

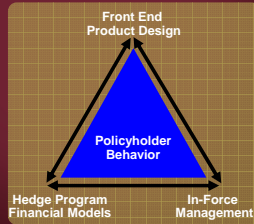






## Policyholder Behavior

- Policyholder Behavior is managed, but not eliminated, through:
  - Product design
  - Conservative actuarial assumptions
  - Experience studies
  - Product Positioning
- Assumptions:
  - Fund Mapping
  - **Lapses**
  - Mortality
  - Income Start
  - Spousal / Beneficiary Continuation




---

---

---

---

---

---

---

---



## Dynamic Lapse Assumption

- Base Lapse
  - Vary by surrender charge schedule (CSDC)
  - Vary by distribution channel (wire, bank, planner, etc)
  - Vary by 'income' vs 'comfort' buyer
  - Vary by age
- Dynamic Lapse Adjustment
  - Is a multiple applied to the base lapse assumption to compensate for the fact that the presence of a GMWB feature may change lapse rates

---

---

---

---

---

---

---

---



## Dynamic Lapse Assumption Typical Features / Concerns

- **Slope of Dynamic Lapse Assumption**
  - Need to balance conservatism versus the cost to hedging
- **One Sided vs. Two Sided**
  - Do lapse only decrease (one sided) or do lapses increase and decrease (two sided)
  - Frequency of step-up may influence this decision
  - Availability of richer features (Gen 1 vs. Gen 3 or Gen 4)
- **Parameters for dynamic lapse formula**
  - Account Value
  - **Guarantee Value; PV(GA) vs. (GA)**
  - Qualified vs. Nonqualified
  - Income vs. Comfort
  - Demographics (age, gender, ..., investment mix)

---

---

---

---

---

---

---

---



## Dynamic Lapses Formula Guarantee Value; PV(GA) vs. (GA)

- ITM = Account Value / Guaranteed Amount
- Guaranteed Amount can equal
  - 'GA' = Charge basis generally Greater of (deposit or ASU)
    - Issues with lifetime GWMB (does deposit = lifetime risk?)
  - PV(GA) = Present value of future benefits
    - Question at what discount rate?
    - Key considerations if using a discount rate:
      - How market sensitive are investors?
      - Does the discount rate relate to reality?
      - At what market drop will customer adjust lapse experience
      - Will lapse rate burnout at an ultimate rate or hit 0% on extreme drops?

10

---

---

---

---

---

---

---

---

---

---



## Case Study Preparation PV(GA) – What does it mean in #'s

- Chart Basis
  - 100,000 Deposit
  - Age 55 – 4,000 MAW
  - Age 65 – 5,000 MAW
  - Age 75 – 5,000 MAW
  - Assume Immediate Income for Chart Below
- A2000 (no improvement)
- Present value of future benefits divided by 100,000
- = PV(GA) / 100,000

Age / Discount Rate	0%	1%	2%	3%	4%	9%
55 (F)	122%	104%	90%	79%	70%	43%
65 (F)	87%	77%	69%	62%	57%	38%
75 (F)	55%	50%	47%	43%	41%	30%

PV (GA) is the Present Value of the Guaranteed Amount

11

---

---

---

---

---

---

---

---

---

---



## Case Study Impact of PV(GA) to valuation premium

- Female, Age 60, Income at year 10, 5% Roll-up, various investment mixes
- Numbers in the chart are ratios of the 4% discount rate

Discount Rate	Increase in Valuation Premium
4%	0%
3%	+ 2%
2%	+ 11%
1%	+ 15%
0%	+ 19%

12

---

---

---

---

---

---

---

---

---

---



Variable annuity products and riders are issued by insurance affiliates of Lincoln Financial Group. Variable annuity features are available for an additional fee, and certain investment allocations will need to be met. Variable annuity and feature charges will decrease investment returns.

Variable products are sold by prospectus. Consider the investment objectives, risks, charges, and expenses of the variable product and its underlying investment options carefully before investing. The prospectus contains this and other information about the variable product and its underlying investment options. A prospectus is available by contacting Lincoln Financial Group. Read it carefully.

Guarantees are backed by the claims-paying ability of the appropriate issuing company. Features may not be available in all share classes. Lincoln Financial Group is the marketing name for Lincoln National Corporation (NYSE: LNC) and its affiliates. With headquarters in Philadelphia, the companies of Lincoln Financial Group had assets under management of \$24 billion as of December 31, 2008. Through its affiliated companies, Lincoln Financial Group offers: annuities; life, group life and disability insurance; 401(k) and 403(b) plans; savings plans; mutual funds; managed accounts; institutional investments; and comprehensive financial planning and advisory services. Affiliates also include Delaware Investments, the marketing name for Delaware Management Holdings, Inc. and its subsidiaries; Lincoln Financial Media, which owns and operates three television stations, 17 radio stations, and the Lincoln Financial Sports production and syndication business; and Lincoln UK. For more information please visit [www.lfg.com](http://www.lfg.com).

Certain statements in this document may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. More information about these factors is contained in Lincoln's filings with the US Securities and Exchange Commission. This material describes a concept that may be used with a variable or a non-variable product. Variable products are sold by prospectus.

This material was prepared to support the promotion and marketing of variable annuity products. Neither The Lincoln National Life Insurance Company, its distributors nor their respective employees and representatives provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S. federal, state or local tax penalties. Clients should consult their own independent advisor as to any tax, accounting or legal statements made herein.

• LLA011-0254 Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates. Affiliates are severally responsible for their own financial and contractual obligations.

Series of horizontal lines for signature or notes.