

LINCOLN NATIONAL CORP
Form 10-K
February 25, 2010

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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2009
OR

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

Commission File Number 1-6028

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

Indiana
(State or other jurisdiction of
incorporation or organization)

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

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

19087
(Zip Code)

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

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

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

(1) Issued by Lincoln National Capital VI. Payments of distributions and payments on liquidation or redemption are guaranteed by Lincoln National Corporation.

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the shares of the registrant's common stock held by non-affiliates (based upon the closing price of these shares on the New York Stock Exchange) as of the last business day of the registrant's most recently completed second fiscal quarter was \$5.2 billion.

As of February 19, 2010, 302,261,792 shares of common stock of the registrant were outstanding.

Documents Incorporated by Reference:

Selected portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled for May 27, 2010, have been incorporated by reference into Part III of this Form 10-K.

Lincoln National Corporation

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PART I

The “Business” section and other parts of this Form 10-K contain forward-looking statements that involve inherent risks and uncertainties. Statements that are not historical facts, including statements about our beliefs and expectations, and containing words such as “believes,” “estimates,” “anticipates,” “expects” or similar words are forward-looking statements. Our actual results may differ materially from the projected results discussed in the forward-looking statements. Factors that could cause such differences include, but are not limited to, those discussed in “Item 1A. Risk Factors” and in the “Forward-Looking Statements – Cautionary Language” in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) of the Form 10-K. Our consolidated financial statements and the accompanying notes to the consolidated financial statements (“Notes”) are presented in “Part II – Item 8. Financial Statements and Supplementary Data.”

Item 1. Business

OVERVIEW

Lincoln National Corporation (“LNC,” which also may be referred to as “Lincoln,” “we,” “our” or “us”) is a holding company, which operates multiple insurance and retirement businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, term life insurance, mutual funds and group life insurance. LNC was organized under the laws of the state of Indiana in 1968. We currently maintain our principal executive offices in Radnor, Pennsylvania. “Lincoln Financial Group” is the marketing name for LNC and its subsidiary companies. As of December 31, 2009, LNC had consolidated assets of \$177.4 billion and consolidated stockholders’ equity of \$11.7 billion.

We provide products and services in two operating businesses and report results through four segments as follows:

Business	Corresponding Segments
Retirement Solutions	Annuities Defined Contribution
Insurance Solutions	Life Insurance Group Protection

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments, unallocated corporate items and the ongoing amortization of deferred gain on the indemnity reinsurance portion of the sale of our former reinsurance segment to Swiss Re Life & Health America Inc. (“Swiss Re”) in the fourth quarter of 2001. Unallocated corporate items include investment income on investments related to the amount of statutory surplus in our insurance subsidiaries that is not allocated to our business units and other corporate investments, interest expense on short-term and long-term borrowings and certain expenses, including restructuring and merger-related expenses. Other Operations also includes our run-off institutional pension business, the results of certain disability income business due to the rescission of a reinsurance agreement with Swiss Re and the results of our remaining media businesses.

As a result of entering agreements of sale for Lincoln National (UK) plc (“Lincoln UK”) and Delaware Management Holdings, Inc. (“Delaware”) during 2009, we have reported the results of these businesses as discontinued operations on our Consolidated Statements of Income (Loss) and the assets and liabilities as held for sale on our Consolidated Balance Sheets for all periods presented. For further information, see “Acquisitions and Dispositions” below.

The results of Lincoln Financial Network (“LFN”) and Lincoln Financial Distributors (“LFD”), our retail and wholesale distributors, respectively, are included in the segments for which they distribute products. LFD distributes our individual products and services, defined contribution (“DC”) plans and corporate-owned UL and VUL (“COLI”) and bank-owned UL and VUL (“BOLI”) products and services. The distribution occurs primarily through consultants, brokers, planners, agents, financial advisors, third party administrators (“TPAs”) and other intermediaries. Insurance Solutions – Group Protection distributes its products and services primarily through employee benefit brokers, TPAs and other employee benefit firms. As of December 31, 2009, LFD had approximately 600 internal and external wholesalers (including sales managers). As of December 31, 2009, LFN offered LNC and non-proprietary products and advisory services through a national network of approximately 7,700 active producers who placed business with us within the last twelve months.

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

Revenues by segment (in millions) were as follows:

	For the Years Ended December 31,		
	2009	2008	2007
Revenues			
Operating revenues:			
Retirement Solutions:			
Annuities	\$2,301	\$2,438	\$2,535
Defined Contribution	926	932	986
Total Retirement Solutions	3,227	3,370	3,521
Insurance Solutions:			
Life Insurance	4,293	4,259	4,189
Group Protection	1,713	1,640	1,500
Total Insurance Solutions	6,006	5,899	5,689
Other Operations	467	534	578
Excluded realized loss, pre-tax	(1,200)	(573)	(183)
Amortization of deferred gain from reserve changes on business sold through reinsurance, pre-tax	3	3	9
Amortization of deferred front-end loads (“DFEL”) associated with benefit ratio unlocking, pre-tax	(4)	(9)	-
Total revenues	\$8,499	\$9,224	\$9,614

Acquisitions and Dispositions

On January 4, 2010, LNC and its wholly owned subsidiary, Lincoln National Investment Companies, completed the sale of the outstanding capital stock of Delaware, our former subsidiary, to Macquarie Bank Limited, pursuant to a Purchase and Sale Agreement dated as of August 18, 2009. Delaware provided investment products and services to individuals and institutions. We currently expect to receive cash consideration at closing of approximately \$405 million, after-tax. The closing purchase price is subject to post-closing adjustments, including an adjustment based on the final closing balance sheet as determined under the Purchase and Sale Agreement.

In addition, certain of our subsidiaries, including The Lincoln National Life Insurance Company (“LNL”), our primary insurance subsidiary, have entered into investment advisory agreements with Delaware dated January 4, 2010, pursuant to which Delaware will continue to manage the majority of the general account insurance assets of the subsidiaries. The investment advisory agreements will have 10-year terms, and we may terminate them without cause, subject to a purchase price adjustment of up to \$84 million in the event that all of the agreements with our subsidiaries are terminated. The amount of the potential adjustment will decline on a pro rata basis over the 10-year term of the advisory agreements.

On October 1, 2009, we completed the sale of the capital stock of Lincoln UK to SLF of Canada UK Limited for proceeds of \$307 million, after-tax, subject to customary post-closing adjustments. We retained Lincoln UK’s pension plan assets and liabilities. The former Lincoln UK segment primarily focused on providing life and retirement income

products in the United Kingdom.

On January 8, 2009, the Office of Thrift Supervision approved our application to become a savings and loan holding company and our acquisition of Newton County Loan & Savings, FSB (“NCLS”), a federally regulated savings bank located in Indiana. We contributed \$10 million to the capital of NCLS. We closed on our purchase of NCLS on January 15, 2009.

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

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

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

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

BUSINESS SEGMENTS AND OTHER OPERATIONS

RETIREMENT SOLUTIONS

Overview

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

Retirement Solutions – Annuities

Overview

The Retirement Solutions – Annuities segment provides tax-deferred growth and lifetime income opportunities for its clients by offering fixed and variable annuities. The Retirement Solutions – Annuities segment offers non-qualified and qualified fixed and variable annuities to individuals. The “fixed” and “variable” classification describes whether we or the contract holders bear the investment risk of the assets supporting the contract. This also determines the manner in which we earn investment margin profits from these products, either as investment spreads for fixed products or as asset-based fees charged to variable products.

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

Products

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

The Retirement Solutions – Annuities segment’s deposits (in millions) were as follows:

	For the Years Ended December 31,		
	2009	2008	2007
Deposits			
Variable portion of variable annuity	\$4,007	\$6,690	\$9,135
Fixed portion of variable annuity	3,194	3,433	2,795
Total variable annuity	7,201	10,123	11,930
Fixed indexed annuity	2,182	1,078	755
Other fixed annuity	979	529	772
Total annuity deposits	\$10,362	\$11,730	\$13,457

Variable Annuities

A variable annuity provides the contract holder the ability to direct the investment of premium deposits into one or more sub-accounts offered through the product (“variable portion”) or into a fixed account with a guaranteed return (“fixed portion”). The value of the variable portion of the contract holder’s account varies with the performance of the underlying sub-accounts chosen by the contract holder. The underlying assets of the sub-accounts are managed within a special insurance series of mutual funds. The contract holder’s return is tied to the performance of the segregated assets underlying the variable annuity (i.e. the contract holder bears the investment risk associated with these investments). The value of the fixed portion is guaranteed by us and recorded in our general account liabilities. Variable annuity account values were \$59.4 billion, \$44.5 billion and \$62.1 billion for the years ended December 31, 2009, 2008 and 2007, respectively, including the fixed portion of variable accounts of \$4.0 billion, \$3.6 billion and \$3.5 billion, for the years ended December 31, 2009, 2008 and 2007, respectively.

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

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

- An A-share has a front-end sales charge and no back-end contingent deferred sales charge, also known as a surrender charge. The net premium (premium less front-end charge) is invested in the contract, resulting in full liquidity and

lower mortality and expense assessments over the long term than those in other share classes.

- A B-share has a seven-year surrender charge that is only paid if the account is surrendered or withdrawals are in excess of contractual free withdrawals within the contract's specified surrender charge period. The entire premium is invested in the contract, but it offers limited liquidity during the surrender charge period.
- A C-share has no front-end sales charge or back-end surrender charge. Accordingly, it offers maximum liquidity but mortality and expense assessments are higher than those for A-share or B-share during the surrender charge period. A persistency credit is applied beginning in year eight so that the total charge to the customer is consistent with B-share levels.

- An L-share has a four to five year surrender charge that is only paid if the account is surrendered or withdrawals are in excess of contractual free withdrawals within the contract's specified surrender charge period. The differences between the L-share and the B-share are the length of the surrender charge period and the fee structure. L-shares have a shorter surrender charge period, so for the added liquidity, mortality and expense assessments are higher. We offer L-share annuity products with persistency credits that are applied in all years after surrender charges are no longer applicable so that the total charge to the customer is consistent with B-share levels.
- A bonus annuity is a variable annuity contract that offers a bonus credit to a contract based on a specified percentage (typically ranging from 2% to 5%) of each deposit. The entire premium plus the bonus are invested in the sub-accounts supporting the contract. It has a seven to nine-year surrender charge. The expenses are slightly more than those for a B-share. We offer bonus annuity products with persistency credits that are applied in all years after surrender charges are no longer applicable so that the total charge to the customer is consistent with B-share levels.

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

We design and actively manage the features and structure of our guaranteed benefit riders to maintain a competitive suite of products consistent with profitability and risk management goals. In late 2008 and early 2009, in light of changes in the variable annuity marketplace driven by financial market conditions, we made changes to our riders to reduce our exposure to equity market volatility and interest rate movements while compensating us for increasing costs to provide the benefits. The changes include, but are not limited to, implementing investment restrictions for all new rider sales and for the majority of in-force policies with guaranteed riders, raising the charge for guaranteed benefit riders, reducing roll-up periods and eliminating certain features.

Approximately 92%, 91% and 91% of variable annuity separate account values had a GDB rider as of December 31, 2009, 2008 and 2007, respectively. The GDB features currently offered include those where we contractually guarantee to the contract holder that upon death, we will return no less than: the total deposits made to the contract, adjusted to reflect any partial withdrawals; the total deposits made to the contract, adjusted to reflect any partial withdrawals, plus a minimum return; or the highest contract value on a specified anniversary date adjusted to reflect any partial withdrawals following the contract anniversary.

Approximately 23%, 26% and 28% of variable annuity account values as of December 31, 2009, 2008 and 2007, respectively, had a Lincoln SmartSecurity® Advantage rider. The Lincoln SmartSecurity® Advantage one-year benefit is a GWB rider that offers the contract holder a guarantee equal to the initial deposit (or contract value, if elected after issue), adjusted for any subsequent purchase payments or withdrawals. Lincoln SmartSecurity® Advantage one-year allows an owner to step up the guarantee amount automatically on the benefit anniversary to the current contract value if the contract value is greater than the guarantee amount at the time of step up. To receive the full amount of the guarantee, annual withdrawals are limited to 5% of the guaranteed amount. Withdrawals will continue until the longer of when the guarantee is equal to zero or for the rest of the owner's life ("single life version") or the life of the owner or owner's spouse ("joint life version") as long as withdrawals begin after attained age 65 and are limited to 5% of the guaranteed amount. Withdrawals in excess of the applicable maximum in any contract year are assessed any applicable surrender charges, and the guaranteed amount is recalculated.

We offer other product riders including i4LIFE® Advantage and 4LATER® Advantage. The i4LIFE® rider, on which we have received a U.S. patent, allows variable annuity contract holders access and control during the income distribution phase of their contract. This added flexibility allows the contract holder to access the account value for transfers, additional withdrawals and other service features like portfolio rebalancing. Approximately 11%, 11% and

9% of variable annuity account values as of December 31, 2009, 2008 and 2007, respectively, have elected an i4LIFE® Advantage feature. In general, GIB is an optional feature available with i4LIFE® Advantage that guarantees regular income payments will not fall below 75% of the highest income payment on a specified anniversary date (reduced for any subsequent withdrawals). Approximately 94%, 92% and 88% of i4LIFE® Advantage account values elected the GIB feature as of December 31, 2009, 2008 and 2007, respectively. 4LATER® Advantage provides a minimum income base used to determine the GIB floor when a client begins income payments under i4LIFE® Advantage. The income base is equal to the initial deposit (or contract value, if elected after issue) and increases by 15% every three years (subject to a 200% cap). The owner may step up the income base on or after the third anniversary of rider election or of the most recent step-up (which also resets the 200% cap).

The Lincoln Lifetime IncomeSM Advantage and Lincoln Lifetime IncomeSM Advantage Plus are hybrid benefit riders combining aspects of GWB and GIB. Both benefit riders allow the contract holder the ability to take income at a maximum rate of 5% of the guaranteed amount when they are above the lifetime income age or income through i4LIFE[®] Advantage with the GIB. Lincoln Lifetime IncomeSM Advantage and Lincoln Lifetime IncomeSM Advantage Plus provide higher income if the contract holder delays withdrawals, including both a 5% enhancement to the guaranteed amount each year a withdrawal is not taken for a specified period of time and an annual step-up of the guaranteed amount to the current contract value. The Lincoln Lifetime IncomeSM Advantage Plus provides an additional benefit, which is a return of principal at the end of the seventh year if the customer has not taken any withdrawals. Contract holders under both the Lincoln Lifetime IncomeSM Advantage and Lincoln Lifetime IncomeSM Advantage Plus are subject to restrictions on the allocation of their account value within the various investment choices. Approximately 17% and 8% of variable annuity account values as of December 31, 2009 and 2008, respectively, had a Lincoln Lifetime IncomeSM Advantage or Lincoln Lifetime IncomeSM Advantage Plus rider.

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

Fixed Annuities

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

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

Fixed annuity contracts are general account obligations. We bear the investment risk for fixed annuity contracts. To protect from premature withdrawals, we impose surrender charges. Surrender charges are typically applicable during

the early years of the annuity contract, with a declining level of surrender charges over time. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line and what we credit to our fixed annuity contract holders' accounts. In addition, with respect to fixed indexed annuities, we purchase options that are highly correlated to the indexed account allocation decisions of our contract holders, such that we are closely hedged with respect to indexed interest for the current reset period. For more information on our hedging program for fixed indexed annuities, see "Critical Accounting Policies and Estimates – Derivatives" and "Realized Loss" in the MD&A.

Individual fixed annuity account values were \$15.9 billion, \$14.0 billion and \$14.4 billion as of December 31, 2009, 2008 and 2007, respectively. Approximately \$11.8 billion of individual fixed annuity account values as of December 31, 2009, were still within the surrender charge period.

Our fixed annuity product offerings as of December 31, 2009, consisted of traditional fixed-rate and fixed indexed deferred annuities, as well as fixed-rate immediate annuities with various payment options, including lifetime incomes. In addition to traditional fixed-rate immediate annuities, in 2007 we introduced Lincoln SmartIncomeSM Inflation Annuity. This product provides lifetime income with annual adjustments to keep pace with inflation. It uses a patent-pending design to preserve access to remaining principal, also adjusted annually for inflation, for premature death or unexpected needs. The traditional fixed-rate deferred annuity products include the Lincoln ClassicSM (Single and Flexible Premium), Lincoln SelectSM and Lincoln ChoicePlusSM Fixed annuities. The fixed indexed deferred annuity products include the Lincoln OptiPoint®, Lincoln OptiChoiceSM, Lincoln New Directions® and Lincoln Future Point® annuities. The fixed indexed annuities offer one or more of the following indexed accounts:

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

If the S&P 500 values produce a negative indexed interest rate, no indexed interest is credited to the indexed account. During 2009, we added new traditional fixed annuity products, Lincoln MYGuaranteeSM Plus and Lincoln GrowSmartSM Fixed Annuity, with multi-year guarantee periods that vary from 3-10 years to allow consumers greater flexibility.

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

Many of our fixed annuities have an MVA. If a contract with an MVA is surrendered during the surrender charge period, both a surrender charge and an MVA may be applied. The MVA feature increases or decreases the contract value of the annuity based on a decrease or increase in interest rates. We updated our MVA formula, during 2009, which provides better protection when changes in available asset yields are not in line with changes in Treasury rates. Individual fixed annuities with an MVA feature constituted 55%, 46% and 40% of total fixed annuity account values as of December 31, 2009, 2008 and 2007, respectively.

Distribution

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

agents.

Competition

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

7

Retirement Solutions – Defined Contribution

Overview

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

DC plans are a popular employee benefit offered by many employers across a wide spectrum of industries and by employers large and small. Some plans include employer matching of contributions, which can increase participation by employees. Growth in the number of DC plans has occurred as these plans have been used as replacements for frozen or eliminated defined benefit retirement plans. In general, DC plans offer tax-deferred contributions and investment growth, thereby deferring the tax consequences of both the contributions and investment growth until withdrawals are made from the accumulated values, often at lower tax rates occurring during retirement.

Lincoln's 403(b) assets accounted for 58% of total assets under management in this segment as of December 31, 2009. The 401(k) business accounted for 43% of our deposits during 2009 for this segment.

Products and Services

The Retirement Solutions – Defined Contribution segment currently brings four primary offerings to the employer-sponsored market: LINCOLN DIRECTORSM group variable annuity, LINCOLN ALLIANCE® program, Lincoln SmartFuture® program and Multi-Fund® variable annuity.

The Retirement Solutions – Defined Contribution segment's deposits (in millions) were as follows:

	For the Years Ended December 31,		
	2009	2008	2007
Deposits			
Variable portion of variable annuity	\$1,586	\$2,170	\$2,355
Fixed portion of variable annuity	331	369	351
Total variable annuity	1,917	2,539	2,706
Fixed annuity	1,011	812	754
Mutual fund	2,024	2,196	2,090
Total annuity and mutual fund deposits	\$4,952	\$5,547	\$5,550

LINCOLN DIRECTORSM and Multi-Fund® products are variable annuities. LINCOLN ALLIANCE® and Lincoln SmartFuture® programs are mutual fund-based programs. This suite of products covers the 403(b), 401(k) and 457 marketplace. These 403(b), 401(k) and 457 plans are tax-deferred, DC plans offered to employees of an entity to enable them to save for retirement. The 403(b) plans are available to employees of educational institutions, not-for-profit healthcare organizations and certain other not-for-profit entities; 401(k) plans are generally available to employees of for-profit entities; and 457 plans are available to government employees and certain employees of non-profit organizations. The investment options for our annuities encompass the spectrum of asset classes with varying levels of risk and include both equity and fixed income. Healthcare clients accounted for 43%, 45% and 43% of account values for these products as of December 31, 2009, 2008 and 2007, respectively.

LINCOLN DIRECTORSSM group variable annuity is a 401(k) DC retirement plan solution available to micro- to small-sized businesses, typically those that have DC plans with less than \$3 million in account values. The LINCOLN DIRECTORSSM product offers participants a broad array of investment options from several fund families and a fixed account. In 2009, we updated our LINCOLN DIRECTORSSM product, which now offers more than 90 investment options and will be positioned as our primary product in the micro to small 401(k) plan marketplace. This product includes fiduciary support for plan sponsors, accumulation strategies and tools for plan participants and offers our patented distribution option, i4LIFE[®] Advantage. In 2008, the investment options were significantly enhanced with the addition of the funds that had been offered only through the Lincoln American Legacy Retirement[®] group variable annuity. Lincoln American Legacy Retirement[®] was merged into LINCOLN DIRECTORSSM group variable annuity in 2008 and is no longer offered as a standalone product for new sales. LINCOLN DIRECTORSSM group variable annuity has the option of being serviced through a TPA or fully serviced by Lincoln. As of December 31, 2009, approximately 90% of LINCOLN DIRECTORSSM clients were serviced through TPAs. The Retirement Solutions – Defined Contribution segment earns revenue through asset charges, investment management fees, surrender charges and recordkeeping fees from this product. We also receive fees from the underlying mutual funds companies for the services we provide and we also earn investment margins on assets in the fixed account. Account values for LINCOLN DIRECTORSSM group variable annuity were \$5.9 billion, \$4.9 billion and \$7.8 billion as of December 31, 2009, 2008 and 2007, respectively. Deposits for LINCOLN DIRECTORSSM group variable annuity were \$1.2 billion, \$1.5 billion and \$1.6 billion during 2009, 2008 and 2007, respectively.

The LINCOLN ALLIANCE[®] program is a DC retirement plan solution aimed at mid to large employers, typically those that have DC plans with \$15 million or more in account value. The target market is primarily for-profit corporations, educational institutions and healthcare providers. The program bundles our traditional fixed annuity products with the employer's choice of retail mutual funds, along with recordkeeping, plan compliance services and customized employee education services. Included in the product offering is the LIFESPAN[®] learning program, which provides participants with educational materials and one-on-one guidance for retirement planning assistance. The program allows the use of any retail mutual fund. We earn fees for our recordkeeping and educational services and the services we provide to mutual fund accounts. We also earn investment margins on fixed annuities. The retail mutual funds associated with this program are not included in the separate accounts reported on our Consolidated Balance Sheets, as we do not have any ownership interest in them. LINCOLN ALLIANCE[®] program account values were \$13.4 billion, \$9.4 billion and \$9.5 billion as of December 31, 2009, 2008 and 2007, respectively.

The Lincoln SmartFuture[®] program is a DC retirement plan solution aimed at small to mid to large employers, typically those that have DC plans with between \$3 million to \$15 million or more in account value. The target market is primarily for-profit corporations, educational institutions and healthcare providers. The Lincoln SmartFuture[®] program was introduced in 2008 and is built on the LINCOLN ALLIANCE[®] platform. Like LINCOLN ALLIANCE[®], the program bundles our traditional fixed annuity products with retail mutual funds, recordkeeping, plan compliance services and employee education services using the LIFESPAN[®] learning program, which is described further above. However, the Lincoln SmartFuture[®] program allows the employer to choose from a list of over 100 retail mutual funds chosen by us, which consists of a broad range of low-cost funds. Services for this program are typically not customized for each employer. We earn fees for our recordkeeping and educational services and the services we provide to mutual fund accounts. We also earn investment margins on fixed annuities. The retail mutual funds associated with this program are not included in the separate accounts reported on our Consolidated Balance Sheets, as we do not have any ownership interest in them. Lincoln SmartFuture[®] program account values were \$223 million and \$104 million as of December 31, 2009 and 2008, respectively.

Multi-Fund[®] Variable Annuity is a DC retirement plan solution with full-bundled administrative services and high quality investment choices marketed to small- to mid-sized healthcare, education, governmental and not-for-profit plans. The product can be sold either to the employer through the Multi-Fund[®] group variable annuity contract or

directly to the individual through the Multi-Fund® Select variable annuity contract. Included in the product offering is the LIFESPAN® learning program, which is described further above. We earn mortality and expense charges, investment income on the fixed account and surrender charges from this product. We also receive fees for services that we provide to the underlying mutual fund accounts. The Multi-Fund® variable annuity is currently available in all states except New York. Account values for the Multi-Fund® variable annuity were \$10.9 billion, \$9.7 billion and \$13.3 billion as of December 31, 2009, 2008 and 2007, respectively. Multi-Fund® program deposits represented 13%, 15% and 17% of the segment's deposits in 2009, 2008 and 2007, respectively.

Also within this segment, we have created the Lincoln Unifier® service offering to further assist employers meet the administrative challenges of bringing retirement plans into compliance with the new 403(b) regulations. Lincoln Unifier® includes common remitter administration, compliance monitoring and proactive transaction monitoring.

Distribution

DC products are primarily distributed by LFD. The wholesalers distribute these products through advisors, consultants, banks, wirehouses, TPAs and individual planners. Although the Multi-Fund® program is sold primarily by affiliated advisors, certain non-affiliated advisors can also distribute the product. The LINCOLN ALLIANCE® program and the Lincoln SmartFuture® program are sold primarily through consultants and affiliated advisors. LINCOLN DIRECTORS group variable annuity is sold primarily by TPAs and individual planners and is in the early stages of introduction to wirehouses and banks.

Competition

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

INSURANCE SOLUTIONS

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Insurance Solutions – Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product and both single and survivorship versions of UL and VUL, including COLI and BOLI products. The Insurance Solutions – Group Protection segment offers group life, disability and dental insurance primarily in the small- to mid-sized employer marketplace for their eligible employees.

Insurance Solutions – Life Insurance

Overview

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

The Insurance Solutions – Life Insurance segment primarily targets the affluent to high net worth markets, defined as households with at least \$250,000 of financial assets. For those individual policies we sold in 2009, the average face amount (excluding term and MoneyGuard® products) was \$1 million and average first year premiums paid were approximately \$50,000.

The Insurance Solutions – Life Insurance segment also offers COLI and BOLI products and services to small- to mid-sized banks and mid- to large-sized corporations, mostly through executive benefit brokers.

Products

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

Sales by Product	For the Years Ended December 31,		
	2009	2008	2007
UL:			
Excluding MoneyGuard®	\$397	\$525	\$597
MoneyGuard®	67	50	40
Total UL	464	575	637
VUL	36	54	77
COLI and BOLI	51	84	91
Term/whole life	59	28	32
Total sales	\$610	\$741	\$837

UL and VUL sales (including COLI and BOLI), represent first year commissionable premiums plus 5% of excess premium received, including an adjustment for internal replacements of approximately 50% of commissionable premiums; whole life and term sales represent 100% of first year paid premiums; and linked-benefit sales represent 15% of premium deposits.

The segment generally has higher sales in the second half of the year than in the first half of the year. Approximately 44% and 46% of total sales were in the first half of 2009 and 2008, respectively; however, in 2007, approximately 50% of total sales were in the first half of the year. In 2007, this was due to the transition of our product portfolio to the new unified product portfolio.

Life policies’ in-force face amount (in millions) were as follows:

In-Force Face Amount	As of December 31,		
	2009	2008	2007
UL and other	\$291,879	\$310,198	\$299,598
Term insurance	248,726	235,023	235,919
Total in-force face amount	\$540,605	\$545,221	\$535,517

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

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

We offer four categories of life insurance products consisting of:

Interest-sensitive Life Insurance (Primarily UL)

Interest-sensitive life insurance products provide life insurance with account (cash) values that earn rates of return based on company-declared interest rates. Contract holder account values are invested in our general account investment portfolio, so we bear the risk of investment performance. Some of our UL contracts include secondary guarantees, which are explained more fully below.

In a UL contract, contract holders have flexibility in the timing and amount of premium payments and the amount of death benefit, provided there is sufficient account value to cover all policy charges for mortality and expenses for the coming period. Under certain contract holder options and market conditions, the death benefit amount may increase or decrease. Premiums received on a UL product, net of expense loads and charges, are added to the contract holder's account value. The client has access to their account value (or a portion thereof) through contractual liquidity features such as loans, partial withdrawals and full surrenders. Loans and withdrawals reduce the death benefit amount payable and are limited to certain contractual maximums (some of which are required under state law), and interest is charged on all loans. Our UL contracts assess surrender charges against the policies' account values for full or partial face amount surrenders that occur during the contractual surrender charge period. Depending on the product selected, surrender charge periods can range from 0 to 20 years.

We also offer a fixed indexed UL product that functions similarly to a traditional UL policy, with the added flexibility of allowing contract holders to have portions of their account value earn interest credits linked to the performance of the S&P 500. The indexed interest rate is guaranteed never to be less than 1%. Our fixed indexed UL policy provides contract holders a choice of a traditional fixed rate account and several different indexed accounts. A contract holder may elect to change allocations annually for amounts in the indexed accounts and quarterly for new premiums into the policy. Prior to each new allocation, we have the opportunity to re-price the indexed components, subject to minimum guarantees.

As mentioned previously, we offer survivorship versions of our individual UL products. These products insure two lives with a single policy and pay death benefits upon the second death.

Sales results are heavily influenced by the series of UL products with secondary guarantees. A UL policy with a secondary guarantee can stay in force, even if the base policy account value is zero, as long as secondary guarantee requirements have been met. The secondary guarantee requirement is based on the evaluation of a reference value within the policy, calculated in a manner similar to the base policy account value, but using different assumptions as to expense charges, COI charges and credited interest. The assumptions for the secondary guarantee requirement are listed in the contract. As long as the contract holder funds the policy to a level that keeps this calculated reference value positive, the death benefit will be guaranteed. The reference value has no actual monetary value to the contract holder; it is only a calculated value used to determine whether or not the policy will lapse should the base policy account value be less than zero.

Unlike other GDB designs, our secondary guarantee benefits maintain the flexibility of a traditional UL policy, which allows a contract holder to take loans or withdrawals. Although loans and withdrawals are likely to shorten the time period of the guaranteed death benefit, the guarantee is not automatically or completely forfeited, as is sometimes the case with other death benefit guarantee designs. The length of the guarantee may be increased at any time through additional excess premium deposits. Secondary guarantee UL face amount in force was \$110.4 billion, \$99.0 billion and \$83.9 billion as of December 31, 2009, 2008 and 2007, respectively. For information on the reserving requirements for this business, see "Regulatory" below and "Review of Consolidated Financial Condition" in the MD&A.

We manage investment margins (i.e., the difference between the amount the portfolio earns compared to the amount that is credited to the customer) by seeking to maximize current yields, in line with asset/liability and risk management targets, while crediting a competitive rate to the customer. Crediting rates are typically subject to guaranteed minimums specified in the underlying life insurance contract. Interest-sensitive life account values (including MoneyGuard® and the fixed portion of VUL) were \$27.3 billion, \$27.5 billion and \$26.5 billion as of December 31, 2009, 2008 and 2007, respectively.

Linked-benefit Life Products

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

VUL

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

In addition, VUL products offer a fixed account option that is managed by us. Investment risk is borne by the customer on all but the fixed account option. We charge fees for mortality costs and administrative expenses as well as asset-based investment management fees. VUL account values (excluding the fixed portion of VUL) were \$4.5 billion, \$4.3 billion and \$6.0 billion as of December 31, 2009, 2008 and 2007, respectively.

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

We also offer an enhanced single life version of our secondary guarantee VUL products with a survivorship option. These products combine the lapse protection elements of UL with the upside potential of a traditional VUL product, giving clients the flexibility to choose the appropriate balance between protection and market risk that meets their individual needs. The combined single life and survivorship face amount in force of these products was \$5.3 billion, \$4.9 billion and \$4.0 billion as of December 31, 2009, 2008 and 2007, respectively.

Term Life Insurance

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

Distribution

The Insurance Solutions – Life Insurance segment's products are sold through LFD. LFD provides the Insurance Solutions – Life Insurance segment with access to financial intermediaries in the following primary distribution channels: wire/regional firms; independent planner firms (including LFN); financial institutions; and managing general agents/independent marketing organizations. LFD primarily distributes COLI and BOLI products to 14 intermediaries who specialize in the executive benefits market and are serviced through a network of internal and external sales professionals

Competition

The life insurance industry is very competitive and consists of many companies with no one company dominating the market for all products. As of the end of 2008, the latest year for which data is available, there were 976 life insurance companies in the U.S., according to the American Council of Life Insurers.

The Insurance Solutions – Life Insurance segment competes on product design and customer service. The Insurance Solutions –Life Insurance segment designs products specifically for the high net worth and affluent markets. In addition to the growth opportunity offered by its target market, our product breadth, design innovation, competitiveness, speed to market, customer service, underwriting and risk management and extensive distribution network all contribute to the strength of the Insurance Solutions – Life Insurance segment. On average, the development of products takes approximately six months. The Insurance Solutions – Life Insurance segment implemented several major product upgrades and/or new features, including important UL, VUL, linked-benefit and term product enhancements in 2009. With respect to customer service, management tracks the speed, accuracy and responsiveness of service to customers’ calls and transaction requests. Further, the Insurance Solutions – Life Insurance segment tracks the turnaround time and quality for various client services such as processing of applications.

Underwriting

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

Claims Administration

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

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

Insurance Solutions – Group Protection

Overview

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

The segment's insurance premiums (in millions) by product line were as follows:

Insurance Premiums by Product Line	For the Years Ended December 31,		
	2009	2008	2007
Life	\$584	\$541	\$494
Disability	692	672	601
Dental	149	150	136
Total non-medical	1,425	1,363	1,231
Medical	154	154	149
Total insurance premiums	\$1,579	\$1,517	\$1,380

Products

Group Life Insurance

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

Group Disability Insurance

We offer short- and long-term employer-sponsored group disability insurance, which protects an employee against loss of wages due to illness or injury. Short-term disability generally provides benefits for up to 26 weeks following a short waiting period, ranging from 1 to 30 days. Long-term disability provides benefits following a longer waiting period, usually between 30 and 180 days and provides benefits for a longer period, at least 2 years and typically extending to normal (Social Security) retirement age.

Group Dental

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

Distribution

The segment's products are marketed primarily through a national distribution system, including approximately 140 managers and marketing representatives. The managers and marketing representatives develop business through employee benefit brokers, TPAs and other employee benefit firms.

Competition

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

Underwriting

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

Claims Administration

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

OTHER OPERATIONS

Other Operations includes the results of operations that are not directly related to the business segments, unallocated corporate items and the ongoing amortization of deferred gain on the indemnity reinsurance portion of the sale of our former reinsurance segment to Swiss Re in the fourth quarter of 2001. Unallocated corporate items include investment income on investments related to the amount of statutory surplus in our insurance subsidiaries that is not allocated to our business units and other corporate investments, such as our remaining radio properties, interest expense on short-term and long-term borrowings, our closed block of run-off pension business in the form of group

annuity and insured funding-type of contracts with assets under management of approximately \$1.9 billion as of December 31, 2009, and certain expenses, including restructuring and merger-related expenses. Other Operations also includes the results of certain disability income business due to the rescission of the indemnity reinsurance agreement with Swiss Re and the results of our remaining media businesses.

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

	For the Years Ended December 31,		
	2009	2008	2007
Operating Revenues			
