10-K.

Fee Income

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

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	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Fee Income				
Annuity expense assessments	\$ 49	\$ 47	\$ 145	\$ 135
Mutual fund fees	16	16	48	47
Total expense assessments	65	63	193	182
Surrender charges	-	-	1	1
Total fee income	\$ 65	\$ 63	\$ 194	\$ 183

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Net Flows By Market (1)				
Small market	\$ 110	\$ 183	\$ 42	\$ (47 )

Mid – large market	1,573	503	3,137	1,788
Multi-Fund® and other	(272 )	(244)	(806 )	(738 )
Total net flows	\$ 1,411	\$ 442	\$ 2,373	\$ 1,003

(1) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

	As of or For the Three Months Ended September 30,		As of or For the Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Variable Account Value Information</b>				
Variable annuity deposits (1)	\$ 402	\$ 474	\$ 1,321	\$ 1,392
Increases (decreases) in variable annuity account values:				
Net flows (1)(2)	(135 )	6	(403 )	(628 )
Change in market value (1)(2)	688	600	1,036	1,819
Contract holder assessments (1)	(40 )	(38 )	(121 )	(113 )
Variable annuity account values (1)	16,487	15,445	16,487	15,445
Average daily variable annuity account values (1)	16,385	15,148	16,240	14,811
Average daily S&P 500	2,849	2,465	2,762	2,396

(1) Excludes the fixed portion of variable.

(2) The prior year has been restated to conform to the current year presentation, which has been modified to be consistent across our business segments.

	As of or For the Three Months Ended September 30,		As of or For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Mutual Fund Account Value Information				
Mutual fund deposits	\$ 2,222	\$ 1,019	\$ 5,027	\$ 3,065
Mutual fund net flows	1,284	416	2,624	1,306
Mutual fund account values (1)	36,507	30,758	36,507	30,758

- (1) Mutual funds are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

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, our interest rate spread and account values (in millions, except spread data) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Investment Income				
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 200	\$ 198	\$ 601	\$ 588
Commercial mortgage loan prepayment and bond make-whole premiums (1)	5	7	15	19
Surplus investments (2)	18	18	52	59
Total net investment income	\$ 223	\$ 223	\$ 668	\$ 666

Interest Credited \$ 140 \$ 136 \$ 414 \$ 401

- (1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.
- (2) 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. See “Consolidated Investments – Alternative Investments” below for more information on alternative investments.

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