

Actuaries' Club of Hartford and Springfield Spring Meeting 2009

Break-out Session B De-risking Variable Annuities

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Insurance products issued by insurance affiliates of Lincoln National Corporation



Introduction

How they work

- **GMIB**
- **GMWB**

Economic Conditions

- **3Q08 Earnings Call Quotes**
- **Society Generale Market Data**

Competitive Landscape

- **GMWB Product Development Timeline 2004-2009**
- **GMWB Pace of Change 3Q02 – 1Q07**
- **May 2008 vs May 2009**
- **Detailed information on May 2009**

De-risking Consideration

- **Economic**
- **STAT**
- **GAAP**



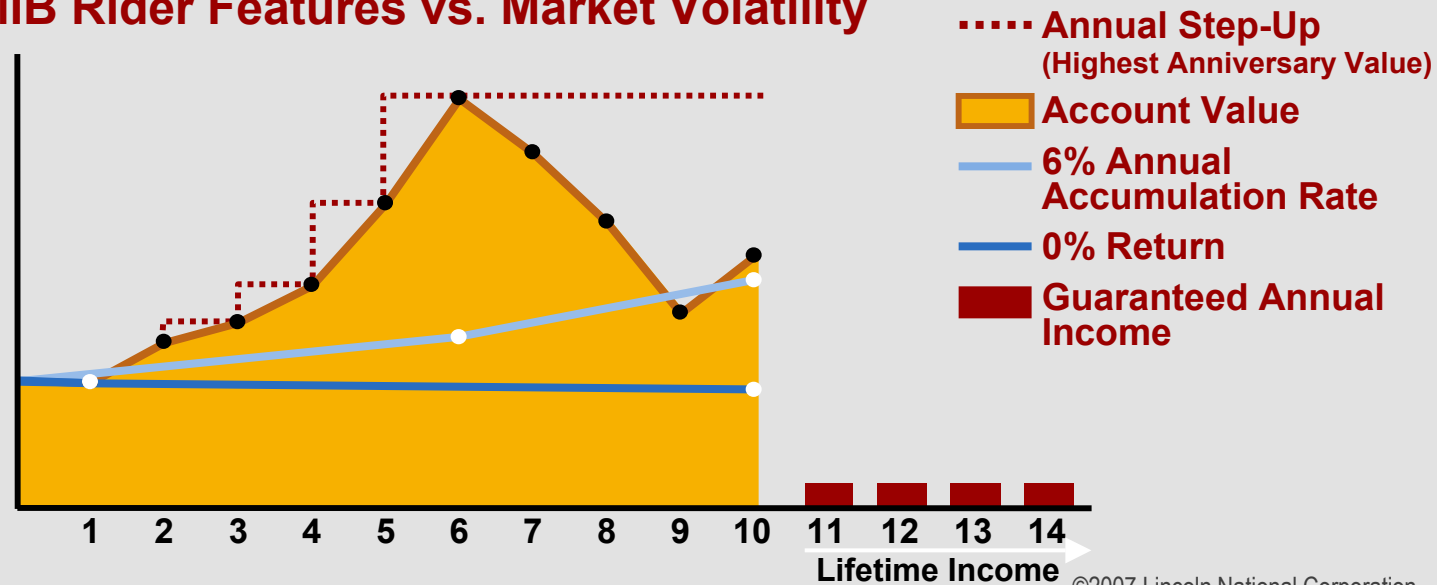
Guaranteed Minimum Income Benefits

How do they work?

“Buy and Hold Client”

- Minimum Holding Period 10 years
- Lock-in Frequency
- Enhancement Frequency

GMIB Rider Features vs. Market Volatility

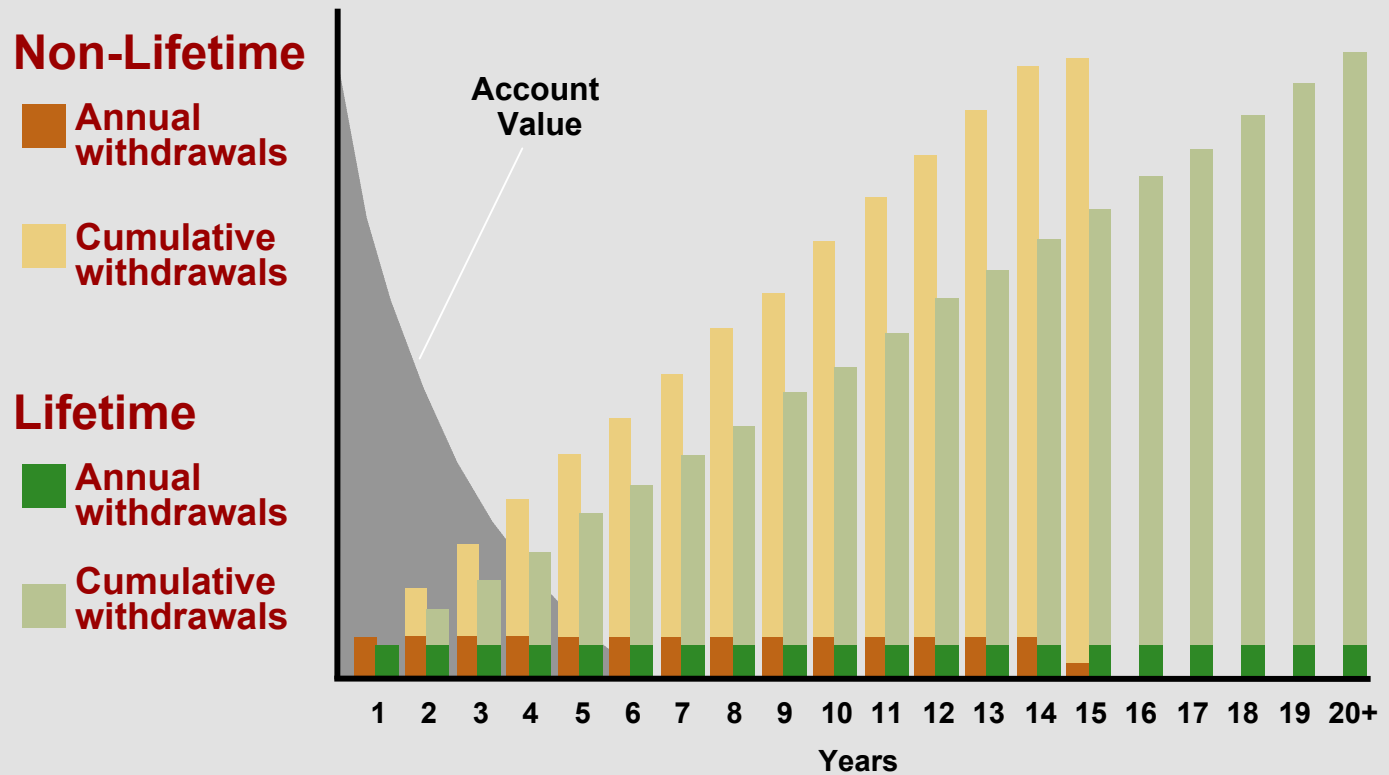




GMWBs

How do they work?

- **Guaranteed Minimum Withdrawal of x% for Lifetime**





4Q08 Earnings Release LNC

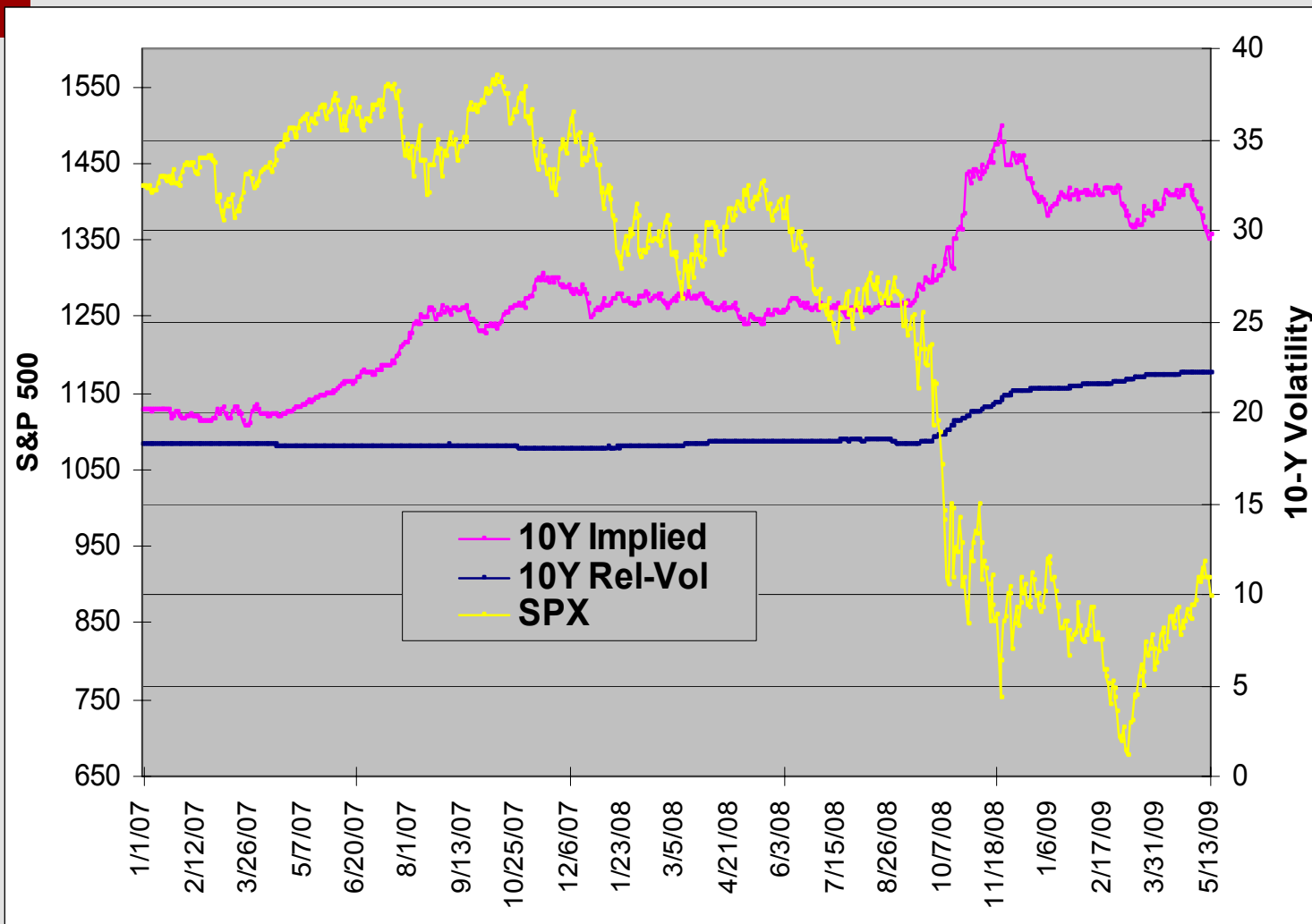
Dennis R. Glass - President and Chief Executive Officer

in our 4q press release: “Actions have been taken to reduce the risk profile of our variable annuity products, and as we look forward to 2009, we remain confident in our competitive position and our ability to adapt to an evolving landscape”.



Society Generale Market Conditions

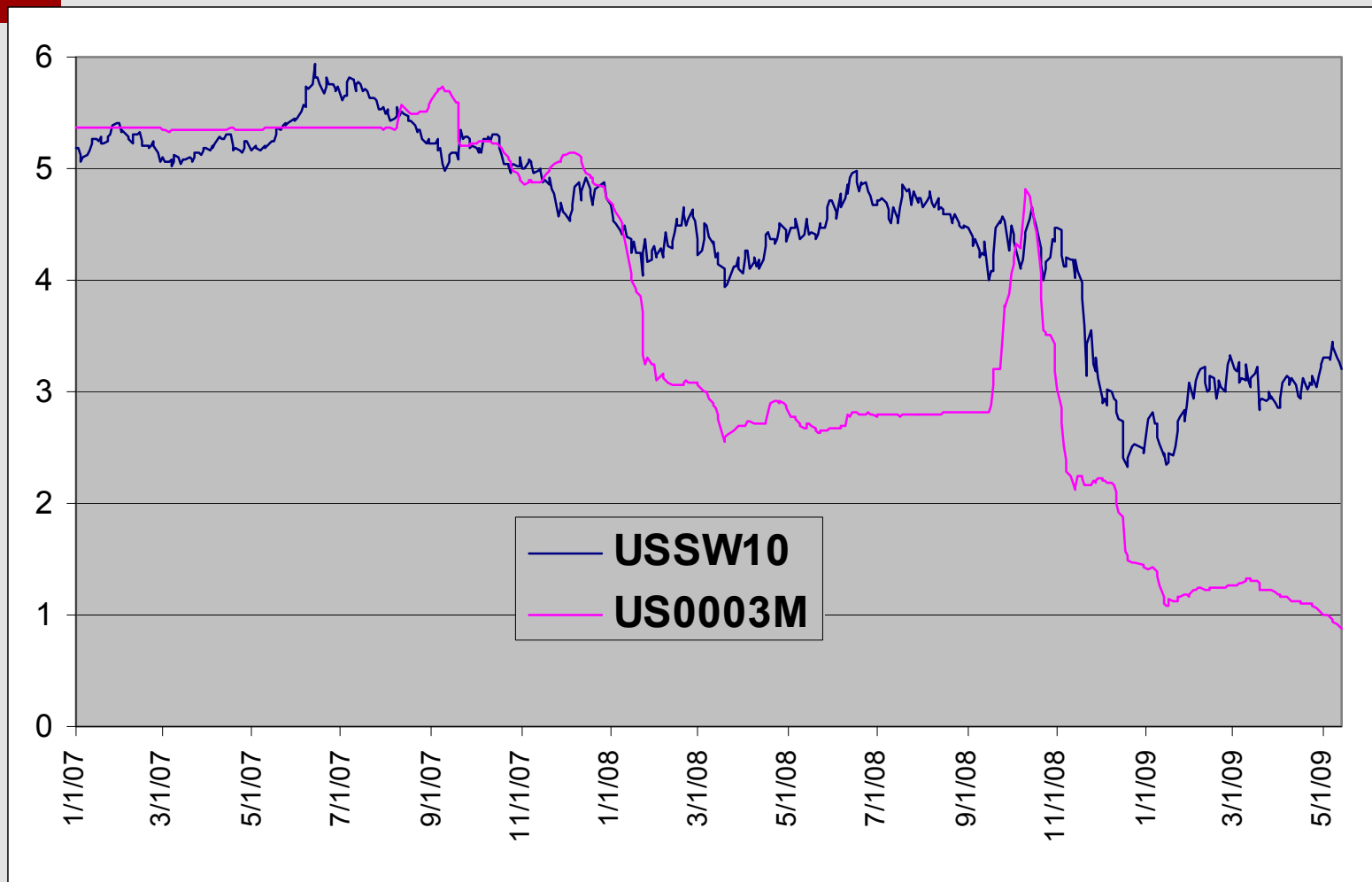
10 Year Implied and Realized Volatilities





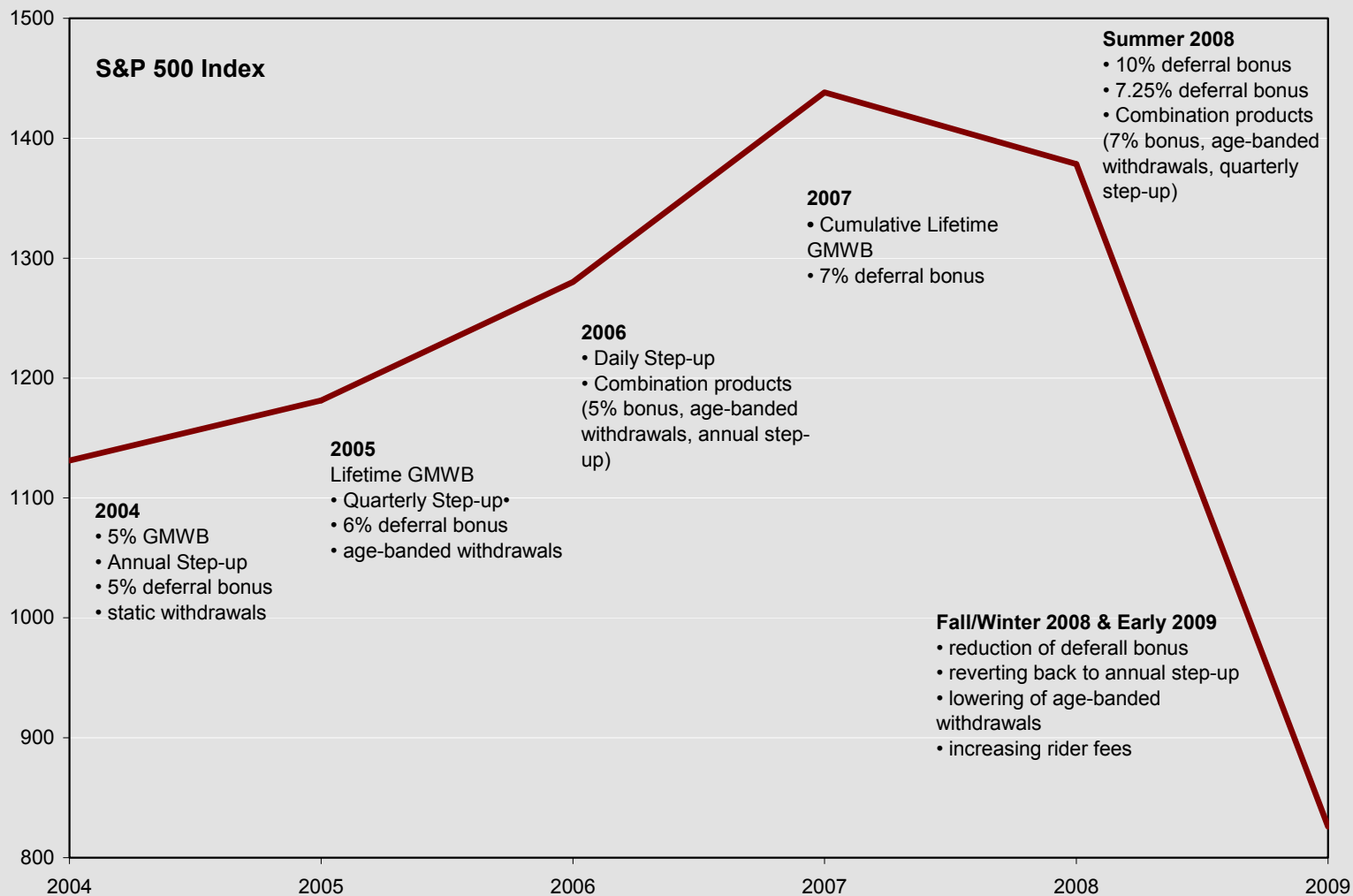
Society Generale Market Conditions

10 Year and 3 Month Swaps





GMWB Product Development





GMWB – The Pace of Change

Sampling of Companies	7% GMWB	5% GMWB	Annual Lock-in	Enhancement	Lifetime
AIG	3Q05	3Q05	4Q05	1Q07	4Q05
AXA	4Q04	4Q04	2Q06	2Q06	2Q06
Hartford	3Q02	1Q05	4Q05		4Q05
Hancock		2Q04	4Q06	2Q04	2Q05
Jackson	1Q03	1Q05	3Q05	2Q06	1Q05
Lincoln	2Q03	4Q04	4Q04		4Q06
MetLife	4Q04	4Q05	4Q05	2Q06	2Q06
Nationwide			2Q06	2Q06	2Q05
PacLife	2Q03	2Q05	2Q05	2Q05	4Q05
Pru / Skandia	4Q03	1Q05	3Q06	1Q05	1Q05



Variable Annuity Market Changes May 2008 vs. May 2009

This information is from public sources deemed reliable from peer group companies. Although every attempt has been made to ensure the accuracy of the information provided, it cannot be guaranteed. There may be differences in the product compared which are not reflected.

MAY 2008

<u># OF CARRIERS</u>	<u>FEE</u>	<u>ROLL-UP</u>	<u>WITHDRAWALS</u>	<u>RESET</u>
2	60 - 75 bps	5% compound	Static, Age-Banded	Annual to Monthly
2	75 bps	6% compound	Age-Banded	Annual
6	65bps - 95 bps	7% simple, compound	Static, Age-Banded	Annual to Daily
1	65 bps	7.25% compound	Age-Banded	Annual
3	75 bps	10% simple	Age-Banded	Annual to Quarterly

MAY 2009

<u># OF CARRIERS</u>	<u>FEE</u>	<u>ROLL-UP</u>	<u>WITHDRAWALS</u>	<u>RESET</u>
4	90 - 125 bps	5% simple, compound	Static, Age-banded	Annual to Monthly
3	85 - 100 bps	6% simple, compound	Age-banded	Annual
2	75 - 85 bps	7% simple, compound	Age-banded	Annual to Daily
1	125 bps	7.25% compound	Age-banded	Annual
1	100 bps	10% simple	Age-banded	Annual



Variable Annuity Market Changes

Detailed information for May 2009

Marketplace Changes:

- Investment requirements tightened
- Fee increases (fees ranges from 75bps to 125bps)
- Reduced roll-ups
- Reduced age-banded withdrawal rates
- Few account value resets
- Pulling back benefits

MAY 2009

<u># OF CARRIERS</u>	<u>FEE</u>	<u>ROLL-UP</u>	<u>WITHDRAWALS</u>	<u>RESET</u>
4	90 - 125 bps	5% simple, compound	Static, Age-banded	Annual to Monthly
3	85 - 100 bps	6% simple, compound	Age-banded	Annual
2	75 - 85 bps	7% simple, compound	Age-banded	Annual to Daily
1	125 bps	7.25% compound	Age-banded	Annual
1	100 bps	10% simple	Age-banded	Annual



Consideration in De-Risking

- **State / SEC Filing Timelines**
- **Firm Approvals**
- **Distribution Model**
- **Administrative System Constraints**
- **Risk Management**
 - **Hedging Program**
 - **Reinsurance Programs**



De-risking Considerations

<u>Metric</u>	<u>Delta</u>	<u>Rho</u>	<u>Vega</u>	<u>Notes</u>
Economic	√	√	√	1. Long Tenor Volatility
GAAP SOP 0301	√	N/A	N/A	1. 'Real World Assumptions for rate and volatility'
GAAP FAS 133/157	√	√	√	1. NPR 2. Long Tenor Volatility
Statutory	√	√	N/A	1. VA CARVM 2. C3P2 3. Stand. Sc.

Product Design is the Best Risk Mitigator