LINCOLN NATIONAL CORP
Form 10-K
February 20, 2019

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, 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

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana	35-1140070
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
150 N. Radnor Chester Road, Suite A305, Radnor, Pennsylvania	19087
(Address of principal executive offices)	(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
Warrants, each to purchase one share of common stock	New York

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 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, a 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 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 $12.0 billion. Shares of common stock held by each executive officer and director and each entity that owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 14, 2019, 204,293,812 shares of common stock of the registrant were outstanding.

Documents Incorporated by Reference:

Selected portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled for May 24, 2019, 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. 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, 2018, LNC had consolidated assets of $298.1 billion and consolidated stockholders’ equity of $14.4 billion.

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

Business Segments
Annuities
Retirement Plan Services
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.

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, retirement plans and corporate-owned universal life insurance and variable universal life insurance ("COLI") and bank-owned universal life insurance and variable universal life insurance ("BOLI") products and services. The distribution occurs primarily through consultants, brokers, planners, agents, financial advisers, third-party administrators ("TPAs") and other intermediaries. Group Protection distributes its products and services primarily through employee benefit brokers, TPAs and other employee benefit firms. As of December 31, 2018, LFD had approximately 620 internal and external wholesalers (including sales and relationship managers). As of December 31, 2018, LFN offered LNC and non-proprietary products and advisory services through a national network of approximately 8,640 active producers who placed business with us within the last 12 months.

Financial information in the tables that follow is presented in accordance with United States of America generally accepted accounting principles ("GAAP"), unless otherwise indicated. We provide revenues, income (loss) from operations and assets attributable to each of our business segments and Other Operations in Note 21.

Acquisitions and Dispositions

On May 1, 2018, we completed the acquisition of 100% of the capital stock of Liberty Life Assurance Company of Boston ("Liberty Life" or "LLACB"), 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 connection with the acquisition, Liberty Life sold the Liberty Life Business on May 1, 2018, by entering into reinsurance agreements and related ancillary documents 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.

On July 16, 2015, we closed on the sale of Lincoln Financial Media Company with Entercom Communications Corp. ("Entercom Parent") and Entercom Radio, LLC. We received $75 million in cash, net of transaction expenses, and $28 million face amount of perpetual cumulative convertible preferred stock of Entercom Parent.

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

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BUSINESS SEGMENTS AND OTHER OPERATIONS

ANNUITIES

Overview

The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering variable annuities, fixed (including indexed) annuities and indexed variable annuities. The "fixed" and "variable" classifications describe whether we or the contract holders bear the investment risk of the assets supporting the contract. With "indexed variable" annuities, the extent to which we or the contract holders bear the investment risk of the assets is based on the investment allocations. The annuity classification also determines the manner in which we earn investment margin profits from these products, either as investment spreads for fixed products, as asset-based fees charged to variable products, or as both for indexed variable products.

Annuities have several features that are attractive to customers. Annuities are unique in that contract holders can select a variety of payout alternatives to provide an income flow for life. Many annuity contracts also 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. In addition, growth on the underlying principal in certain annuities is granted tax-deferred treatment, 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.

Products

In general, an annuity is a contract between an insurance company and an individual in which the insurance company, after receipt of one or more premium payments, agrees to pay an amount of money either in one lump sum or on a periodic basis (i.e., annually, semi-annually, quarterly or monthly), beginning on a certain date and continuing for a period of time as specified in the contract or as requested. Periodic payments can begin within 12 months after the premium is received (referred to as an immediate annuity) or at a future date in time (referred to as a deferred annuity). This retirement vehicle helps protect an individual from outliving his or her money.

Variable Annuities

A variable annuity provides the contract holder the ability to direct the investment of premium deposits into one or more variable sub-accounts ("variable funds") offered through the product ("variable portion") and, for a specified period, into a fixed account (if available) 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 variable funds chosen by the contract holder.

Our variable funds include the Managed Risk Strategies fund options, a series of funds that embed volatility risk management and, with some funds, capital protection strategies, inside the funds themselves. These funds seek to reduce equity market volatility risk for both the contract holder and us. As of December 31, 2018 and 2017, the Managed Risk Strategies funds totaled $36.9 billion and $39.2 billion, or 34% and 33%, respectively, of total variable annuity account values, 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 variable fund equals the contract holder's account value for that variable fund. In addition, for some contracts, we impose surrender charges, which are typically applicable during the early years of the annuity contract, with a declining level of surrender charges over time.

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. In 2018 and 2017, 35% of our variable annuity deposits were on products without guaranteed living benefit ("GLB") riders, compared to 30% in 2016.

The GDB features offered include those where we contractually guarantee to the contract holder that upon death, depending on the particular product, we will return no less than: the current contract value; the total deposits made to the contract, adjusted to reflect any partial withdrawals; the highest contract value on a specified anniversary date adjusted to reflect any partial withdrawals following the contract anniversary.

We offer product riders including the Lincoln Lifetime IncomeSM Advantage 2.0 (Managed Risk) and Lincoln Market SelectSM Advantage riders, which are hybrid benefit riders combining aspects of GWB and GIB. These benefit riders allow the contract holder the ability to take income at a maximum rate of up to 6.00% for Lincoln Lifetime Income Advantage 2.0 (Managed Risk) and 5.75% for Lincoln Market Select Advantage of the guaranteed amount when they are above the lifetime income age or income through i4LIFE® Advantage with the GIB. Lincoln Lifetime Income Advantage 2.0 (Managed Risk) and Lincoln Market Select Advantage riders provide higher income if the contract holder delays withdrawals. Lincoln Lifetime Income Advantage 2.0 (Managed Risks) and Lincoln Market Select Advantage include both an 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. Contract holders under Lincoln Lifetime Income Advantage 2.0 (Managed Risk) are subject to the allocation of their account value to our Managed Risk Strategies fund options and certain fixed-income options. Contract holders under Lincoln Market Select Advantage are subject to restrictions on the allocation of their account value within the various investment choices. We also offered Lincoln Max 6 SelectSM Advantage as an optional living benefit rider that provides contract holders with an income base that grows annually at either the greater of 6% simple or account value growth with up to 6.5% income at age 65 and

3% guaranteed income if the account value falls to zero. Contract holders under Lincoln Max 6 Select Advantage are subject to restrictions on the allocation of their account value within the various investment choices.

We also offer the i4LIFE® Advantage, i4LIFE Advantage Guaranteed Income Benefit (Managed Risk) and i4LIFE® Advantage Guaranteed Income Benefit riders. These riders allow variable annuity contract holders access and control during a portion of the income distribution phase of their contract. This added flexibility allows the contract holder to access the account value for transfers, additional withdrawals and other service features like portfolio rebalancing. In general, GIB is an optional feature available with i4LIFE Advantage and a non-optional feature on i4LIFE Advantage Guaranteed Income Benefit (Managed Risk) and i4LIFE Advantage Select Guaranteed Income Benefit that guarantees regular income payments will not fall below the greater of a minimum income floor set at benefit issue and 75% of the highest income payment on a specified anniversary date (reduced for any subsequent withdrawals). Contract holders under i4LIFE Advantage Guaranteed Income Benefit (Managed Risk) are subject to the allocation of their account value to our Managed Risk Strategies fund options and certain fixed-income options. Contract holders under i4LIFE Advantage Guaranteed Income Benefit are subject to restrictions on the allocation of their account value within the various investment choices.

We also offer the 4LATER® Select Advantage rider. This rider provides a minimum income base used to determine the GIB floor when a client begins income payments under i4LIFE Advantage Guaranteed Income Benefit (Managed Risk). 4LATER Select Advantage rider provides growth during the accumulation phase through both an enhancement to the income base each year a withdrawal is not taken for a specified period of time and an annual step-up of the income base to the current contract value. Contract holders under the 4LATER Select Advantage rider are subject to restrictions on the allocation of their account value within the various investment choices.

We design and actively manage the features and structure of our guaranteed benefit riders to maintain a competitive suite of products consistent with profitability and risk management goals. To mitigate the increased risks associated with guaranteed benefits, we utilize a dynamic hedging program. The customized dynamic hedging program uses equity, interest rate and currency futures positions, interest rate and total return swaps and equity-based options depending upon the risks underlying the guarantees. For more information on our hedging program, see "Critical Accounting Policies and Estimates – Derivatives" and "Realized Gain (Loss) and Benefit Ratio Unlocking" in the MD&A. For information regarding risks related to guaranteed benefits, see "Item 1A. Risk Factors – Market Conditions – Changes in the equity markets, interest rates and/or volatility affect the profitability of our products with guaranteed benefits; therefore, such changes may have a material adverse effect on our business and profitability."

Although we do not have any significant concentration of customers, our American Legacy Variable Annuity ("ALVA") product is significant to this segment. The ALVA product accounted for 11%, 14% and 21% of our variable annuity product deposits in 2018, 2017 and 2016, respectively, and represented 38%, 40% and 41% of the segment's total variable annuity product account values as of December 31, 2018, 2017 and 2016, respectively. In addition, fund choices for certain of our other variable annuity products offered include American Fund Insurance SeriesSM ("AFIS") funds. AFIS funds accounted for 16%, 20% and 23% of variable annuity product deposits in 2018, 2017 and 2016, respectively, and represented 45%, 47% and 47% of the segment's total variable annuity product account values as of December 31, 2018, 2017 and 2016, respectively.

Fixed Annuities

A fixed annuity preserves the principal value of the contract while guaranteeing a minimum interest rate to be credited to the accumulation value. Our fixed annuity product offerings consist of traditional fixed-rate and fixed indexed deferred annuities, as well as fixed-rate immediate and deferred income annuities with various payment options, including lifetime incomes. 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. On some policies, we also have a market value adjustment provision that protects us against disintermediation risk in the case of rapidly rising interest rates. 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.

We offer single and flexible premium fixed deferred annuities. Single premium fixed deferred annuities are contracts that allow only a single premium to be paid. Flexible premium fixed deferred annuities are contracts that allow multiple premium payments, subject to contractual limits, on either a scheduled or non-scheduled basis.

Our fixed indexed annuities allow the contract holder to choose between a fixed interest crediting rate and an indexed interest crediting rate, which is based on the performance of the Standard & Poor's ("S&P") 500 Index® ("S&P 500"), the S&P 500 Daily Risk Control 5%TM Index, the Balanced Capital Strength 6 Index (using First Trust Methodology), or the BlackRock iBLD Ascenda® Index. The indexed interest credit is guaranteed never to be less than zero.

We offer guaranteed lifetime withdrawal benefit riders on certain fixed indexed annuities, namely Lincoln Lifetime IncomeSM Edge, Lincoln Lifetime Income Edge 2.0, and i4LIFE® Indexed Advantage. Lincoln Lifetime Income Edge and Lincoln Lifetime Income Edge 2.0 are guaranteed lifetime withdrawal benefit riders which allow the contract holder the ability to take income based on single life age-bands that increase each year the contract holder delays taking income withdrawals. Lincoln Lifetime Income Edge includes both a 5% compound enhancement to the guaranteed amount each year an income withdrawal is not taken for a specified period of time and an annual step-up of the guaranteed amount to the current contract value. Lincoln Lifetime Income Edge 2.0 provides guaranteed lifetime income based off an income base that grows annually at the greater of a 7% simple enhancement or the current account value.

We also offer i4LIFE® Indexed Advantage on certain fixed indexed annuities which provides fixed indexed annuity contract holders with access and control during a portion of the income phase of their contract. Each i4LIFE Indexed Advantage contract includes a GIB that guarantees regular income payments will not fall below a minimum income floor. The GIB has the opportunity to increase, should regular income payments increase over the current GIB.

We use derivatives to hedge the equity market risk associated with our fixed indexed annuity products. For more information on our hedging program, see "Critical Accounting Policies and Estimates – Derivatives" and "Realized Gain (Loss) and Benefit Ratio Unlocking" in the MD&A.

Indexed Variable Annuities

An indexed variable annuity provides the contract holder the ability to direct the investment of premium deposits into one or more variable sub-accounts ("variable funds") and/or indexed accounts offered through the product. The value of the variable sub-accounts varies with the performance of the underlying variable funds chosen by the contract holder. The index interest crediting rate for an indexed account is based, in part, on the performance of an index.

We charge mortality and expense assessments and administrative fees on the variable funds 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 variable fund equals the contract holder's account value for that variable fund. In addition, for some contracts, we impose surrender charges, which are typically applicable during the early years of the annuity contract, with a declining level of surrender charges over time.

We offer a guaranteed benefit rider where we contractually guarantee to the contract holder that upon death, depending on the particular product, we will return no less than: the current contract value or the total deposits made to the contract, adjusted to reflect any partial withdrawals.

We also offer the i4LIFE Advantage rider. This rider allows annuity contract holders access and control during a portion of 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.

We use derivatives to hedge the equity market risk associated with our indexed variable annuity products. For more information on our hedging program, see "Critical Accounting Policies and Estimates – Derivatives" and "Realized Gain (Loss) and Benefit Ratio Unlocking" in the MD&A.

Distribution

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

Competition

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

RETIREMENT PLAN SERVICES

Overview

The Retirement Plan Services segment provides employers with retirement plan products and services, primarily in the defined contribution retirement plan marketplace. Defined contribution plans are a popular employee benefit offered by employers large and small across a wide spectrum of industries. While our focus is employer-sponsored defined contribution plans, we also serve the defined benefit plan and individual retirement account ("IRA") markets on a limited basis. We provide a variety of plan investment vehicles, including individual and group variable annuities, group fixed annuities and mutual fund-based programs. We also offer a broad array of plan services including plan recordkeeping, compliance testing, participant education and trust and custodial services through our affiliated trust company, the Lincoln Financial Group Trust Company.

Products and Services

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

LINCOLN DIRECTOR group variable annuity is a 401(k) defined contribution retirement plan solution available to small businesses, typically those with plans having less than $10 million in account values. The LINCOLN DIRECTOR product offers participants a

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broad array of investment options from several fund families and a fixed account. The Retirement Plan Services segment earns revenue through asset charges and/or separate account charges, which are used to pay our fees for recordkeeping services. We also receive fees from the underlying mutual fund companies for the services we provide, and we earn investment margins on assets in the fixed account.

LINCOLN DIRECTOR and Multi-Fund products are variable annuities. The LINCOLN ALLIANCE program is a mutual fund-based record-keeping platform. These offerings primarily cover the 403(b), 401(k) and 457 plan marketplace. The 403(b) plans are available to educational institutions, not-for-profit healthcare organizations and certain other not-for-profit entities; 401(k) plans are generally available to for-profit entities; and 457 plans are available to not-for-profit entities and state and local government entities. The investment options for our annuities encompass the spectrum of asset classes with varying levels of risk and include both equity and fixed-income.

The LINCOLN ALLIANCE program is a defined contribution retirement plan solution aimed at small, mid and large market employers, typically those that have defined contribution plans with $10 million or more in account value. The target market is primarily healthcare providers, public sector employers, corporations and educational institutions. The program bundles our traditional fixed annuity products with the employer's choice of mutual funds, along with recordkeeping, plan compliance services and customized employee education services. The program allows the use of any mutual fund. We earn fees for our recordkeeping and educational services and other services that we provide to plan sponsors and participants. We also earn investment margins on fixed annuities. In 2018, we launched YourPathSM portfolios, a new series of target-date portfolios for employer-sponsored retirement plans. These target-date portfolios are managed along multiple risk-based paths to support a more personalized investment approach based upon financial circumstances and risk tolerance.

Multi-Fund variable annuity is a defined contribution retirement plan solution with full-bundled administrative services and investment choices for small- to mid-sized healthcare, education, governmental and not-for-profit employers sponsoring 403(b), 457(b) and 401(a)/(k) plans. The product is available to the employer through the Multi-Fund group variable annuity contract or directly to the individual participant through the Multi-Fund Select variable annuity contract. We earn mortality and expense charges, investment income on the fixed account and surrender charges from this product. We also receive fees for services that we provide to funds in the underlying separate accounts.

Additionally, we offer other products and services that complement our primary offerings:

- The Lincoln Next Step® series of products is a suite of mutual fund-based IRAs available exclusively for participants in Lincoln-serviced retirement plans and their spouses. The products can accept rollovers and transfers from other providers as well as ongoing contributions. The Lincoln Next Step IRA product has no annual account charges and offers an array of mutual fund investment options provided by 20 fund families all offered at net asset value. The Lincoln Next Step Select® IRA has an annual record keeping charge and offers an even wider array of mutual fund investment options from over 20 families, all at net asset value. We earn 12b-1 and service fees on the mutual funds within the product.
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The Lincoln Secured Retirement IncomeSM product is a GWB made available through a group variable annuity contract. This product is intended to fulfill future needs of retirement security. By offering a GWB inside a retirement plan, we provide plan sponsors a solution that gives participants the ability to participate in the market and receive guaranteed income for life while still maintaining access to their plan account balance.

- Through a group annuity contract, we offer fixed annuity products to retirement plans where we do not provide plan recordkeeping services. The fixed annuity is used within small, mid-large and large market employers covering the 403(b), 401(a)/(k) and 457 plan marketplaces. The annuity provides a conservative investment option for those plan participants seeking stability. In some cases, we earn investment margins on assets in the fixed account, and in other product versions we earn a fee on assets in the underlying custodial account.

Distribution

Retirement Plan Services products are primarily distributed in two ways: through our Institutional Retirement Distribution team and by LFD. Wholesalers distribute these products through advisers, consultants, banks, wirehouses and individual planners. We remain focused on wholesaler productivity, increasing relationship management expertise and growing the number of broker-dealer relationships.

The Multi-Fund program is sold primarily by affiliated advisers. The LINCOLN ALLIANCE program is sold primarily through consultants, registered independent advisers and both affiliated and non-affiliated financial advisers, planners and wirehouses. LINCOLN DIRECTOR group variable annuity is sold in the small marketplace by intermediaries, including financial advisers and planners.

Competition

The retirement plan marketplace is very competitive and is comprised of many providers with no one company dominating the market for all products. As stated above, we compete with numerous other financial services corporations in the small, mid and large employer markets. The main factors upon which entities in this market compete are product strength, technology, service model delivery, participant education models, quality wholesale distribution access to intermediary firms and comprehensive marketing efforts to create brand recognition. Our key differentiator is our high-touch, high-tech service model, which has been shown to drive positive outcomes for plan sponsors and participants.

LIFE INSURANCE

Overview

The Life Insurance segment focuses on the creation and protection of wealth for its clients by providing life insurance products, including term insurance, both single (including COLI and BOLI) and survivorship versions of universal life insurance (“UL”), variable universal life insurance (“VUL”) and indexed universal life insurance (“IUL”) products, a linked-benefit product (which is UL with riders providing for long-term care costs) and a critical illness rider, which can be attached to UL, VUL or IUL policies. Some of our products include secondary guarantees, which are discussed more fully below. Generally, this segment has higher sales during the second half of the year with the fourth quarter being the strongest. Mortality margins, morbidity margins, investment margins, expense margins and surrender fees drive life insurance profits.

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

Products

We offer four categories of life insurance products consisting of:

UL

UL insurance products provide life insurance with account values that earn rates of return based on company-declared interest rates. Contract holder account values are invested in our general account investment portfolio, so we bear the risk of investment performance. We offer a variety of UL products, such as Lincoln LifeGuarantee® UL, Lincoln LifeCurrent® UL and Lincoln LifeReserve® UL. We also offer a UL BOLI product.

In a UL contract, contract holders typically have flexibility in the timing and amount of premium payments and the amount of death benefit, provided there is sufficient account value to cover all policy charges for cost of insurance 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 and accrued with interest. The client has access to their account value (or a portion thereof), less surrender charges and policy loan payoffs, through contractual liquidity features such as loans, partial withdrawals and full surrenders. Loans and withdrawals reduce the death benefit amount payable and are limited to certain contractual maximums (some of which are required under state law), and interest is charged on all loans. Our UL contracts assess surrender charges against the policies' account values for full or partial surrenders and certain policy changes that occur during the contractual surrender charge period. Depending on the product selected, surrender charge periods can range from 0 to 25 years.

We also offer fixed IUL products that function similarly to a traditional UL policy, with the added flexibility of allowing contract holders to have portions of their account values earn credits based on the performance of indexes such as the S&P 500. These products include Lincoln WealthPreserve® IUL, Lincoln WealthAccumulate® IUL, Lincoln WealthAdvantage® IUL and Lincoln LifeReserve® IUL Accumulator.

As mentioned previously, we offer survivorship versions of our individual UL and IUL products. These products insure two lives with a single policy and pay death benefits upon the second death. These products include Lincoln LifeGuarantee® SUL and Lincoln WealthPreserve® Survivorship IUL.

A UL policy with a lifetime secondary guarantee can stay in force, even if the base policy cash value is zero, as long as secondary guarantee requirements have been met. These products include Lincoln LifeGuarantee UL and Lincoln LifeGuarantee SUL. The secondary guarantee requirement is based on the payment of a required minimum premium or on the evaluation of a reference value within the policy, calculated in a manner similar to the base policy account value, but using different expense charges, cost of insurance charges and credited interest rates. The parameters for the secondary guarantee requirement are listed in the contract. As long as the contract holder pays the minimum premium or funds the policy to a level that keeps this calculated reference value positive, the policy is guaranteed to stay in force. The reference value has no actual monetary value to the contract holder; it is only a calculated value used to determine whether or not the policy will lapse should the base policy cash value be less than zero.

VUL

VUL products are UL products that provide a return on account values linked to an underlying investment portfolio of variable funds offered through the product. The value of the variable portion of the contract holder's account is driven by the performance of the underlying variable funds chosen by the contract holder. As the return on the investment portfolio increases or decreases, the account value of the VUL policy will increase or decrease. In addition, VUL products offer a fixed account option that is managed by us. 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. Our single life VUL products include Lincoln AssetEdge® VUL and Lincoln VULONE. Our COLI products are also VUL-type products.

We also offer survivorship versions of our individual VUL products, Lincoln SVULONE and Lincoln Preservation Edge® SVUL. These products insure two lives with a single policy and pay death benefits upon the second death.

We offer lifetime guaranteed benefit riders with certain of our VUL products, Lincoln VULONE and Lincoln SVULONE. The ONE rider features contractually guarantee to the contract holder that upon death, as long as secondary guarantee requirements have been met, the death benefit will be payable even if the account value equals zero.

Our secondary guarantee benefits maintain the flexibility of a traditional UL or VUL policy, which allow a contract holder to take loans or withdrawals. Although loans and withdrawals are likely to shorten the time period of the secondary guarantee, the guarantee is not automatically or completely forfeited. The length of the guarantee may be increased at any time through additional excess premium deposits. Reserves on UL and VUL products with secondary guarantees represented 35% of total life insurance in-force reserves as of December 31, 2018 and 2017.

Linked-Benefit Life Products and Products with Critical Illness Riders

Our linked-benefit life product, Lincoln MoneyGuard®, combines UL with long-term care insurance through the use of riders. One type of rider allows the contract holder to accelerate death benefits on a tax-free basis in the event of a qualified long-term care need, reducing the remaining death benefit. Another rider extends the long-term care insurance benefits for an additional limited period of time if the death benefit is fully accelerated. Certain policies also provide a reduced death benefit to the contract holder’s beneficiary if the death benefit has been fully accelerated as long-term care benefits during the contract holder’s life.

Some life products provide for critical illness insurance by the use of riders attached to UL, VUL or IUL policies. These riders allow the contract holder to accelerate death benefits on a tax-free basis in the event of a qualified critical illness condition.

Term Life Insurance

Term life insurance provides a fixed death benefit for a scheduled period of time. Some of our term life insurance products give the policyholder the option to reduce the death benefit at a future time. Scheduled policy premiums are required to be paid at least annually. These products include Lincoln TermAccel® Level Term and Lincoln LifeElements® Level Term.

Distribution

The Life Insurance segment's products are sold through LFD. LFD provides the Life Insurance segment with access to financial intermediaries in the following primary distribution channels: wire/regional firms; independent planner firms (including LFN); financial institutions; and managing general agents/independent marketing organizations. LFD distributes COLI products and services to small- to mid-sized banks and mid- to large-sized corporations, primarily through intermediaries who specialize in one or both of these markets and who are serviced through a network of internal and external LFD sales professionals.

Competition

The life insurance market is very competitive and consists of many companies with no one company dominating the market for all products. Principal competitive factors include product features, price, underwriting and issue process, customer service and insurers' financial strength. With our broad distribution network, we compete in the three primary needs of life insurance: death benefit protection, accumulation and linked benefits (MoneyGuard®). In addition, we use automated underwriting within a defined criteria as well as LincXpress®, a simplified issue process, both of which are seen as marketplace competitive advantages.

Underwriting

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

Claims Administration

Claims service is handled primarily in-house, and 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 claims 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 claims examiners. A special team of claims examiners, in conjunction with claims management, focus on more complex claims matters such as claims incurred during the contestable period, beneficiary disputes and litigated claims.

GROUP PROTECTION

Overview

The Group Protection segment offers group non-medical insurance products, including short and long-term disability, statutory disability and paid family medical leave administration and absence management services, term life, dental, vision and accident and critical illness benefits and services to the employer marketplace through various forms of employee-paid and employer-paid plans.

As discussed above, we completed the acquisition of the Liberty Group Business effective May 1, 2018. As a result of the acquisition, Group Protection has expanded its target market for sales of its products and services to employer groups of all sizes, from small companies with fewer than 100 employees to large employers with 10,000 or more employees. In addition to allowing us to expand our expertise across all size employers, the acquisition contributed enhanced disability and absence management competency.

Products

Disability Insurance and Services

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 weekly 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 90 and 180 days and provides benefits for a longer period, at least 2 years and typically extending to normal (Social Security) retirement age. The monthly benefits provided are subject to reduction when Social Security benefits are also paid. We also provide insured coverage for the Hawaii, New Jersey and New York statutory disability programs, and New York's statutory paid family leave program, as well as administrative services for employer self-funded statutory programs in specific states.

Absence Management

We offer a robust portfolio of absence management services to help employers manage their state and federal family medical and company leave programs, in conjunction with our disability coverage. Our services provide a simple, compliant way to report and manage both leave and disability through a single expert source with integrated intake, coordinated claims management, communications and comprehensive reporting, along with state of the art self-service capabilities for employers and employees via a mobile application and web portal.

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.

Dental and Vision

We offer a variety of employer-sponsored group dental insurance plans, which cover 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, a Preferred Provider Organization ("PPO") product that does reflect the dental provider's participation in the PPO network arrangement, including an agreement with network fee schedules, and a Dental Health Maintenance Organization product that limits benefit coverage to a closed panel of network providers.

We offer comprehensive employer-sponsored fully-insured vision plans with a wide range of benefits for protecting employees' and their covered dependents' sight and vision health. All plans provide access to a national network of providers, with in and out-of-network benefits.

Accident and Critical Illness Insurance

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

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

Distribution

The segment's products are marketed primarily through a national distribution system. The managers and marketing representatives develop business through employee benefit brokers, consultants, TPAs and other employee benefit firms that work with employers to provide access to our products.

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, quality and efficiency of distribution and financial strength ratings. In this market, the Group Protection segment competes with a number of major companies and regionally with other companies offering all or some of the products within our product set. In addition, there is competition in attracting brokers to actively market our products and attracting and retaining sales representatives to sell our products. Key competitive factors in attracting brokers and sales representatives include product offerings and features, financial strength, support services and compensation.

Underwriting

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

Claims Administration

Claims for the Group Protection segment are managed by in-house claim specialists and outsourced third-party resources. Claims are evaluated for eligibility and payment of benefits pursuant to the group insurance contract and in compliance with federal and state regulations. Disability claims management is especially important to segment results, as results depend on both the incidence and the length of approved disability claims. The segment employs a variety of clinical experts, including internal and external medical professionals and rehabilitation specialists, to evaluate medically supported functional capabilities, assess employability and develop return to work plans. The accuracy and speed of life claims are important customer service and risk management factors. Some life policies provide for the waiver of premium coverage in the event of the insured's disability where our disability claims management expertise is utilized. Dental claims management focuses on assisting plan administrators and members with the rising costs of insurance by utilizing tools to optimize dental claims payment accuracy through advanced claims review and validation, improved data analysis, enhanced clinical review of claims and provider utilization monitoring.

OTHER OPERATIONS

Other Operations includes the financial data for operations that are not directly related to the business segments. Other Operations includes investments related to the excess capital in our insurance subsidiaries; corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale to Swiss Re Life & Health America, Inc. ("Swiss Re") in 2001; the results of certain disability income business; our run-off Institutional Pension business in the form of group annuity and insured funding-type of contracts; debt; and strategic digitization expense. For more information on our strategic digitization initiative, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Significant Operational Matters."

REINSURANCE

Our reinsurance strategy is designed to protect our insurance subsidiaries against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss. Although reinsurance does not discharge the insurance subsidiaries from their primary liabilities to their contract holders for losses insured under the insurance policies, it does make the assuming reinsurer liable to the insurance subsidiaries for the reinsured portion of the risk. Because we bear the risk of nonpayment by one or more of our reinsurers, we primarily cede reinsurance to well-capitalized, highly rated unaffiliated reinsurers. We also utilize inter-company reinsurance agreements to manage our statutory capital position as well as our hedge program for variable annuity guarantees. These inter-company agreements do not have an effect on our consolidated financial statements.

As of December 31, 2018, the policy for our reinsurance program was to retain up to $20 million on a single insured life. As the amount we retain varies by policy, we reinsured approximately 25% of the mortality risk on newly issued life insurance contracts in 2018. As of December 31, 2018, approximately 46% of our total individual life in-force amount was reinsured.

Some portions of our deferred annuity business have been reinsured on either a coinsurance or a modified coinsurance ("Modco") basis with other companies to limit our exposure associated with fixed and variable annuities. In a coinsurance program, the reinsurer shares proportionally in all financial terms of the reinsured policies (i.e., premiums, expenses, claims, etc.) based on their respective percentage of

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the risk. In a Modco program, we as the ceding company retain the reserves, as well as the assets backing those reserves, and the reinsurer shares proportionally in all financial terms of the reinsured policies based on their respective percentage of the risk.

In addition, we acquire other reinsurance to cover products other than as discussed above with retentions and limits that management believes are appropriate for the circumstances. For example, we use reinsurance to cover larger life and disability claims in our Group Protection business.

We obtain reinsurance from a diverse group of reinsurers, and we monitor concentration and financial strength ratings of our principal reinsurers. Protective, Athene Holding Ltd. ("Athene") and Swiss Re represent our largest reinsurance exposures. As of December 31, 2018, $12.1 billion was recoverable from Protective related to the Liberty Life acquisition and reflected within reinsurance recoverables on our Consolidated Balance Sheets. Effective October 1, 2018, we entered into a Modco agreement with Athene to reinsure fixed and fixed indexed annuity products, which resulted in a $7.5 billion deposit asset reflected within other assets on our Consolidated Balance Sheets as of December 31, 2018. As of December 31, 2018 and 2017, $1.5 billion and $1.8 billion, respectively, was recoverable from Swiss Re related to the sale of our reinsurance business to Swiss Re.

For more information regarding reinsurance, see "Reinsurance" in the MD&A and Note 9. For risks involving reinsurance, see "Item 1A. Risk Factors – Operational Matters – We face risks of non-collectability of reinsurance and increased reinsurance rates, which could materially affect our results of operations."

RESERVES

The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding policies. These reserves are the amounts that, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates and methods of valuation. For more information on reserves, see "Critical Accounting Policies and Estimates – Derivatives – GLB" and "Critical Accounting Policies and Estimates – Future Contract Benefits and Other Contract Holder Obligations" in the MD&A.

See "Regulatory" below for information on permitted practices and proposed regulations that may impact the amount of statutory reserves necessary to support our current insurance liabilities.

For risks related to reserves, see "Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals," "Item 1A. Risk Factors – Legislative, Regulatory and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations" and "Item 1A. Risk Factors – Operational Matters – We face risks of non-collectability of reinsurance and increased reinsurance rates, which could materially affect our results of operations."

INVESTMENTS

An important component of our financial results is the return on invested assets. Our investment strategy is to balance the need for current income with prudent risk management, with an emphasis on generating sufficient current income to meet our obligations. This approach requires the evaluation of risk and expected return of each asset class utilized, while still meeting our income objectives. This approach also permits us to be more effective in our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. Investments by our insurance subsidiaries must comply with the insurance laws and regulations of the states of domicile.

Derivatives are used primarily for hedging purposes and, to a lesser extent, income generation. Hedging strategies are employed for a number of reasons including, but not limited to, hedging certain portions of our exposure to changes in our GDB, GWB and GIB liabilities, interest rate fluctuations, the widening of bond yield spreads over comparable maturity U.S. government obligations and credit, foreign exchange and equity risks. Income generation strategies include credit default swaps through replication synthetic asset transactions. These derivatives synthetically create exposure in the general account to corporate debt, similar to investing in the credit markets.

For additional information on our investments, including carrying values by category, quality ratings and net investment income, see "Consolidated Investments" in the MD&A, as well as Notes 1 and 5.

FINANCIAL STRENGTH RATINGS

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

Rating agencies rate insurance companies based on financial strength and the ability to pay claims, factors more relevant to contract holders than investors. We believe that the ratings assigned by nationally recognized, independent rating agencies are material to our operations. There may be other rating agencies that also rate our insurance companies, which we do not disclose in our reports.

Insurer Financial Strength Ratings

The insurer financial strength rating scales of A.M. Best, Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and S&P are characterized as follows:

- A.M. Best – A++ to S
- Fitch – AAA to C
- Moody’s – Aaa to C
- S&P – AAA to D

As of February 14, 2019, the financial strength ratings of our principal insurance subsidiaries, as published by the principal rating agencies that rate us, were as follows:

	A.M. Best	Fitch	Moody's	S&P
Insurer Financial Strength Ratings				
The Lincoln National Life Insurance Company (“LNL”)	A+ (2nd of 16)	A+ (5th of 19)	A1 (5th of 21)	AA- (4th of 21)
Lincoln Life & Annuity Company of New York (“LLANY”)	A+ (2nd of 16)	A+ (5th of 19)	A1 (5th of 21)	AA- (4th of 21)
Liberty Life Assurance Company of Boston (“LLACB”)	A (3rd of 16)	N/A	N/A	AA- (4th of 21)
First Penn-Pacific Life Insurance Company (“FPP”)	A (3rd of 16)	A+ (5th of 19)	A1 (5th of 21)	A- (7th of 21)

A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings. Ratings are not recommendations to buy our securities.

All of our financial strength ratings are on outlook stable, except Fitch ratings, which are on outlook positive. All of our ratings are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that our principal insurance subsidiaries can maintain these ratings. Each rating should be evaluated independently of any other rating. See “Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow” in the MD&A for a discussion of our credit ratings.

REGULATORY

Insurance Regulation

Our insurance subsidiaries, like other insurance companies, are subject to regulation and supervision by the states, territories and countries in which they are licensed to do business. The extent of such regulation varies, but generally has its source in statutes that delegate regulatory, supervisory and administrative authority to supervisory agencies. In the U.S., this power is vested in state insurance departments.

In supervising and regulating insurance companies, state insurance departments, charged primarily with protecting contract holders and the public rather than investors, enjoy broad authority and discretion in applying applicable insurance laws and regulation for that purpose. Our principal insurance subsidiaries, LNL, LLANY, LLACB and FPP, are domiciled in the states of Indiana, New York, New Hampshire and Indiana, respectively.

The insurance departments of the domiciliary states exercise principal regulatory jurisdiction over our insurance subsidiaries. The extent of regulation by the states varies, but in general, most jurisdictions have laws and regulations governing standards of solvency, adequacy of reserves, reinsurance, capital adequacy, licensing of companies and agents to transact business, prescribing and approving policy forms, regulating premium rates for some lines of business, prescribing the form and content of financial statements and reports, regulating the type and amount of investments permitted and standards of business conduct. Insurance company regulation is discussed further in this section under "Insurance Holding Company Regulation."

As part of their regulatory oversight process, state insurance departments conduct periodic, generally once every three to five years, examinations of the books, records, accounts and business practices of insurers domiciled in their states. Examinations are generally carried out in cooperation with the insurance regulators of other states under guidelines promulgated by the National Association of Insurance Commissioners ("NAIC"). State and federal insurance and securities regulatory authorities and other state law enforcement agencies and Attorneys General also, from time to time, make inquiries and conduct examinations or investigations regarding the compliance by our company, as well as other companies in our industry, with, among other things, insurance laws and securities laws. Our captive reinsurance and reinsurance subsidiaries are subject to periodic financial examinations by their respective domiciliary state insurance regulators. We have not received any material adverse findings resulting from state insurance department examinations of our insurance, reinsurance and captive reinsurance subsidiaries conducted during the three-year period ended December 31, 2018.

State insurance laws and regulations require our U.S. insurance companies to file financial statements with state insurance departments everywhere they do business, and the operations of our U.S. insurance companies and accounts are subject to examination by those departments at any time. Our U.S. insurance companies prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments. The NAIC has approved a series of statutory accounting principles that have been adopted, in some cases with minor modifications, by virtually all state insurance departments. Changes in these statutory accounting principles can significantly affect our capital and surplus. For more information, see "Item 1A. Risk Factors – Legislative, Regulatory and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations."

The NAIC's adoption of the Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. Principles-based reserving places a greater weight on our past experience and anticipated future experience as well as considers current economic conditions in calculating life insurance product reserves in accordance with statutory accounting principles. We adopted the framework for our newly issued term business in 2017 and will phase in the framework by January 1, 2020, for all other newly issued life insurance products. We believe that these changes may reduce our future use of captive reinsurance and reinsurance subsidiaries for reserve financing transactions for our life insurance business. The NAIC is currently in the process of implementing changes to the statutory reserving, capital and accounting framework for variable annuities that are expected to go into effect as of January 1, 2020. For more information, see "Item 1A. Risk Factors – Legislative, Regulatory and Tax – Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements."

For more information on statutory reserving and our use of captive reinsurance structures, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Insurance Subsidiaries' Statutory Capital and Surplus" in the MD&A.

Insurance Holding Company Regulation

LNC and its primary insurance subsidiaries are subject to regulation pursuant to the insurance holding company laws of the states of Indiana, New York and New Hampshire. These insurance holding company laws generally require an insurance holding company and insurers that are members of such insurance holding company's system to register with the insurance department authorities, to file with it certain reports disclosing information, including their capital structure, ownership, management, financial condition and certain inter-company transactions, including material transfers of assets and inter-company business agreements and to report material changes in that information. These laws also require that inter-company transactions be fair and reasonable and, under certain circumstances, prior approval of the insurance departments must be received before entering into an inter-company transaction. Further, these laws require that an insurer's contract holders' surplus following any dividends or distributions to shareholder affiliates is reasonable in relation to the insurer's outstanding liabilities and adequate for its financial needs.

In general, under state holding company regulations, no person may acquire, directly or indirectly, a controlling interest in our capital stock unless such person, corporation or other entity has obtained prior approval from the applicable insurance commissioner for such acquisition of control. Pursuant to such laws, in general, any person acquiring, controlling or holding the power to vote, directly or indirectly, 10% or more of the voting securities of an insurance company, is presumed to have "control" of such company. This presumption may be rebutted by a showing that control does not exist in fact. The insurance commissioner, however, may find that "control" exists in circumstances in which a person owns or controls a smaller amount of voting securities. To obtain approval from the insurance commissioner of any acquisition of control of an insurance company, the proposed acquirer must file with the applicable commissioner an application containing information regarding: the identity and background of the acquirer and its affiliates; the nature, source and amount of funds to be used to carry out the acquisition; the financial statements of the acquirer and its affiliates; any potential plans for disposition of the securities or business of the insurer; the number and type of securities to be acquired; any contracts with respect to the securities to be acquired; any agreements with broker-dealers; and other matters.

Other jurisdictions in which our insurance subsidiaries are licensed to transact business may have similar or additional requirements for prior approval of any acquisition of control of an insurance or reinsurance company licensed or authorized to transact business in those jurisdictions. Additional requirements in those jurisdictions may include re-licensing or subsequent approval for renewal of existing licenses upon an acquisition of control. In addition, laws that govern the holding company structure also govern payment of dividends to us by our insurance subsidiaries. See "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow" in the MD&A for a discussion of restrictions on subsidiaries' dividends and other payments.

Risk-Based Capital

The NAIC has adopted risk-based capital ("RBC") requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. There are five major risks involved in determining the requirements:

Category	Name	Description
Asset risk – affiliates	C-0	Risk of assets' default for certain affiliated investments
Asset risk – others	C-1	Risk of assets' default of principal and interest or fluctuation in fair value
Insurance risk	C-2	Risk of underestimating liabilities from business already written or inadequately pricing business to be written in the future
Interest rate risk, health credit risk and market risk	C-3	Risk of losses due to changes in interest rate levels, risk that health benefits prepaid to providers become the obligation of the health insurer once again and risk of loss due to changes in market levels associated with variable products with guarantees
Business risk	C-4	Risk of general business

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure adequacy of a company's statutory surplus by comparing it to the RBC determined by the formula. Under RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the NAIC, to its company action level of RBC (known as the RBC ratio), also as defined by the NAIC.

Accordingly, factors that have an impact on the total adjusted capital of our insurance subsidiaries, such as the permitted practices discussed above, will also affect their RBC levels. Four levels of regulatory attention may be triggered if the RBC ratio is insufficient:

- "Company action level" – If the RBC ratio is between 75% and 100%, then the insurer must submit a plan to the regulator detailing corrective action it proposes to undertake;
- "Regulatory action level" – If the RBC ratio is between 50% and 75%, then the insurer must submit a plan, but a regulator may also issue a corrective order requiring the insurer to comply within a specified period;
- "Authorized control level" – If the RBC ratio is between 35% and 50%, then the regulatory response is the same as at the "Regulatory action level," but in addition, the regulator may take action to rehabilitate or liquidate the insurer; and
- "Mandatory control level" – If the RBC ratio is less than 35%, then the regulator must rehabilitate or liquidate the insurer.

As of December 31, 2018, the RBC ratios of LNL, LLANY, LLACB and FPP reported to their respective states of domicile and the NAIC all exceeded the "company action level." We believe that we will be able to maintain the RBC ratios of our insurance subsidiaries in excess of "company action level" through prudent underwriting, claims handling, investing and capital management. However, no assurances can be given that developments affecting the insurance subsidiaries, many of which could be outside of our control, will not cause the RBC ratios to fall below our targeted levels. These developments may include, but may not be limited to: changes to the manner in which the RBC ratio is calculated; new regulatory requirements for calculating reserves, such as principles-based reserving; economic conditions leading to higher levels of impairments of securities in our insurance subsidiaries' general accounts; and an inability to finance life reserves such as the issuance of letters of credit ("LOCs") supporting inter-company reinsurance structures.

See "Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Item 1A. Risk Factors – Legislative, Regulatory and Tax – Our businesses are heavily regulated and changes in regulation may affect our insurance subsidiary capital requirements or reduce our profitability."

Privacy Regulations

In the course of our business, we collect and maintain personal data from our customers including personally identifiable non-public financial and health information, which subjects us to regulation under global, federal and state privacy laws. These laws require that we institute certain policies and procedures in our business to safeguard this information from improper use or disclosure. While we employ a robust and tested information security program, if regulators establish further regulations for addressing customer privacy, we may need to amend our policies and adapt our internal procedures. See "Item 1A. Risk Factors – Legislative, Regulatory and Tax – State Regulation – Compliance with existing and emerging privacy regulations could result in increased compliance costs and/or lead to changes in business practices and policies, and any failure to protect the confidentiality of client information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations." For information regarding cybersecurity risks, see "Item 1A. Risk Factors – Operational Matters – Our information systems may experience interruptions, breaches in security and/or a failure of disaster recovery systems that could result in a loss or disclosure of confidential information, damage to our reputation and impairment of our ability to conduct business effectively."

Federal Initiatives

The U.S. federal government does not directly regulate the insurance industry; however, federal initiatives from time to time can impact the insurance industry. The marketplace continues to evolve in the changing regulatory environment.

Financial Reform Legislation

Since it was enacted in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") has imposed considerable reform in the financial services industry. The ongoing implementation continues to present challenges and uncertainties for financial market participants. For instance, the Dodd-Frank Act and corresponding global initiatives imposed significant changes to the regulation of derivatives transactions, which we use to mitigate many types of risk in our business.

Significantly, swap documentation and processing requirements continue to change in light of rules for margining uncleared swaps. As we continue to prepare to comply with requirements to post initial margin beginning in 2020, we will be required to manage our derivatives trading and the attendant liquidity requirements in ways we continue to evaluate. Although these rules provide some flexibility in the categories of eligible collateral, it is still possible that we may be required to hold more of our assets in cash and other low-yielding investments in order to satisfy margin requirements. Documentation requirements attendant to the new margining regime are potentially burdensome and costly. Swaps clearing requirements may reduce the level of risk exposure we have to our derivatives counterparties (currently managed by holding collateral), but have increased our exposure to central clearinghouses and clearing members with which we transact. Central clearinghouses and regulators alike continue to evaluate the appropriate allocation of risk in the event of the failure of a clearing member or clearinghouse, and the results of these deliberations may change our use of derivatives in ways we cannot yet determine. The standardization of derivatives products for clearing may make customized products unavailable or uneconomical, potentially decreasing the effectiveness of some of our hedging activities.

Our trading activities are also affected by the scheduled phaseout of LIBOR by the end of 2021 and the use of alternative reference rates and related adjustments. We continue to monitor developments regarding these changes in order to reduce potential disruptions. As financial services regulatory reform continues to evolve in the U.S. and abroad, and the marketplace continues to respond, the extent to which our derivatives costs and strategies may change and the extent to which those changes may affect the range or pricing of our products remains uncertain.

In addition, the Dodd-Frank Act directed the Securities and Exchange Commission ("SEC") to study the implications resulting from the different standards applicable to broker-dealers and investment advisers and empowered the SEC to adopt a uniform fiduciary standard. In January 2011, the SEC released its study on the obligations and standards of conduct of financial professionals. The SEC staff initially recommended establishing a uniform fiduciary standard for investment advisers and broker-dealers when providing investment advice about securities, including guidance for principal trading and definitions of the duties of loyalty and care owed to retail customers that would be consistent with the standard that currently applies to investment advisers. Then, in April 2018, pursuant to the authority granted by the Dodd-Frank Act, the SEC proposed “Regulation Best Interest,” which, if adopted, would establish a higher standard of care and disclosure for broker-dealers when making recommendations to retail customers, but would not create an explicit fiduciary duty. For more information, see “SEC Proposals and Other Regulations relating to the Standard of Care Applicable to Investment Advisers and Broker-Dealers” below.

Additional provisions of the Dodd-Frank Act include, among other things, the creation of a new Consumer Financial Protection Bureau to protect consumers of certain financial products; and changes to certain corporate governance rules. The SEC has postponed rule making on a number of these provisions indefinitely. The Federal Insurance Office established under the Dodd-Frank Act issues annually a wide-ranging report on the state of insurance regulation in the U.S., together with a series of recommendations on ways to monitor and improve the regulatory environment. The ultimate impact of these recommendations on our business is undeterminable at this time.

SEC Proposals and Other Regulations relating to the Standard of Care Applicable to Investment Advisers and Broker-Dealers

In 2016, the Department of Labor (“DOL”) released the DOL Fiduciary Rule, which became effective on June 9, 2017, and substantially expanded the range of activities considered to be fiduciary investment advice under the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Internal Revenue Code. On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit (the “Fifth Circuit”) issued an opinion in the case Chamber of Commerce v. the U.S. Department of Labor vacating the DOL Fiduciary Rule and related applicable exemptions. The DOL and the Department of Justice did not appeal the Fifth Circuit’s decision to the U.S. Supreme Court, and on June 21, 2018, the Fifth Circuit issued a mandate stating that the original definition of “fiduciary,” including the original five-part test, will apply going forward.

On April 18, 2018, the SEC proposed “Regulation Best Interest,” including a new standard of conduct for broker-dealers under the Securities Exchange Act of 1934, which would require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction, without putting its financial interests ahead of the interests of a retail customer. The proposed rule includes guidance on what constitutes a “recommendation” and a definition of who would be a “retail customer” in addition to provisions setting forth certain required disclosures, policies and procedures to identify conflicts of interest, and customer-specific best interest obligations.

In addition, the SEC proposed the use of a new disclosure document, the customer or client relationship summary, or Form CRS. Form CRS is intended to provide retail investors with information about the nature of their relationship with their investment professional and would supplement other more detailed disclosures, including existing Form ADV for advisers and the new disclosures under Regulation Best Interest for broker-dealers.

Finally, the SEC proposed interpretative guidance providing clarity on an investment adviser's fiduciary obligation under the Advisers Act. The guidance indicates that investment advisers have a fiduciary duty to their clients that includes both a duty of care and a duty of loyalty and provides additional clarification of an investment adviser's responsibilities under these fiduciary duties. Investment advisers and broker-dealers would also need to disclose their registration status with the SEC in certain retail investor communications. The comment period on the proposals closed on August 7, 2018.

In addition to the SEC proposed rules, the NAIC and several states, including Nevada, New Jersey and New York, have proposed and/or enacted laws and regulations requiring investment advisers, broker-dealers and/or agents to disclose conflicts of interest to clients and/or to meet a higher standard of care when providing advice to their clients. These recent developments could result in additional requirements related to the sale of our products.

It is uncertain at this point how the original DOL definition of "fiduciary" will work in conjunction with any final rules adopted by the SEC, the NAIC or any individual state. While we continue to monitor and evaluate the various proposals, we cannot predict what other proposals may be made, or what new legislation or regulation may be introduced or become law. Therefore, until such time as final rules or laws are in place, the potential impact on our business is uncertain.

Federal Tax Legislation

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act resulted in significant reforms for corporations (in addition to individuals), including the reduction in the corporate tax rate to 21% and the expansion of the tax base through the elimination or reduction of specified deductions and credits and incentives related to growth and development including providing for the immediate write-off of qualifying capital investment. Specific provisions that affect corporations generally relate to limitations on the deductibility of expenses related to interest, executive compensation and business entertainment. The Tax Act repealed the ability to carry back tax losses to prior tax years and also repealed the corporate Alternative Minimum Tax. The vast majority of the provisions in the Tax Act became effective January 1, 2018.

The Tax Act contains a number of provisions that directly impacted insurance companies. Specifically, the Tax Act changed the calculation of tax reserves associated with policyholder liabilities, modified the computations of capitalized expenses for tax purposes of amounts incurred to originate or acquire insurance contracts (commonly referred to as the DAC tax), changed the proration formula used to determine the amount of dividends eligible to be included in the dividends-received deduction and added new rules related to reporting life settlement transactions.

We have done significant work in many areas of our business to understand and incorporate the tax changes required by the Tax Act. As we expected, the Internal Revenue Service ("IRS") and Treasury have issued a number of items of guidance in order to clarify the new rules, including Notices, Proposed and Final Regulations related to the deductibility of expenses related to interest, executive compensation and other business activities, as well as life settlement reporting and various international tax provisions. We have actively participated with others in the industry to review and provide comments on the Proposed Regulations and other guidance.

Though the IRS and Treasury have issued guidance on a variety of issues, Congress has not yet passed a technical corrections bill to address certain issues in the original provisions of the Tax Act. The House Ways and Means Committee circulated a draft technical corrections package in early 2019, but Congress has not yet passed any such legislation. In addition, Congress reviewed a number of new legislative proposals in 2018 for tax reform related to retirement, innovation and individual income tax provisions. However, none of the proposals have been passed. As a result, we cannot predict the full impact of the Tax Act until any such proposals have been passed and implemented and until final regulations or final administrative guidance have been issued.

Outside of tax reform, the uncertainty of federal funding and the future of the Social Security Disability Insurance ("SSDI") program can have a substantial impact on the entire group benefit market because SSDI benefits are a direct offset to the benefits paid under group disability policies. Congress alleviated some of this uncertainty by passing the Bipartisan Budget Act of 2015. As a result, the Social Security Administration's 2018 Annual Report projects that the SSDI reserves will not be depleted until 2034 (which is unchanged from its 2017 Annual Report).

Health Care Reform Legislation

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

Patriot Act

The USA PATRIOT Act of 2001 includes anti-money laundering and financial transparency laws as well as various regulations applicable to broker-dealers and other financial services companies, including insurance companies. Financial institutions are required to collect information regarding the identity of their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies and share information with other financial institutions. As a result, we are required to maintain certain internal compliance practices, procedures and controls.

Additional Legislative Trends

We have recently seen, and expect to continue to see, proposed legislation by Congress focused on creating increased access to lifetime income options in retirement plans, facilitating the ability of small employers to offer access to retirement savings vehicles to their employees, and facilitating the use of automatic contributions to increase retirement plan savings. To the extent such, or similar, proposed legislation is enacted into law, the financial services industry could benefit from continued or increased savings in retirement and annuity solutions, including through the utilization of Lincoln's suite of offerings.

ERISA Considerations

ERISA is a comprehensive federal statute that applies to U.S. employee benefit plans sponsored by private employers and labor unions. Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. ERISA provisions include reporting and disclosure rules, standards of conduct that apply to plan fiduciaries and prohibitions on transactions known as "prohibited transactions," such as conflict-of-interest transactions and certain transactions between a benefit plan and a party in interest. ERISA also provides for a scheme of civil and criminal penalties and enforcement. Our insurance, asset management, plan administrative services and other businesses provide services to employee benefit plans subject to ERISA, including services where we may act as an ERISA fiduciary. In addition to ERISA regulation of businesses providing products and services to ERISA plans, we become subject to ERISA's prohibited transaction rules for transactions with those plans, which may affect our ability to enter transactions, or the terms on which transactions may be entered, with those plans, even in businesses unrelated to those giving rise to party in interest status.

Broker-Dealer and Securities Regulation

In addition to being registered under the Securities Act of 1933, some of our separate accounts as well as mutual funds that we sponsor are registered as investment companies under the Investment Company Act of 1940, and the shares of certain of these entities are qualified for sale in some or all states and the District of Columbia. We also have subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934, as amended ("Exchange Act") and are subject to federal and state regulation, including, but not limited to, the Financial Industry Regulation Authority's ("FINRA") net capital rules. In addition, we have subsidiaries that are registered investment advisers under the Investment Advisers Act of 1940. Agents, advisers and employees registered or associated with any of our broker-dealer subsidiaries are subject to the Exchange Act and to examination requirements and regulation by the SEC, FINRA and state securities commissioners. Regulation also extends to various LNC entities that employ or control those individuals. The SEC and other governmental agencies and self-regulatory organizations, as well as state securities commissions in the U.S., have the power to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or suspension and termination or limitation of the activities of the regulated entity or its employees.

Environmental Considerations

Federal, state and local environmental laws and regulations apply to our ownership and operation of real property. Inherent in owning and operating real property are the risks of hidden environmental liabilities and the costs of any required clean-up. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect our commercial mortgage lending. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, in some states and under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), we may be liable, as an "owner" or "operator," for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us. We also risk environmental liability when we foreclose on a property mortgaged to us. Federal legislation provides for a safe harbor from CERCLA liability for secured lenders that foreclose and sell the mortgaged real estate, provided that certain requirements are met. However, there are circumstances in which actions taken could still expose us to CERCLA liability. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments for real estate we acquire for investment and before taking title through foreclosure to real property collateralizing mortgages that we hold. Although unexpected environmental liabilities can always arise, based on these environmental assessments and compliance with our internal procedures, we believe that any costs associated with compliance with environmental laws and regulations or any clean-up of properties would not have a material adverse effect on our results of operations.

Intellectual Property

We rely on a combination of copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. We have implemented a patent strategy designed to protect innovative aspects of our products and processes which we believe distinguish us from competitors. We currently own several issued U.S. patents.

We have an extensive portfolio of trademarks and service marks that we consider important in the marketing of our products and services, including, among others, the trademarks of the Lincoln National and Lincoln Financial names, the Lincoln silhouette logo and the combination of these marks. Trademark registrations may be renewed indefinitely subject to continued use and registration requirements. We regard our trademarks as valuable assets in marketing our products and services and intend to protect them against infringement and dilution.

EMPLOYEES

As of December 31, 2018, we had a total of 11,034 employees. In addition, we had a total of 1,028 planners and agents who had active sales contracts with one of our insurance subsidiaries. None of our employees are represented by a labor union, and we are not a party to any collective bargaining agreements. We consider our employee relations to be good.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other documents with the SEC under the Exchange Act. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers, including LNC, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov.

We also make available, free of charge, on or through our website, www.lfg.com, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The information contained on our website is not included as part of, or incorporated by reference into, this report.

Item 1A. Risk Factors

You should carefully consider the risks described below before investing in our securities. The risks and uncertainties described below are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of our securities could decline substantially.

Legislative, Regulatory and Tax

Our businesses are heavily regulated and changes in regulation may affect our insurance subsidiary capital requirements or reduce our profitability.

State Regulation

Our insurance subsidiaries are subject to extensive supervision and regulation in the states in which we do business. The supervision and regulation relate to numerous aspects of our business and financial condition. The primary purpose of the supervision and regulation is the protection of our insurance contract holders, and not our investors. The extent of regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments. This system of supervision and regulation covers, among other things:

- Market conduct standards;
- Standards of minimum capital requirements and solvency, including RBC measurements;
- Restrictions on certain transactions, including, but not limited to, reinsurance between our insurance subsidiaries and their affiliates;
- Restrictions on the nature, quality and concentration of investments;
- Restrictions on the receipt of reinsurance credit;
- Restrictions on the types of terms and conditions that we can include in the insurance policies offered by our primary insurance operations;
- Limitations on the amount of dividends that insurance subsidiaries can pay;
- Licensing status of the company;
- Certain required methods of accounting pursuant to statutory accounting principles (“SAP”);
- Reserves for unearned premiums, losses and other purposes;
- Payment of policy benefits (claims); and
- Assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies.

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State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, sometimes lead to additional expense, statutory reserves and/or RBC requirements for the insurer and, thus, could have a material adverse effect on our financial condition and results of operations. For example, the NAIC is currently in the process of implementing changes to the accounting, reserve and RBC regulations related to the variable annuity business; however, this effort is still ongoing, and we are still evaluating what impact it could have on our financial condition or results of operations. The NAIC is also considering modifications to the NAIC RBC C-1 capital charges for bonds, which may impact the level of the C-1 related RBC we are required to hold.

Although we endeavor to maintain all required licenses and approvals, our businesses may not fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations, which may change from time to time. Also, regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit such authorities to supervise the business and operations of an insurance company. As of December 31, 2018, no state insurance regulatory authority had imposed on us any material fines or revoked or suspended any of our licenses to conduct insurance business in any state or issued an order of supervision with respect to our insurance subsidiaries, which would have a material adverse effect on our results of operations or financial condition.

Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations.

The Valuation of Life Insurance Policies Model Regulation ("XXX") requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and UL policies with secondary guarantees. In addition, Actuarial Guideline 38 ("AG38") clarifies the application of XXX with respect to certain UL insurance policies with secondary guarantees. A portion of our newly issued term and a portion of our newly issued UL insurance products are affected by XXX and AG38; certain term policies issued in 2017 and later are now reserved under principles-based reserves. The application of both AG38 and XXX involve numerous interpretations. If state insurance departments do not agree with our interpretations, we may have to increase reserves related to such policies. The New York State Department of Financial Services did not recognize the NAIC revisions to AG38 in applying the New York law governing the reserves to be held for UL and VUL products containing secondary guarantees. The change, which was effective as of December 31, 2013, impacted our New York-domiciled insurance subsidiary, LLANY. Although LLANY discontinued the sale of these products in early 2013, the change affected those policies previously sold. As a result, we phased in an increase in reserves over five years, from 2013 to 2017, resulting in a total increase of $450 million.

We have implemented, and plan to continue to implement, reinsurance and capital management transactions to mitigate the capital impact of XXX and AG38, including the use of captive reinsurance subsidiaries. The NAIC adopted Actuarial Guideline 48 ("AG48") regulating the terms of these arrangements that are entered into or amended in certain ways after December 31, 2014. This guideline imposed restrictions on the types of assets that can be used to support the reinsurance in these kinds of transactions. While we have executed AG48 compliant reserve financing transactions, we cannot provide assurance that in light of AG48 and/or future rules and regulations or changes in interpretations by state insurance departments that we will be able to continue to efficiently implement transactions or take other actions to mitigate the impact of XXX or AG38 on future sales of term and UL insurance products and any required reserves. If we are unable to continue to efficiently implement such solutions for any reason, we may realize lower than anticipated returns and/or reduced sales on such products.

Compliance with existing and emerging privacy regulations could result in increased compliance costs and/or lead to changes in business practices and policies, and any failure to protect the confidentiality of client information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.

The collection and maintenance of personal data from our customers, including personally identifiable non-public financial and health information, subjects us to regulation under global, federal and state privacy laws. These laws require that we institute certain policies and procedures in our business to safeguard personal data from our customers from improper use or disclosure. The laws vary by jurisdiction, and it is expected that additional regulations will continue to be enacted. In March 2017, New York's cybersecurity regulation for financial services institutions, including banking and insurance entities, became effective, and on October 24, 2017, the NAIC adopted the Insurance Data Security Model Law, and states are adopting versions of the model, establishing new standards for data security and for the investigation of and notification of insurance commissioners of cybersecurity events. Other states have proposed or adopted broad privacy legislation that applies to all types of businesses, including California, which passed the California Consumer Right to Privacy Act in June 2018, granting new data protections and rights to California consumers. In addition, the European General Data Protection Regulation ("GDPR") adopted by the European Commission became effective in May 2018. GDPR includes numerous protections for EU data subjects, including but not limited to notification requirements for data breaches, the right to access personal data, and the right to be forgotten. Complying with these and other existing, emerging and changing privacy requirements could cause us to incur substantial costs or require us to change our business practices and policies. Non-compliance could result in monetary penalties or significant legal liability.

Many of the associates who conduct our business have access to, and routinely process, personal information of clients through a variety of media, including information technology systems. We rely on various internal processes and controls to protect the confidentiality of client information that is accessible to, or in the possession of, our company and our associates. It is possible that an associate could, intentionally or unintentionally, disclose or misappropriate confidential client information or our data could be the subject of a cybersecurity attack. If we fail to maintain adequate internal controls or if our associates fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of client information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation or lead to regulatory, civil or criminal investigations and penalties, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

In addition, we analyze customer data to better manage our business. There has been increased scrutiny, including from U.S. state and federal regulators, regarding the use of “big data” techniques such as price optimization. We cannot predict what, if any, actions may be taken with regard to “big data,” but any inquiries could cause reputational harm, and any limitations could have a material impact on our business, financial condition and results of operations.

Federal Regulation

In addition, our broker-dealer and investment adviser subsidiaries as well as our variable annuities and variable life insurance products, are subject to regulation and supervision by the SEC and FINRA. These laws and regulations generally grant supervisory agencies and self-regulatory organizations broad administrative powers, including the power to limit or restrict the subsidiaries from carrying on their businesses in the event that they fail to comply with such laws and regulations. The foregoing regulatory or governmental bodies, as well as the DOL and others, have the authority to review our products and business practices and those of our agents, advisers, registered representatives, associated persons and employees. In recent years, there has been increased scrutiny of the insurance industry by these bodies, which has included more extensive examinations, regular sweep inquiries and more detailed review of disclosure documents. These regulatory or governmental bodies may bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could have a material adverse effect on our business, results of operations or financial condition.

Regulations relating to the standard of care applicable to investment advisers and broker-dealers could result in additional disclosure and other requirements related to the sale and delivery of our products and services.

In 2016, the DOL released the DOL Fiduciary Rule, which became effective on June 9, 2017, and substantially expanded the range of activities considered to be fiduciary investment advice under ERISA and the Internal Revenue Code. On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit (the “Fifth Circuit”) issued an opinion in the case Chamber of Commerce v. the U.S. Department of Labor vacating the DOL Fiduciary Rule and related applicable exemptions. The DOL and the Department of Justice did not appeal the Fifth Circuit’s decision to the U.S. Supreme Court, and on June 21, 2018, the Fifth Circuit issued a mandate stating that the original definition of “fiduciary,” including the original five-part test, will apply going forward.

On April 18, 2018, the SEC proposed “Regulation Best Interest,” including a new standard of conduct for broker-dealers under the Securities Exchange Act of 1934, which would require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction, without putting its financial interests ahead of the interests of a retail customer. The proposed rule includes guidance on what constitutes a “recommendation” and a definition of who would be a “retail customer” in addition to provisions setting forth certain required disclosures, policies and procedures to identify conflicts of interest, and customer-specific best interest obligations.

In addition, the SEC proposed the use of a new disclosure document, the customer or client relationship summary, or Form CRS. Form CRS is intended to provide retail investors with information about the nature of their relationship with their investment professional and would supplement other more detailed disclosures, including existing Form ADV for advisers and the new disclosures under Regulation Best Interest for broker-dealers.

Finally, the SEC proposed interpretative guidance providing clarity on an investment adviser’s fiduciary obligation under the Advisers Act. The guidance indicates that investment advisers have a fiduciary duty to their clients that includes both a duty of care and a duty of loyalty and provides additional clarification of an investment adviser’s responsibilities under these fiduciary duties. Investment advisers and broker-dealers would also need to disclose their registration status with the SEC in certain retail investor communications. The comment period on the proposals closed on August 7, 2018.

In addition to the SEC proposed rules, the NAIC and several states, including Nevada, New Jersey and New York have proposed and/or enacted laws and regulations requiring investment advisers, broker-dealers and/or agents to disclose conflicts of interest to clients and/or to meet a higher standard of care when providing advice to their clients. These recent developments could result in additional requirements related to the sale of our products.

It is uncertain at this point how the original DOL definition of “fiduciary” will work in conjunction with any final rules adopted by the SEC, the NAIC or any individual state. While we continue to monitor and evaluate the various proposals, we cannot predict what other proposals may be made, or what new legislation or regulation may be introduced or become law. Therefore, until such time as final rules or laws are in place, the potential impact on our business is uncertain.

Changes in U.S. federal income tax law could impact our tax costs and the products that we sell.

In late 2017, President Trump signed the Tax Act into law. The Tax Act included tax rate reductions for both individuals and businesses (corporations and unincorporated entities), with the reduction in the U.S. marginal tax rate for corporations from 35% to 21% being one of the central provisions of the Tax Act. The Tax Act also expanded the tax base through the elimination or reduction of specified deductions and credits and provided incentives related to growth and development.

The changes made by the Tax Act continue to have numerous impacts on our business. Notably, the change to the new 21% marginal corporate income tax rate has resulted in a lower overall effective tax rate as applied to our financial earnings as compared to years prior to the change. The marginal rate change resulted in a reduction in our recorded deferred tax liability for GAAP purposes, a reduction in our admitted deferred tax asset recorded for statutory reporting and, for year-end 2018 reporting, changes to the factors used in determining our required surplus for statutory purposes and related RBC percentage. Any future change in the marginal corporate tax rate will have an impact on our financial results.

In addition to the corporate tax rate reduction provided by the Tax Act, there were several provisions that are specific to insurance companies, namely changes to the proration formula used to determine the amount of dividends eligible for the dividends-received deduction, modifications to the calculation of tax reserves associated with policyholder liabilities, changes to the computations of capitalized expenses for tax purposes of amounts incurred to originate or acquire insurance contracts (commonly referred to as the DAC tax) and the imposition of new life settlement reporting rules. As a result of one of the specific Tax Act changes, the recorded tax benefit for the separate account dividends-received deduction included in our 2018 income tax provision was $78 million as compared to $210 million for 2017. These provisions as a whole resulted in changes to our overall cash tax obligations beginning in 2018.

The IRS and Treasury have issued guidance in regard to specific provisions contained in the Tax Act. The released guidance has been in the form of notices, proposed regulations and, in certain instances, final regulations. We continue to review and analyze the guidance as it is released in order to ensure that our initial interpretations of the law changes were appropriate and that our estimates of the post-enactment impacts were reasonable. Should final guidance in any form differ from preliminary guidance or from our initial interpretations, it could have an impact on our financial results and other related key financial measures. Specifically, in the event that final guidance related to the Tax Act differs from our current interpretation of the provisions, or if additional tax legislation is enacted (inclusive or exclusive of a change in the marginal corporate tax rate), there could be an impact on our future earnings, GAAP equity and statutory RBC, free cash flows and the sales, pricing and profitability of our products.

Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm our businesses.

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our insurance and retirement operations. Pending legal actions include proceedings relating to aspects of our businesses and operations that are specific to us and proceedings that are typical of the businesses in which we operate. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal or regulatory actions could have a material financial effect or cause significant harm to our reputation, which in turn could materially harm our business prospects. See Note 14 for a description of legal and regulatory proceedings and actions.

Implementation of the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act may subject us to substantial additional federal regulation, and we cannot predict the effect on our business, results of operations, cash flows or financial condition.

Since it was enacted in 2010, the Dodd-Frank Act has brought wide-ranging changes to the financial services industry, including changes to the rules governing derivatives; a study by the SEC of the rules governing broker-dealers and investment advisers with respect to individual investors and investment advice, followed by proposed rulemaking; the creation of a Federal Insurance Office within the U.S. Treasury to gather information and make recommendations regarding regulation of the insurance industry; the creation of a resolution authority to unwind failing institutions; the creation of a Consumer Financial Protection Bureau to protect consumers of certain financial products; and changes to executive compensation and certain corporate governance rules, among other things.

Significant rulemaking across numerous agencies within the federal government has been implemented since the enactment of the Dodd-Frank Act. Complete implementation has yet to take place, given shifting priorities following the U.S. 2016 election; therefore, the ultimate impact of these provisions on our businesses (including product offerings), results of operations and liquidity and capital resources remains uncertain.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are prepared in accordance with GAAP as identified in the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC"). From time to time, we are required to adopt new or revised accounting standards or guidance that are incorporated into the FASB ASC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Specifically, in August 2018, the FASB released Accounting Standards Update ("ASU") 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, that is expected to result in significant changes to how we account for and report our insurance contracts (both in-force and new business), including updating assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts, measurement of market risk benefits and amortization of deferred acquisition costs ("DAC"). These changes may impose special demands on companies in the areas of employee training, internal controls, contract fulfillment and disclosure and may affect how we manage our business, including business processes such as design of compensation plans, product design, etc. The effective date is January 1, 2021, and there are various transition methods by topic that we may elect upon adoption. We will report results under the new accounting method as of the effective date, as well as for all periods presented. We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. See Note 2 for more information.

Our domestic insurance subsidiaries are subject to SAP. Any changes in the method of calculating reserves for our life insurance and annuity products under SAP may result in increased reserve requirements.

The NAIC adopted an updated framework for the statutory accounting and capital requirements for variable annuities in the summer of 2018. Changes to implement the framework into detailed regulations are currently underway and are expected to be effective January 1, 2020, with an optional phase-in period and early adoption permitted. The resulting new variable annuity framework will likely result in changes in reserve and/or capital requirements and statutory surplus and could impact the volatility of those item(s). Although we are still evaluating the potential impact of the changes on our financial condition and results of operations, we do not currently expect the impact will be material. The NAIC is also considering modifications to the NAIC RBC C-1 capital charges for bonds, which may impact the level of the C-1 related RBC we are required to hold.

Anti-takeover provisions could delay, deter or prevent our change in control, even if the change in control would be beneficial to LNC shareholders.

We are an Indiana corporation subject to Indiana state law. Certain provisions of Indiana law could interfere with or restrict takeover bids or other change in control events affecting us. Under Indiana law, directors may, in considering the best interests of a corporation, consider the effects of any action on shareholders, employees, suppliers and customers of the corporation and the communities in which offices and other facilities are located, and other factors the directors consider pertinent. One statutory provision prohibits, except under specified circumstances, LNC from engaging in any business combination with any shareholder who owns 10% or more of our common stock (which shareholder, under the statute, would be considered an "interested shareholder") for a period of five years following the time that such shareholder became an interested shareholder, unless such business combination is approved by the Board of Directors prior to such person becoming an interested shareholder.

In addition to the anti-takeover provisions of Indiana law, there are other factors that may delay, deter or prevent our change in control. As an insurance holding company, we are regulated as an insurance holding company and are subject to the insurance holding company acts of the states in which our insurance company subsidiaries are domiciled. The insurance holding company acts and regulations restrict the ability of any person to obtain control of an insurance company without prior regulatory approval. Under those statutes and regulations, without such approval (or an exemption), no person may acquire any voting security of a domestic insurance company, or an insurance holding company which controls an insurance company, or merge with such a holding company, if as a result of such transaction such person would "control" the insurance holding company or insurance company. "Control" is generally defined as the direct or indirect power to direct or cause the direction of the management and policies of a person and is presumed to exist if a person directly or indirectly owns or controls 10% or more of the voting securities of another person.

Market Conditions

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

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. The unwinding of conventional easing from major central banks, slowing of global growth, continued impact of falling global energy and other commodity prices, and the ability of the U.S. government to proactively address the fiscal imbalance remain key challenges for markets and our business. These macro-economic conditions may have an adverse effect on us given our credit and equity market exposure. In the event of extreme prolonged market events, such as the global credit crisis and recession that occurred during 2008 and 2009, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss and downgrades due to market volatility.

Factors such as consumer spending, business investment, domestic and foreign government spending, the volatility and strength of the capital markets, the potential for inflation or deflation and uncertainty over domestic and foreign government actions all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower disposable income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our contract holders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on our business, results of operations and financial condition.

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

Interest rate fluctuations and/or a sustained period of low interest rates could negatively affect our profitability. Some of our products, principally fixed annuities and UL, including IUL and linked-benefit UL, have interest rate guarantees that expose us to the risk that changes in interest rates will reduce our spread, or the difference between the amounts that we are required to pay under the contracts and the amounts we are able to earn on our general account investments intended to support our obligations under the contracts. Spreads are an important component of our net income. Declines in our spread or instances where the returns on our general account investments are not enough to support the interest rate guarantees on these products could have a material adverse effect on our businesses or results of operations. In addition, low rates increase the cost of providing variable annuity living benefit guarantees, which could negatively affect our variable annuity profitability.

In periods when interest rates are declining or remain at low levels, we may have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments reducing our spread. Moreover, borrowers may prepay fixed-income securities, commercial mortgages and mortgage-backed securities in our general account in order to borrow at lower market rates, which exacerbates this risk. Lowering interest crediting rates helps to mitigate the effect of spread compression on some of our products. However, because we are entitled to reset the interest rates on our fixed-rate annuities only at limited, pre-established intervals, and since many of our contracts have guaranteed minimum interest or crediting rates, our spreads could still decrease. As of December 31, 2018, 41% of our annuities business, 80% of our retirement plan services business and 99% of our life insurance business with guaranteed minimum interest or crediting rates were at their guaranteed minimums.

Our expectation for future spreads is an important component in the amortization of DAC and value of business acquired ("VOBA") as it affects the future profitability of the business. Currently, new money rates continue to be near historically low levels, although the Federal Reserve increased the target range for the federal funds rate by 25 basis points four times during 2018 to a range of 2.25% to 2.50%. The Federal Reserve will monitor economic data closely to determine its next steps to changes in monetary policy. For additional information on interest rate risks, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

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

Increases in market interest rates may also negatively affect our profitability. In periods of rapidly increasing interest rates, we may not be able to replace the assets in our general account with higher yielding assets needed to fund the higher crediting rates necessary to keep our interest-sensitive products competitive. We, therefore, may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts and related assets. Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as contract holders seek to buy products with perceived higher returns. This process may lead to a flow of cash out of our businesses. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. A sudden demand among consumers to change product types or withdraw funds could lead us to sell assets at a loss to meet the demand for funds. Furthermore, unanticipated increases in withdrawals and termination may cause us to unlock our DAC and VOBA assets, which would reduce net income. An increase in market interest rates could also have a material adverse effect on the value of our investment portfolio, for example, by decreasing the estimated fair values of the fixed-income securities that comprise a substantial portion of our investment portfolio. An increase in interest rates could also result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed-income funds.

Because the equity markets and other factors impact the profitability and expected profitability of many of our products, changes in equity markets and other factors may significantly affect our business and profitability.

The fee income that we earn on variable annuities is based primarily upon account values, and the fee income that we earn on VUL insurance policies is partially based upon account values. Because strong equity markets result in higher account values, strong equity markets positively affect our net income through increased fee income. Conversely, a weakening of the equity markets results in lower fee income and may have a material adverse effect on our results of operations and capital resources.

The increased fee income resulting from strong equity markets increases the estimated gross profits ("EGPs") from variable insurance products as do better than expected lapses, mortality rates and expenses. As a result, higher EGPs may result in lower net amortized costs related to DAC, deferred sales inducements ("DSI"), VOBA, deferred front-end loads ("DFEL") and changes in future contract benefits. However, a decrease in the equity markets, as well as worse than expected increases in lapses, mortality rates and expenses, depending upon their significance, may result in higher net amortized costs associated with DAC, DSI, VOBA, DFEL and changes in future contract benefits and may have a material adverse effect on our results of operations and capital resources. If we had unlocked our reversion to the mean ("RTM") assumption in the corridor as of December 31, 2018, we would have recorded unfavorable unlocking of approximately $25 million, pre-tax, for our Annuities segment and a favorable unlocking of approximately $70 million, pre-tax, for our Life Insurance segment and approximately $10 million, pre-tax, for our Retirement Plan Services segment. For further information about our RTM process, see "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Reversion to the Mean" in the MD&A.

Changes in the equity markets, interest rates and/or volatility affect the profitability of our products with guaranteed benefits; therefore, such changes may have a material adverse effect on our business and profitability.

Certain of our variable annuity and fixed indexed annuity products include optional guaranteed benefit riders. These include GDB (variable annuity only), GWB and GIB riders. Our GWB, GIB and 4LATER® (a form of GIB rider) features have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the embedded derivative reserve and the benefit reserves based on the specific characteristics of each GLB feature. The amount of reserves related to GDB is related to the difference between the value of the underlying accounts and the GDB, calculated using a benefit ratio approach. The GDB reserves take into account the present value of total expected GDB payments, the present value of total expected GDB assessments over the life of the contract, claims paid to date and assessments to date. Reserves for our GIB and certain GWB with lifetime benefits are based on a combination of fair value of the underlying benefit and a benefit ratio approach. The benefit ratio approach takes into account, among other things, the present value of expected GIB payments, the present value of total expected GIB assessments over the life of the contract, claims paid to date and assessments to date. For variable annuities, the amount of reserves related to those GWB that do not have lifetime benefits is based on the fair value of the underlying benefit.

Both the level of expected payments and expected total assessments used in calculating the benefit reserves are affected by the equity markets. The liabilities related to fair value are impacted by changes in equity markets, interest rates, volatility, foreign exchange rates and credit spreads. Accordingly, strong equity markets, increases in interest rates and decreases in volatility will generally decrease the reserves calculated using fair value. Conversely, a decrease in the equity markets along with a decrease in interest rates and an increase in volatility will generally result in an increase in the reserves calculated using fair value.

Increases in reserves would result in a charge to our earnings in the quarter in which the increase occurs. Therefore, we maintain a customized dynamic hedge program that is designed to mitigate the risks associated with income volatility around the change in reserves on guaranteed benefits. However, the hedge positions may not be effective to exactly offset the changes in the carrying value of the guarantees due to, among other things, the time lag between changes in their values and corresponding changes in the hedge positions, high levels of volatility in the equity markets and derivatives markets, extreme swings in interest rates, contract holder behavior different than expected, a strategic decision to adjust the hedging strategy in reaction to extreme market conditions or inconsistencies between economic and statutory reserving guidelines and divergence between the performance of the underlying funds and hedging indices.

In addition, we remain liable for the guaranteed benefits in the event that derivative or reinsurance counterparties are unable or unwilling to pay, and we are also subject to the risk that the cost of hedging these guaranteed benefits increases, resulting in a reduction to net income. These, individually or collectively, may have a material adverse effect on net income, financial condition or liquidity.

Liquidity and Capital Position

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

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, to maintain our securities lending activities and to replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations, and our business will suffer. When considering our liquidity and capital position, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company. For our insurance and other subsidiaries, the principal sources of liquidity are insurance premiums and fees, annuity considerations and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash.

In the event that current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if we incur large investment losses or if the level of our business activity decreases due to a market downturn. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. See "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow" in the MD&A for a description of our credit ratings. Our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; generate fee income and market-related revenue to meet liquidity needs; and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter term securities than we prefer or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility. Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

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

We are a holding company and we have no direct operations. Our principal asset is the capital stock of our insurance subsidiaries. Our ability to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders, repurchase our securities and pay corporate expenses depends primarily on the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including our primary insurance subsidiary, LNL, may pay dividends to us without prior approval of the Indiana insurance commissioner (the "Commissioner'') only from unassigned surplus, or must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding 12 consecutive months, would exceed the statutory limitation. The current statutory limitation is the greater of 10% of the insurer's contract holders' surplus, as shown on its last annual statement on file with the Commissioner or the insurer's statutory net gain from operations for the previous 12 months, but in no event to exceed statutory unassigned surplus. LNL's subsidiaries, LLANY and LLACB, are bound by similar restrictions under the laws of New York and New Hampshire, respectively.

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

Changes in, or reinterpretations of, these laws can constrain the ability of our subsidiaries to pay dividends or to advance or repay funds to us in sufficient amounts and at times necessary to meet our debt obligations and corporate expenses. Requiring our insurance subsidiaries to hold additional reserves has the potential to constrain their ability to pay dividends to the holding company. See "Legislative, Regulatory and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations" above for additional information on potential changes in these laws.

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

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

A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in reserving requirements, such as principles-based reserving, our inability to obtain reserve relief, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that do not get hedge accounting treatment, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. The RBC ratio is also affected by the product mix of the in-force book of business (i.e., the amount of business without guarantees is not subject to the same level of reserves as the business with guarantees). Most of these factors are outside of our control. Our credit and insurer financial strength ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. The RBC ratio of LNL is an important factor in the determination of the credit and financial strength ratings of LNC and its subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital we must hold in order to maintain our current ratings. In extreme scenarios of equity market declines, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees may increase at a rate greater than the rate of change of the markets. Increases in reserves reduce the statutory surplus used in calculating our RBC ratios. To the extent that our statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise additional capital through public or private equity or debt financing, which may be on terms not as favorable as in the past.

Alternatively, if we were not to raise additional capital in such a scenario, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies. For more information on risks regarding our ratings, see "Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" below.

An inability to access our credit facilities could result in a reduction in our liquidity and lead to downgrades in our credit and financial strength ratings.

We have a $2.5 billion unsecured facility, which expires on June 30, 2021. We also have other facilities that we enter into in the ordinary course of business. See “Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Financing Activities” in the MD&A and Note 13.

We rely on our credit facilities as a potential source of liquidity. We also use the credit facility as a potential backstop to provide variable annuity statutory reserve credit. While our variable annuity hedge assets available to provide reserve credit have normally exceeded the statutory reserves, in certain stressed market conditions, it is possible that these assets could be less than the statutory reserve. Our credit facility is available to provide reserve credit to LNL in such a case. If we were unable to access our facility in such circumstances, it could materially impact LNL’s capital position. The availability of these facilities could be critical to our credit and financial strength ratings and our ability to meet our obligations as they come due in a market when alternative sources of credit are tight. The credit facilities contain certain administrative, reporting, legal and financial covenants. We must comply with covenants under our credit facilities, including a requirement to maintain a specified minimum consolidated net worth.

Our right to borrow funds under these facilities is subject to the fulfillment of certain important conditions, including our compliance with all covenants, and our ability to borrow under these facilities is also subject to the continued willingness and ability of the lenders that are parties to the facilities to provide funds. Our failure to comply with the covenants in the credit facilities or fulfill the conditions to borrowings, or the failure of lenders to fund their lending commitments (whether due to insolvency, illiquidity or other reasons) in the amounts provided for under the terms of the facilities, would restrict our ability to access these credit facilities when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

Assumptions and Estimates

As a result of changes in assumptions, estimates and methods in calculating reserves, our reserves for future policy benefits and claims related to our current and future business as well as businesses we may acquire in the future may prove to be inadequate.

We establish and carry, as a liability, reserves based on estimates of how much we will need to pay for future benefits and claims. For our insurance products, we calculate these reserves based on many assumptions and estimates, including, but not limited to, estimated premiums we will receive over the assumed life of the policies, the timing of the events covered by the insurance policies, the lapse rate of the policies, the amount of benefits or claims to be paid and the investment returns on the assets we purchase with the premiums we receive.

The sensitivity of our statutory reserves and surplus established for our variable annuity base contracts and riders to changes in the equity markets will vary depending on the magnitude of the decline. The sensitivity will be affected by the level of account values relative to the level of guaranteed amounts, product design and reinsurance. Statutory reserves for variable annuities depend upon the cumulative equity market impacts on the business in force, and therefore, result in non-linear relationships with respect to the level of equity market performance within any reporting period.

The assumptions and estimates we use in connection with establishing and carrying our reserves are inherently uncertain. Accordingly, we cannot determine with precision the ultimate amount or the timing of the payment of actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove to be inadequate in relation to our estimated future benefits and claims. Increases in reserves have a negative effect on income from operations in the quarter incurred.

If our businesses do not perform well and/or their estimated fair values decline or the price of our common stock does not increase, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.

Goodwill represents the excess of the acquisition price incurred to acquire subsidiaries and other businesses over the fair value of their net assets as of the date of acquisition. We test goodwill at least annually for indications of value impairment with consideration given to financial performance, mergers and acquisitions and other relevant factors. In addition, certain events, including a significant and adverse change in regulations, including tax law changes, legal factors, accounting standards or the business climate, an adverse action or assessment by a regulator or unanticipated competition, would cause us to review the carrying amounts of goodwill for impairment. Impairment testing is performed based upon estimates of the fair value of the "reporting unit" to which the goodwill relates. During the fourth quarter of 2017, we recorded goodwill impairment of $905 million related to our Life Insurance segment. Subsequent reviews of goodwill could result in an impairment of goodwill, and such write-downs could have a material adverse effect on our net income and book value, but will not affect the statutory capital of our insurance subsidiaries. As of December 31, 2018, we had a total of $1.8 billion of goodwill on our Consolidated Balance Sheets. For more information on goodwill, see "Critical Accounting Policies and Estimates – Goodwill and Other Intangible Assets" in the MD&A and Note 10.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. As of December 31, 2018, we had a deferred tax asset of $1.2 billion. Factors in management's determination include the performance of the business, including the ability to generate capital gains from a variety of sources and tax planning strategies. If, based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. Such valuation allowance could have a material adverse effect on our results of operations and financial condition.

The determination of the amount of allowances and impairments taken on our investments is highly subjective and could materially impact our results of operations or financial condition.

The determination of the amount of allowances and impairments varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

We regularly review our fixed maturity available-for-sale ("AFS") securities (also referred to as "debt securities") for declines in fair value that we determine to be other-than-temporary.

If we intend to sell a debt security or it is more likely than not we will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, we conclude that an other-than-temporary impairment ("OTTI") has occurred and the amortized cost is written down to current fair value, with a corresponding change to realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). If we do not intend to sell a debt security or it is not more likely than not we will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), we conclude that an OTTI has occurred, and the amortized cost is written down to the estimated recovery value with a corresponding change to realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss), as this is also deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in other comprehensive income (loss) ("OCI") to unrealized OTTI on AFS securities on our Consolidated Statements of Stockholders' Equity, as this is considered a noncredit (i.e., recoverable) impairment.

In June 2016, the FASB issued amendments to the accounting guidance for measuring credit losses on financial instruments. For more information regarding the new accounting standard, see "ASU 2016-13, Measurement of Credit Losses on Financial Instruments" in Note 2.

Related to our unrealized losses, we establish deferred tax assets for the tax benefit we may receive in the event that losses are realized. The realization of significant realized losses could result in an inability to recover the tax benefits and may result in the establishment of valuation allowances against our deferred tax assets. Realized losses or impairments may have a material adverse impact on our results of operations and financial condition.

Our valuation of fixed maturity, trading and equity securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

Fixed maturity, trading and equity securities and short-term investments, which are reported at fair value on our Consolidated Balance Sheets, represented the majority of our total cash and invested assets. We have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The determination of fair values in the absence of quoted market prices is based on valuation methodologies, securities we deem to be comparable and assumptions deemed appropriate given the circumstances. The fair value estimates are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. Factors considered in estimating fair value include coupon rate, maturity, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of significantly increasing/decreasing or high/low interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, as well as valuation methods which are more sophisticated or require greater estimation, thereby resulting in values which may be less than the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

Significant adverse mortality experience may result in the loss of, or higher prices for, reinsurance.

We reinsure a significant amount of the mortality risk on fully underwritten, newly issued, individual life insurance contracts. We regularly review retention limits for continued appropriateness and they may be changed in the future. If we were to experience adverse mortality or morbidity experience, a significant portion of that would be reimbursed by our reinsurers. Prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers being unwilling to offer coverage. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection at comparable rates to what we are paying currently, we may have to accept an increase in our net exposures or revise our pricing to reflect higher reinsurance premiums or both. If this were to occur, we may be exposed to reduced profitability and cash flow strain or we may not be able to price new business at competitive rates.

Catastrophes may adversely impact liabilities for contract holder claims.

Our insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic, an act of terrorism, natural disaster or other event that causes a large number of deaths or injuries. Significant influenza pandemics have occurred three times in the last century, but the likelihood, timing or severity of a future pandemic cannot be predicted. Additionally, the impact of climate change could cause changes in weather patterns, resulting in more severe and more frequent natural disasters such as forest fires, hurricanes, tornados, floods and storm surges. In our group insurance operations, a localized event that affects the workplace of one or more of our group insurance customers could cause a significant loss due to mortality or morbidity claims. These events could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our financial condition.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Pandemics, natural disasters and man-made catastrophes, including terrorism, may produce significant damage in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Also, catastrophic events could harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries. Accordingly, our ability to write new business could also be affected.

Consistent with industry practice and accounting standards, we establish liabilities for claims arising from a catastrophe only after assessing the probable losses arising from the event. We cannot be certain that the liabilities we have established or applicable reinsurance will be adequate to cover actual claim liabilities, and a catastrophic event or multiple catastrophic events could have a material adverse effect on our business, results of operations and financial condition.

Operational Matters

Our enterprise risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our businesses or result in losses.

We have devoted significant resources to develop our enterprise risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate, such as the risk of pandemics causing a large number of deaths. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

We face risks of non-collectability of reinsurance and increased reinsurance rates, which could materially affect our results of operations.

We follow the insurance practice of reinsuring with other insurance and reinsurance companies a portion of the risks under the policies written by our insurance subsidiaries (known as "ceding"). As of December 31, 2018, we ceded $667.9 billion of life insurance in force to reinsurers for reinsurance protection. Although reinsurance does not discharge our subsidiaries from their primary obligation to pay contract holders for losses insured under the policies we issue, reinsurance does make the assuming reinsurer liable to the insurance subsidiaries for the reinsured portion of the risk. As of December 31, 2018, we had $17.7 billion of reinsurance receivables from reinsurers for paid and unpaid losses, for which they are obligated to reimburse us under our reinsurance contracts. Of this amount, $12.1 billion related to reinsurance agreements entered into with Protective in May 2018, providing for the reinsurance and administration of the Liberty Life Business sold to Protective in connection with the Liberty acquisition. To support its obligations under the reinsurance agreements, Protective has established trust accounts for our benefit that fully collateralize the related reinsurance recoverable. In addition, $1.5 billion related to the sale of our reinsurance business to Swiss Re in 2001 through an indemnity reinsurance agreement. Swiss Re has funded a trust to support this business. The balance in the Swiss Re trust changes as a result of ongoing reinsurance activity and was $2.4 billion as of December 31, 2018. Furthermore, we hold trading securities to support the $177 million of funds withheld liabilities related to the Swiss Re treaties for which we would have the right of offset to the corresponding reinsurance receivables in the event of a default by Swiss Re. In addition, our Modco agreement with Athene resulted in a $7.5 billion deposit asset as of December 31, 2018, which is fully collateralized. For more information regarding reinsurance, see "Reinsurance" in the MD&A and Note 9.

The balance of the reinsurance is due from a diverse group of reinsurers. The collectability of reinsurance is largely a function of the solvency of the individual reinsurers. We perform annual credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends and commitment to the reinsurance business. We also require assets in trust, LOCs or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer's insolvency, inability or unwillingness to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition.

Reinsurers also may attempt to increase rates with respect to our existing reinsurance arrangements. The ability of our reinsurers to increase rates depends upon the terms of each reinsurance contract. Some of our reinsurance contracts contain provisions that limit the reinsurer's ability to increase rates on in-force business; however, some do not. An increase in reinsurance rates may affect the profitability of our insurance business. Additionally, such a rate increase could result in our recapture of the business, which may result in a need for additional reserves and increase our exposure to claims. While in recent years, we have faced a number of rate increase actions on in-force business, our management of those actions has not had a material effect on our results of operations or financial condition. However, there can be no assurance that the outcome of future rate increase actions would similarly result in no material effect. See Note 14 for a description of reinsurance related actions.

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

Our success depends, in large part, on our ability to attract and retain key people. Intense competition exists for the key employees with demonstrated ability, and we may be unable to hire or retain such employees. The unexpected loss of services of one or more of our key personnel could have a material adverse effect on our operations due to their skills, knowledge of our business, their years of industry experience and the potential difficulty of promptly finding qualified replacement employees. We compete with other financial institutions primarily on the basis of our products, compensation, support services and financial condition. Sales in our businesses and our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining key employees, including financial advisers, wholesalers and other employees, as well as independent distributors of our products.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. Additionally, complex legal and factual determinations and evolving laws and court interpretations make the scope of protection afforded our intellectual property uncertain, particularly in relation to our patents. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon another party's intellectual property rights. We may be subject to claims by third parties for breach of patent, copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

Our information systems may experience interruptions, breaches in security and/or a failure of disaster recovery systems that could result in a loss or disclosure of confidential information, damage to our reputation and impairment of our ability to conduct business effectively.

Our information systems are critical to the operation of our business. We collect, process, maintain, retain and distribute large amounts of personal financial and health information and other confidential and sensitive data about our customers in the ordinary course of our business. Our business therefore depends on our customers' willingness to entrust us with their personal information. Any failure, interruption or breach in security could result in disruptions to our critical systems and adversely affect our customer relationships.

Publicly reported cyber-security threats and incidents have increased over recent periods. Although hackers have attempted and will likely continue to try to infiltrate our computer systems, to date, we have not had a material security breach. While we employ a robust and tested information security program, the preventative actions we take to reduce cyber incidents and protect our information technology may be insufficient to prevent physical and electronic break-ins, cyberattacks, compromised credentials, fraud, other security breaches or other unauthorized access to our computer systems, and, given the increasing sophistication of cyberattacks, in some cases, such incidents could occur and persist for an extended period of time without detection. As a result, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it will be detected in a timely manner or that it can be sufficiently remediated. Such an occurrence may impede or interrupt our business operations and could adversely affect our reputation, business, financial condition and results of operations.

In the event of a disaster such as a natural catastrophe, epidemic, industrial accident, blackout, computer virus, terrorist attack, cyberattack or war, unanticipated problems with our disaster recovery systems could have a material adverse impact on our ability to conduct business and on our results of operations and financial condition, particularly if those problems affect our computer-based data processing, transmission, storage and retrieval systems and destroy valuable data. In addition, in the event that a significant number of our managers were unavailable following a disaster, our ability to effectively conduct business could be severely compromised. These interruptions also may interfere with our suppliers' ability to provide goods and services and our employees' ability to perform their job responsibilities.

The failure of our computer systems and/or our disaster recovery plans for any reason could cause significant interruptions in our operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to our customers. The occurrence of any such failure, interruption or security breach of our systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and financial liability. Depending on the nature of the information compromised, in the event of a data breach or other unauthorized access to our customer data, we may also have obligations to notify customers about the incident, and we may need to provide some form of remedy, such as a subscription to a credit monitoring service, for the individuals affected by the incident. For more information, see "Legislative, Regulatory and Tax – State Regulation – Compliance with existing and emerging privacy regulations could result in increased compliance costs and/or lead to changes in business practices and policies, and any failure to protect the confidentiality of client information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations."

Although we conduct due diligence, negotiate contractual provisions and, in many cases, conduct periodic reviews of our vendors, distributors, and other third parties that provide operational or information technology services to us to confirm compliance with our information security standards, the failure of such third parties' computer systems and/or their disaster recovery plans for any reason might cause significant interruptions in our operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to our customers. Such a failure could harm our reputation, subject us to regulatory sanctions and legal claims, lead to a loss of customers and revenues and otherwise adversely affect our business and financial results. While we maintain cyber liability insurance that provides both third-party liability and first party liability coverages, our insurance may not be sufficient to protect us against all losses.

Acquisitions of businesses, including our recent acquisition of LLACB, may not produce anticipated benefits resulting in operating difficulties, unforeseen liabilities or asset impairments, which may adversely affect our operating results and financial condition.

Our acquisition of LLACB was completed in May 2018, and our integration efforts are underway. Once completed however, an acquired business may not perform as projected, expense and revenue synergies may not materialize as expected and costs associated with the integration may be greater than anticipated. Our financial results could be adversely affected by unanticipated performance issues, unforeseen liabilities, transaction-related charges, diversion of management time and resources to acquisition integration challenges or growth strategies, loss of key employees or customers, amortization of expenses related to intangibles, charges for impairment of long-term assets or goodwill and indemnifications. Factors such as receiving the required governmental or regulatory approvals to merge the acquired entity, delays in implementation or completion of transition activities or a disruption to our or the acquired entity's business could impact our results.

Covenants and Ratings

A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors.

Nationally recognized rating agencies rate the financial strength of our principal insurance subsidiaries and rate our debt. Ratings are not recommendations to buy our securities. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future.

Our financial strength ratings, which are intended to measure our ability to meet contract holder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry by making it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings, and by leading to increased withdrawals by current customers seeking companies with higher financial strength ratings. This could lead to a decrease in fees as net outflows of assets increase, and therefore, result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. The interest rates we pay on our borrowings are largely dependent on our credit ratings. A downgrade of our debt ratings could affect our ability to raise additional debt, including bank lines of credit, with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital.

All of our ratings and ratings of our principal insurance subsidiaries are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that our principal insurance subsidiaries or we can maintain these ratings. See "Item 1. Business – Financial Strength Ratings" and "Liquidity and Capital Resources – Sources of Liquidity and Cash Flow" in the MD&A for a description of our ratings.

We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve specified capital adequacy or net income and stockholders' equity levels.

As of December 31, 2018, we had approximately $1.2 billion in principal amount of capital securities outstanding. All of the capital securities contain covenants that require us to make interest payments in accordance with an alternative coupon satisfaction mechanism ("ACSM") if we determine that one of the following triggers exists as of the 30th day prior to an interest payment date, or the "determination date":

1. LNL's RBC ratio is less than 175% (based on the most recent annual financial statement filed with the State of Indiana); or

2. (i) The sum of our consolidated net income for the four trailing fiscal quarters ending on the quarter that is two quarters prior to the most recently completed quarter prior to the determination date is zero or negative, and (ii) our consolidated stockholders' equity (excluding accumulated OCI and any increase in stockholders' equity resulting from the issuance of preferred stock during a quarter), or "adjusted stockholders' equity," as of (x) the most recently completed quarter and (y) the end of the quarter that is two quarters before the most recently completed quarter, has declined by 10% or more as compared to the quarter that is ten fiscal quarters prior to the last completed quarter, or the "benchmark quarter."

The ACSM would generally require us to use commercially reasonable efforts to satisfy our obligation to pay interest in full on the capital securities with the net proceeds from sales of our common stock and warrants to purchase our common stock with an exercise price greater than the market price. We would have to utilize the ACSM until the trigger events above no longer existed, and, in the case of test 2 above, until our adjusted stockholders' equity amount increased or declined by less than 10% as compared to the adjusted stockholders' equity at the end of the benchmark quarter for each interest payment date as to which interest payment restrictions were imposed by test 2 above.

If we were required to utilize the ACSM and were successful in selling sufficient shares of common stock or warrants to satisfy the interest payment, we would dilute the current holders of our common stock. Furthermore, while a trigger event is occurring and if we do not pay accrued interest in full, we may not, among other things, pay dividends on or repurchase our capital stock. Our failure to pay interest pursuant to the ACSM will not result in an event of default with respect to the capital securities, nor will a nonpayment of interest, unless it lasts for ten consecutive years, although such breaches may result in monetary damages to the holders of the capital securities.

The calculations of RBC, net income (loss) and adjusted stockholders' equity are subject to adjustments and the capital securities are subject to additional terms and conditions as further described in supplemental indentures filed as exhibits to our Forms 8-K filed on March 13, 2007, and May 17, 2006.

Certain blocks of our insurance business purchased from third-party insurers under indemnity reinsurance agreements may require us to place assets in trust, secure letters of credit or return the business, if the financial strength ratings and/or capital ratios of certain insurance subsidiaries are not maintained at specified levels.

Under certain indemnity reinsurance agreements, two of our insurance subsidiaries, LNL and LLANY, provide 100% indemnity reinsurance for the business assumed; however, the third-party insurer, or the “cedent,” remains primarily liable on the underlying insurance business. Under these types of agreements, as of December 31, 2018, we held statutory reserves of $5.3 billion. These indemnity reinsurance arrangements require that our subsidiary, as the reinsurer, maintain certain insurer financial strength ratings and capital ratios. If these ratings or capital ratios are not maintained, depending upon the reinsurance agreement, the cedent may recapture the business, or require us to place assets in trust or provide LOCs at least equal to the relevant statutory reserves. Under the LNL reinsurance arrangement, we held approximately $3.2 billion of statutory reserves. LNL must maintain an A.M. Best financial strength rating of at least B++, an S&P financial strength rating of at least BBB- and a Moody’s financial strength rating of at least Baa3. This arrangement may require LNL to place assets in trust equal to the relevant statutory reserves. Under LLANY’s largest indemnity reinsurance arrangement, we held approximately $1.4 billion of statutory reserves as of December 31, 2018. LLANY must maintain an A.M. Best financial strength rating of at least B+, an S&P financial strength rating of at least BB+ and a Moody’s financial strength rating of at least Ba1, as well as maintain an RBC ratio of at least 160% or an S&P capital adequacy ratio of 100%, or the cedent may recapture the business. Under two other LLANY arrangements, by which we established $715 million of statutory reserves, LLANY must maintain an A.M. Best financial strength rating of at least B++, an S&P financial strength rating of at least BBB- and a Moody’s financial strength rating of at least Baa3. One of these arrangements also requires LLANY to maintain an RBC ratio of at least 185% or an S&P capital adequacy ratio of 115%. Each of these arrangements may require LLANY to place assets in trust equal to the relevant statutory reserves. As of December 31, 2018, LNL’s and LLANY’s RBC ratios exceeded the required ratio. See “Item 1. Business – Financial Strength Ratings” for a description of our financial strength ratings.

If the cedent recaptured the business, LNL and LLANY would be required to release reserves and transfer assets to the cedent. Such a recapture could adversely impact our future profits. Alternatively, if LNL and LLANY established a security trust for the cedent, the ability to transfer assets out of the trust could be severely restricted, thus negatively impacting our liquidity.

Investments

Some of our investments are relatively illiquid and are in asset classes that have been experiencing significant market valuation fluctuations.

We hold certain investments that may lack liquidity, such as privately placed securities, mortgage loans, real estate, policy loans, limited partnership interests and other investments. These asset classes represented 28% of the carrying value of our total cash and invested assets as of December 31, 2018.

If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we would be able to sell them for the prices at which we have recorded them, and we might be forced to sell them at significantly lower prices.

We invest a portion of our invested assets in investment funds, many of which make private equity investments. The amount and timing of income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the funds, which depends on particular events relating to the underlying investments, as well as the funds' schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income that we record from these investments can vary substantially from quarter to quarter.

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

Our mortgage loans face default risk and are principally collateralized by commercial properties. The performance of our mortgage loan investments may fluctuate in the future. In addition, some of our mortgage loan investments have balloon payment maturities. An increase in the default rate of our mortgage loan investments could have a material adverse effect on our business, results of operations and financial condition. Further, any geographic or sector exposure in our mortgage loans may have adverse effects on our investment portfolios and consequently on our consolidated results of operations or financial condition. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are exposed.

The difficulties faced by other financial institutions could adversely affect us.

We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the related loan or derivative exposure. We also may have exposure to these financial institutions in the form of unsecured debt instruments, derivative transactions and/or equity investments. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, corporate governance issues or other reasons. A downturn in the U.S. or other economies could result in increased impairments. There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect our business and results of operations.

Our requirements to post collateral or make payments related to declines in market value of specified assets may adversely affect our liquidity and expose us to counterparty credit risk.

Many of our transactions with financial and other institutions, including settling futures positions, specify the circumstances under which the parties are required to post collateral. The amount of collateral we may be required to post under these agreements may increase under certain circumstances, which could adversely affect our liquidity. In addition, under the terms of some of our transactions, we may be required to make payments to our counterparties related to any decline in the market value of the specified assets.

Our investments are reflected within our consolidated financial statements utilizing different accounting bases, and, accordingly, there may be significant differences between cost and fair value that are not recorded in our consolidated financial statements.

Our principal investments are in fixed maturity and equity securities, mortgage loans on real estate, policy loans, short-term investments, derivative instruments, limited partnerships and other invested assets. The carrying value of such investments is as follows:

· Fixed maturity securities are classified as AFS, except for those designated as trading securities, and are reported at their estimated fair value. The difference between the estimated fair value and amortized cost of such securities (i.e., unrealized investment gains and losses) is recorded as a separate component of OCI, net of adjustments to DAC, contract holder related amounts and deferred income taxes;
· Fixed maturity securities designated as trading securities and equity securities are recorded at fair value with subsequent changes in fair value recognized in realized gain (loss). However, in certain cases, the trading and equity

securities support reinsurance arrangements. In those cases, offsetting the changes to fair value of the trading and equity securities are corresponding changes in

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the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. In other words, the investment results for the trading and equity securities, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. These types of securities represent 48% of our trading and equity securities;

- Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are stated at amortized cost, which approximates fair value;
- Also, mortgage loans on real estate are carried at unpaid principal balances, adjusted for any unamortized premiums or discounts and deferred fees or expenses, net of valuation allowances;
- Policy loans are carried at unpaid principal balances;
- Real estate joint ventures and other limited partnership interests are carried using the equity method of accounting; and
- Other invested assets consist principally of derivatives with positive fair values. Derivatives are carried at fair value with changes in fair value reflected in income from non-qualifying derivatives and derivatives in fair value hedging relationships. Derivatives in cash flow hedging relationships are reflected as a separate component of OCI.

Investments not carried at fair value on our consolidated financial statements, principally, mortgage loans, policy loans and real estate, may have fair values that are substantially higher or lower than the carrying value reflected on our consolidated financial statements. In addition, unrealized losses are not reflected in net income unless we realize the losses by either selling the security at below amortized cost or determine that the decline in fair value is deemed to be other-than-temporary (i.e., impaired). Each of such asset classes is regularly evaluated for impairment under the accounting guidance appropriate to the respective asset class.

Competition

Intense competition could negatively affect our ability to maintain or increase our profitability.

Our businesses are intensely competitive. We compete based on a number of factors, including name recognition, service, the quality of investment advice, investment performance, product features, price, perceived financial strength and claims-paying and credit ratings. Our competitors include insurers, broker-dealers, investment advisers, asset managers, hedge funds and other financial institutions. A number of our business units face competitors that have greater market share, offer a broader range of products or have higher financial strength or credit ratings than we do.

In recent years, there has been consolidation and convergence among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. Furthermore, larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively.

Our sales representatives are not captive and may sell products of our competitors.

We sell our annuity and life insurance products through independent sales representatives. These representatives are not captive, which means they may also sell our competitors' products. If our competitors offer products that are more attractive than ours, or pay higher commission rates to the sales representatives than we do, these representatives may concentrate their efforts in selling our competitors' products instead of ours.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, LNC and our subsidiaries owned or leased approximately 2.8 million square feet of office and other space. We leased 0.1 million square feet of office space in Philadelphia, Pennsylvania, which includes space for LFN. We leased 0.2 million square feet of office space in Radnor, Pennsylvania, for our corporate center and for LFD. We owned or leased 0.8 million square feet of office space in Fort Wayne, Indiana, primarily for our Annuities and Retirement Plan Services segments. We owned or leased 0.8 million square feet of office space in Greensboro, North Carolina, primarily for our Life Insurance segment. We owned or leased 0.3 million square feet of office space in Omaha, Nebraska, and 0.2 million square feet of office space in Atlanta, Georgia, primarily for our Group Protection segment. An additional 0.4 million square feet of office space is owned or leased in other U.S. cities for branch offices. In addition, we licensed 0.1 million square feet of office space in Dover, New Hampshire, for our Group Protection segment pursuant to a transition services agreement with Liberty. This discussion regarding properties does not include information on field offices and investment properties.

Item 3. Legal Proceedings

For information regarding legal proceedings, see “Regulatory and Litigation Matters” in Note 14, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Executive Officers of the Registrant as of February 14, 2019, were as follows:

Name	Age (1)	Position with LNC and Business Experience During the Past Five Years
Dennis R. Glass	69	President, Chief Executive Officer and Director (since July 2007). President, Chief Operating Officer and Director (April 2006 - July 2007).
Lisa M. Buckingham	53	Executive Vice President and Chief People, Place and Brand Officer (since August 2018). Executive Vice President and Chief Human Resources Officer (March 2011 - August 2018). Senior Vice President and Chief Human Resources Officer (December 2008 - March 2011).
Ellen Cooper	54	Executive Vice President and Chief Investment Officer (since August 2012).
Randal J. Freitag	56	Executive Vice President and Chief Financial Officer (since January 2011) and Head of Individual Life (since June 2017). Senior Vice President, Chief Risk Officer (2007 - December 2010). Senior Vice President, Chief Risk Officer and Treasurer (2007 - October 2009).
Wilford H. Fuller	48	Executive Vice President (since March 2011) and President, Annuity Solutions (since March 2015). President, Lincoln Financial Network (2) (since October 2012). President and CEO, Lincoln Financial Distributors (2) (since February 2009).
Richard L. Mucci	68	Executive Vice President (since July 2018) and President, Group Protection (since July 2014). Principal and Founder, Brant Point Consulting, LLC, a senior management advisory firm for the insurance industry (April 2012 - June 2014).
Jamie B. Ohl	53	Executive Vice President (since July 2018), President, Retirement Plan Services (since August 2015), and Head of Life and Annuity Operations (since July 2018). General Partner, Edward Jones, a financial services firm (October 2014 - August 2015). President, Tax Exempt Services, Voya, a provider of retirement, investment, and insurance products and services (October 2012 - September 2014).
Leon E. Roday	64	Executive Vice President and General Counsel (since December 2018). Executive Vice President (December 2013 - February 2015), and General Counsel and Secretary (May 2004 - February 2015), Genworth Financial, an insurance company.
Kenneth S. Solon	58	Executive Vice President, Chief Information Officer and Head of Digital (since July 2018). Executive Vice President, Chief Information Officer and Head of Administrative Services (January 2016 - July 2018). Senior Vice President, Head of Technology (March 2015

- December 2015). Senior Vice President, Head of Shared Services and Technology (January 2010 - March 2015).

(1)Age shown is based on the officer's age as of February 14, 2019.

(2)Denotes an affiliate of LNC.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Stock Market and Dividend Information

Our common stock is traded on the New York stock exchange under the symbol LNC. As of February 14, 2019, the number of shareholders of record of our common stock was 6,404. The dividend on our common stock is declared each quarter by our Board of Directors if we are eligible to pay dividends and the Board determines that we will pay dividends. In determining dividends, the Board takes into consideration items such as our financial condition, including current and expected earnings, projected cash flows and anticipated financing needs. For potential restrictions on our ability to pay dividends, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and Note 19 in the accompanying notes to the consolidated financial statements presented in "Item 8. Financial Statements and Supplementary Data."

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

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

The following summarizes purchases of equity securities by the issuer during the quarter ended December 31, 2018 (dollars in millions, except per share data):

	(a) Total	(c) Total Number of Shares	(d) Approximate Dollar

Period	Number of Shares Purchased (1)	(b) Average Price Paid per Share	Purchased as Part of Publicly Announced Plans or Programs (2)	Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
10/1/18 – 10/31/18	1,182,383	$ 63.91	1,182,383	$ 587
11/1/18 – 11/30/18	776,334	64.48	776,334	1,236
12/1/18 – 12/31/18	7,172,774	57.08	7,172,774	737

(1) Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes. For the quarter ended December 31, 2018, there were 9,131,491 shares purchased as part of publicly announced plans or programs. This amount includes shares repurchased in the quarter pursuant to an accelerated share repurchase agreement ("ASR") entered into on December 10, 2018. The ASR provided for the up front delivery of 6,382,978 shares. The transaction is scheduled to terminate during the first quarter of 2019, at which time the parties will settle the transaction in accordance with the terms of the agreement.

(2) On November 8, 2018, our Board of Directors authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to $1.25 billion. Prior to this increase, our remaining security repurchase authorization was $575 million. As of December 31, 2018, our remaining security repurchase authorization was $737 million. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Our stock repurchases may be effected from time to time through open market purchases or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan.

Item 6. Selected Financial Data

The following selected financial data (in millions, except per share data) should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the accompanying notes to the consolidated financial statements presented in "Item 8. Financial Statements and Supplementary Data."

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Total revenues	$ 16,424	$ 14,257	$ 13,330	$ 13,572	$ 13,554
Income (loss) from continuing operations	1,641	2,079	1,192	1,154	1,514
Net income (loss)	1,641	2,079	1,192	1,154	1,515
Per share data: (1)(2)					
Income (loss) from continuing operations – basic	7.60	9.36	5.09	4.60	5.81
Income (loss) from continuing operations – diluted	7.40	9.22	5.03	4.51	5.67
Net income (loss) – basic	7.60	9.36	5.09	4.60	5.81
Net income (loss) – diluted	7.40	9.22	5.03	4.51	5.67
Common stock dividends	1.36	1.20	1.04	0.85	0.68

	As of December 31,				
	2018	2017	2016	2015	2014
Assets	$ 298,147	$ 281,763	$ 261,627	$ 251,908	$ 253,348
Long-term debt:					
Principal	5,686	4,673	5,123	5,323	5,023
Unamortized premiums (discounts), unamortized debt issuance costs and fair value hedge on interest rate swap agreements	153	221	222	230	218
Stockholders' equity	14,350	17,322	14,478	13,617	15,740
Per common share data: (1)					
Stockholders' equity, including accumulated other comprehensive income (loss)	69.71	79.43	63.97	55.84	61.35
Stockholders' equity, excluding accumulated other comprehensive income (loss)	67.73	64.62	57.05	52.38	49.29
Market value of common stock	51.31	76.87	66.27	50.26	57.67

(1) Per share amounts were affected by the retirement of 13.2 million, 10.4 million, 19.3 million, 16.0 million and 12.5 million shares of common stock during the years ended December 31, 2018, 2017, 2016, 2015 and 2014,

respectively.

(2) To arrive at diluted earnings per share, if the effect of equity classification would result in a more dilutive earnings per share, we adjust the numerator used in the calculation of our diluted earnings per share to remove the mark-to-market adjustment for deferred units of LNC stock in our deferred compensation plans, which amounted to $18 million, $(7) million, $4 million and $(4) million for the years ending December 31, 2018, 2017, 2015 and 2014, respectively. There was no such adjustment for the year ended December 31, 2016.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of December 31, 2018, compared with December 31, 2017, and the results of operations in 2018 and 2017, compared with the immediately preceding year 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" or "LLACB"). 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 year ended December 31, 2018, includes the accounts of LNC 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 II – Item 8. Financial Statements and Supplementary Data," as well as "Part I – Item 1A. Risk Factors" above.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Financial information that follows is presented in accordance with United States of America generally accepted accounting principles ("GAAP"), unless otherwise indicated. See Note 1 for a discussion of GAAP.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 21. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

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 con 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 any "best interest" standards of care adopted by the Securities and Exchange Commission ("SEC") or other regulations adopted by federal or state regulators or self-regulatory organizations relating to the standard of care owed by investment advisers and/or broker-dealers;
- 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. Other sections of this report, 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, including "Part I – Item 1A. Risk Factors" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk," which are incorporated herein by reference. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the effect of all risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

INTRODUCTION

Executive Summary

We are a holding company that operates multiple insurance and retirement businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products 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” above. 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 the 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.

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

Industry Trends

We continue to be influenced by a variety of trends that affect the industry.

Financial and Economic Environment

The level of long-term interest rates and the shape of the yield curve can have a negative effect on the demand for and the profitability of spread-based products such as fixed annuities and UL. Low long-term rates can also increase the cost of providing variable annuity living benefit guarantees. A flat or inverted yield curve and low long-term interest rates are affecting new money rates on corporate bonds. Equity market performance can also affect the profitability of life insurers, as product demand and fee income from variable annuities and fee income from pension products tied to separate account balances often reflect equity market performance. Insurance premium growth, with respect to group life and disability products, for example, is closely tied to employers' total payroll growth. Additionally, the potential market for these products is expanded by new business creation.

The Federal Reserve's forecast for 2019, as reported in December of 2018, indicated that economic activity will grow at an approximate rate of 2.3% over the next year, labor market indicators will remain strong and inflation will be near its target of 2%. Driven by continued improvements in the labor market and inflation market conditions, the Federal Reserve increased the target range for the federal funds rate by 25 basis points four times during 2018 to a range of 2.25% to 2.50%. The Federal Reserve will monitor economic data closely to determine its next steps to changes in monetary policy.

Regulatory Environment

U.S.-domiciled insurance entities are regulated at the state level, while certain products and services are also subject to federal regulation. Regulators may refine capital requirements and introduce new reserving standards for the life insurance industry. Regulations recently adopted or currently under review can potentially affect the capital requirements and profitability of the industry and result in increased regulation and oversight for the industry. For example, on April 18, 2018, the SEC proposed "Regulation Best Interest," including a new standard of conduct for broker-dealers under the Securities Exchange Act of 1934, which would require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction, without putting its financial interests ahead of the interests of a retail customer. See "Part I – Item 1A. Risk Factors – Legislative, Regulatory and Tax

– Federal Regulation – Regulations relating to the standard of care applicable to investment advisers and broker-dealers could result in additional disclosure and other requirements related to the sale and delivery of our products and services" and "Part I – Item 1. Business – Regulatory" for a discussion of the potential effects of regulatory changes on our industry.

Demographics

Escalation of income protection and wealth accumulation goals for baby-boomers nearing retirement is a key driver shaping the actions of the insurance industry. As a result of increasing longevity, retirees will need to accumulate sufficient savings to finance retirements that may span 30 or more years. Helping the baby-boomers to accumulate assets for retirement and subsequently to convert these assets into retirement income represents an opportunity for the insurance industry. Another opportunity for the insurance industry is the need for long-term care services as retirees are living longer and will need these services at some point in their lifetime.

Millennials entering the insurance market is another key driver shaping the actions of the insurance industry. This demographic group could end up having different consumer preferences than our in-force business. These shifts may be tied to the type of products they purchase and how they choose to purchase these products.

The insurance industry's products, and the needs they are designed to address, are complex. We believe that individuals approaching retirement age will need to seek information to plan for and manage their retirements. In the workplace, as employees take greater responsibility for their benefit options and retirement planning, they will need information about their possible individual needs. One of the challenges for the insurance industry will be the delivery of this information in a cost effective manner.

Competitive Environment

See the "Competition" sections for each of our segments in "Part 1 – Business – Business Segments and Other Operations" for discussion of the competitive environment in which we operate.

Significant Operational Matters

Strategic Digitization Initiative

We continue to make strategic investments in our businesses to grow revenues, further spur productivity and improve our efficiency and service to our customers. These efforts include an enterprise-wide digitization initiative that intends to significantly enhance our customer experience and provide operational efficiencies over time to meet evolving consumer preferences and marketplace shifts. We expect such efforts to have a net neutral impact during 2019 and ultimately see annual benefits beyond 2020 of approximately $90 million to $150 million, pre-tax, as a result of this initiative.

Targeted Annual Operating Earnings Per Share Growth

Growth in operating earnings per share ("EPS") is a key driver of our long-term performance. We believe that the key drivers to growing our operating EPS over time include:

- Generating positive net flows through our product development and distribution;
- Capital markets performing in-line with our expectations;
- Expense discipline, our strategic digitization initiative and expense synergies of acquired businesses driving improvement in operating margins; and
- Capital generation and active capital deployment, consisting of returning capital to common stockholders.

Sources of Earnings

We monitor our sources of earnings as a factor in managing our businesses. This information may be useful in assessing our risk profile and cost of capital. We continue to focus on achieving our long-term goal of increasing mortality and morbidity margins. Growth in this source of earnings component could be driven by a number of factors, including, but not limited to, pricing actions on our life and group products and acquiring blocks of mortality/morbidity business. The following table presents the sources of earnings components of income (loss) from operations, before income taxes, excluding Other Operations:

	For the Years Ended December 31,		
	2018	2017	2016

Investment spread (1)	26.4%	31.0%	32.0%
Mortality/morbidity (2)	26.7%	24.3%	23.0%
Fees on AUM (3)	41.4%	40.1%	38.8%
VA riders (4)	5.5%	4.6%	6.2%
Total	100.0%	100.0%	100.0%

(1) Investment spread earnings consist primarily of net investment income, net of interest credited, earned on the underlying general account investments supporting our fixed products less related expenses.
(2) Mortality/morbidity earnings result from mortality margins, morbidity margins, and certain expense assessments and related fees that are a function of the rates priced into the product and level of business in force.
(3) Fees on assets under management ("AUM") earnings consist primarily of asset-based fees charged on variable account values less associated benefits and related expenses.
(4) Variable annuity ("VA") riders' earnings consist of fees charged to the contract holder related to guaranteed benefit rider features, less the net valuation premium and associated change in benefit reserves and related expenses.

See Note 21 for additional information on income (loss) from operations by segment.

Interest Rate Risk

Because the profitability of our business depends in part on interest rate spreads, interest rate fluctuations could negatively affect our profitability. Changes in interest rates may impact both our profitability from spread businesses and our return on invested capital. Thus, low interest rates negatively impact margins while rapidly rising interest rates can result in increased surrenders. Gradually rising interest rates are likely to be beneficial to our profitability. Some of our products, principally our fixed annuities and UL, including IUL and linked-benefit UL, have interest rate guarantees that expose us to the risk that changes in interest rates or prolonged low interest rates will reduce our spread, or the difference between the interest that we are required to credit to contracts and the yields that we are able to earn on our general account investments supporting our obligations under the contracts.

Although we have been proactive in our investment strategies, product designs, crediting rate strategies and overall asset-liability practices to mitigate the risk of unfavorable consequences in this type of environment, declines in our spread, or instances where the returns on our general account investments are not enough to support the interest rate guarantees on these products, could have an adverse effect on some of our businesses or results of operations. We have provided disclosures around interest rate spreads and interest rate risk in "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

Variable Annuity Hedge Program Performance

We offer variable annuity products with living benefit guarantees. As described below in "Critical Accounting Policies and Estimates – Derivatives – GLB," we use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the guaranteed living benefit ("GLB") embedded derivatives and benefit ratio unlocking in certain of our variable annuity products. The income statement effect due to the change in fair value of these instruments tends to move in the opposite direction of the change in embedded derivative reserves and benefit ratio unlocking. We also use derivative instruments to hedge the income statement effect in the opposite direction of the GLB benefit ratio unlocking for movements in equity markets. These results are excluded from the Annuities and Retirement Plan Services segments' operating revenues and income (loss) from operations (see Note 21). See "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" below for information on our methodology for calculating the non-performance risk ("NPR"), which affects the discount rate used in the calculation of the GLB embedded derivative reserves.

We also offer variable annuity products with death benefit guarantees. As described below in "Critical Accounting Policies and Estimates – Future Contract Benefits and Other Contract Holder Obligations – GDB," we use derivative instruments to hedge the income statement effect of the guaranteed death benefit ("GDB") benefit ratio unlocking for movements in equity markets. These results are excluded from income (loss) from operations (see Note 21).

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

Earnings from Account Values

The Annuities and Retirement Plan Services segments are the most sensitive to the equity markets, as well as, to a lesser extent, our Life Insurance segment. We discuss the earnings effect of the equity markets on account values and the related asset-based earnings below in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Effect of Equity Market Sensitivity."

Effective Tax Rates Resulting from the Tax Act

As a result of the Tax Cuts and Jobs Act (the "Tax Act"), we remeasured our existing deferred tax balances using the 21% marginal corporate income tax rate and recognized a $1.3 billion benefit in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss) in 2017, as we were in a net deferred tax liability position. For the year ended December 31, 2018, our net income benefited from the lower corporate income tax rate, and we estimate the following effective tax rates over the near term: 15%-17% for our consolidated operations, 14%-16% for Annuities, 15%-17% for Retirement Plan Services, 19%-21% for Life Insurance and 21% for Group Protection.

Issues and Outlook

Going into 2019, significant issues include:

- Ongoing actions by government and regulatory authorities to introduce regulations or change existing regulations or guidance and any implementation of such actions, in a manner that could have a significant effect on our capital, earnings and/or business models;
- Evolving market trends that have impacted sales of our various products;
- Volatility in the capital markets that could include changes in equity markets and interest rates and/or adverse credit market conditions; and
- Successful integration of any acquired businesses, including driving expense synergies.

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

- Continuing to make investments in our businesses, primarily in technology/digitization (including integrating and consolidating systems and processes), product innovation and distribution, to grow revenues, drive margin expansion and reduce costs;
- Utilizing our product development and distribution resources to help us respond to evolving trends and regulatory changes and to shift our new business mix to focus on products in line with our long-term growth strategies;
- Closely monitoring ongoing activities in the legal and regulatory environment and taking an active role in the legislative and/or regulatory process;
- Closely monitoring our capital and liquidity positions taking into account changing economic conditions and monetary policy, ongoing regulatory activities regarding statutory reserves, including the continued adoption of principles-based reserving, and captive structures, and our capital deployment strategy;
- Continuing to explore additional financing strategies addressing the statutory reserve strain related to our term products and UL products containing secondary guarantees in order to manage our capital position effectively;
- Maintaining the flexibility to adjust the risk profile of assets within our investment portfolio; and
- Managing our expenses aggressively through our strategic digitization initiative and expense synergies of acquired businesses

combined with continued financial discipline and execution excellence throughout our operations.

Critical Accounting Policies and Estimates

We have identified the accounting policies below as critical to the understanding of our results of operations and our financial condition. In applying these critical accounting policies in preparing our financial statements, management must use critical assumptions, estimates and judgments concerning future results or other developments, including the likelihood, timing or amount of one or more future events. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, we evaluate our assumptions, estimates and judgments based upon historical experience and various other information that we believe to be reasonable under the circumstances. For a detailed discussion of other significant accounting policies, see Note 1.

DAC, VOBA, DSI and DFEL

Accounting for intangible assets requires numerous assumptions, such as estimates of expected future profitability for our operations and our ability to retain existing blocks of life and annuity business in force. Our accounting policies for DAC, VOBA, DSI and DFEL affect the Annuities, Retirement Plan Services, Life Insurance and Group Protection segments.

Deferrals

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

We incur certain costs that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. This determination of deferability must be made on a contract-level basis. Some examples of acquisition costs that are subject to deferral include the following:

- Employee, agent or broker commissions;
- Wholesaler production bonuses;
- Renewal commissions and bonuses to agents or brokers;
- Medical and inspection fees;

- Premium-related taxes and assessments; and
- A portion of the salaries and benefits of certain employees involved in the underwriting, contract issuance and processing, medical and inspection and sales force contract selling functions.

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

In addition, the following indirect costs are considered non-deferrable acquisition costs and must be charged to expense in the period incurred:

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

Our DAC, VOBA, DSI and DFEL balances (in millions) by business segment as of December 31, 2018, were as follows:

	Annuities	Retirement Plan Services	Life Insurance	Group Protection	Total
DAC and VOBA					
Gross	$ 3,643	$ 244	$ 7,054	$ 210	$ 11,151
Unrealized gain (loss)	17	(1)	(903)	-	(887)
Carrying value	$ 3,660	$ 243	$ 6,151	$ 210	$ 10,264
DSI					
Gross	$ 207	$ 11	$ 30	$ -	$ 248
Unrealized gain (loss)	-	-	-	-	-
Carrying value	$ 207	$ 11	$ 30	$ -	$ 248
DFEL					
Gross	$ 279	$ -	$ 2,967	$ -	$ 3,246
Unrealized (gain) loss	-	-	(477)	-	(477)
Carrying value	$ 279	$ -	$ 2,490	$ -	$ 2,769

Fixed maturity available-for-sale (“AFS”) securities and certain derivatives are stated at fair value with unrealized gains and losses included within accumulated other comprehensive income (loss) (“AOCI”), net of associated DAC, VOBA, DSI, future contract benefits, other contract holder funds and deferred income taxes. The unrealized balances in the table above represent the DAC, VOBA, DSI and DFEL balances for these effects of unrealized gains and losses on fixed maturity AFS securities and certain derivatives.

Amortization

DAC for variable annuity and deferred fixed annuity contracts and UL and VUL policies is amortized over the lives of the contracts in relation to the incidence of EGPs derived from the contracts. Certain broker commissions or broker-dealer expenses that vary with and are related to sales of mutual fund products, respectively, are expensed as incurred rather than deferred and amortized. For our traditional products, we amortize deferrable acquisition costs either on a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

EGPs vary based on a number of sources including policy persistency, mortality, fee income, investment margins, expense margins and realized gains and losses on investments, including assumptions about the expected level of credit-related losses. Each of these sources of profit is, in turn, driven by other factors. For example, assets under management and the spread between earned and credited rates drive investment margins; net amount at risk drives the level of cost of insurance charges and reinsurance premiums. The level of separate account assets under management is driven by changes in the financial markets (equity and bond markets, hereafter referred to collectively as "equity markets") and net flows. Realized gains and losses on investments include amounts resulting from differences in the actual level of impairments and the levels assumed in calculating EGPs.

We generally amortize DAC, VOBA, DSI and DFEL in proportion to our EGPs for interest-sensitive products. When actual gross profits are higher in the period than EGPs, we recognize more amortization than planned. When actual gross profits are lower in the period than EGPs, we recognize less amortization than planned. In a calendar year where the gross profits for a certain group of policies, or "cohorts," are negative, our actuarial process limits, or floors, the amortization expense offset to zero. For a discussion of the periods over which we amortize our DAC, VOBA, DSI and DFEL see "DAC, VOBA, DSI and DFEL" in Note 1.

Unlocking

As discussed and defined in "DAC, VOBA, DSI and DFEL" in Note 1, we 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. We may have unlocking in other quarters as we become aware of information that warrants updating assumptions outside of our annual comprehensive review.

For illustrative purposes, the following generally presents the hypothetical effects to net income (loss) attributable to changes in certain assumptions from those our model projections assume, assuming all other factors remain constant:

Change in Assumption	Hypothetical Effect to Net Income (Loss)	Description of Expected Effect
Higher equity markets	Favorable	Increase to fee income and decrease to changes in reserves.
Lower equity markets	Unfavorable	Decrease to fee income and increase to changes in reserves.
Higher investment margins	Favorable	Increase to interest rate spread on our fixed product line, including fixed portion of variable.
Lower investment margins	Unfavorable	Decrease to interest rate spread on our fixed product line, including fixed portion of variable.
Higher lapses	Unfavorable	Decrease to fee income, partially offset by decrease to benefits due to shorter contract life.
Lower lapses	Favorable	Increase to fee income, partially offset by increase to benefits due to longer contract life.
Unfavorable mortality	Unfavorable	Decrease to fee income and increase to changes in reserves due to shorter contract life.
Favorable mortality	Favorable	Increase to fee income and decrease to changes in reserves due to longer contract life.

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

	For the Years Ended December 31,		
	2018	2017	2016

Income (loss) from operations:			
Annuities	$ 13	$ 15	$ (10)
Retirement Plan Services	(2)	(1)	(2)
Life Insurance	(20)	(16)	14
Excluded realized gain (loss)	8	(20)	48
Net income (loss)	$ (1)	$ (22)	$ 50

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.

2016

- For Annuities, unfavorable unlocking was driven by updates to our capital markets and interest rate assumptions and other items, partially offset by favorable updates to our policyholder behavior assumptions.
- For Retirement Plan Services, unfavorable unlocking was driven by updates to our policyholder behavior, capital markets and interest rate assumptions, partially offset by favorable updates to other items.
- For Life Insurance, favorable unlocking was driven by updates to certain in-force policy charges, expense assumptions and other items, partially offset by unfavorable updates to our interest rate and mortality assumptions.
- For excluded realized gain (loss), favorable unlocking was driven by updates to our policyholder behavior and capital markets assumptions, partially offset by unfavorable updates to other items.

Reversion to the Mean

Because returns within the variable sub-accounts ("variable funds") have a significant effect on the value of variable annuity and VUL products and the fees earned on these accounts, EGPs could increase or decrease with movements in variable fund returns; therefore, significant and sustained changes in variable funds have had and could in the future have an effect on DAC, VOBA, DSI and DFEL amortization for our variable annuity, annuity-based 401(k) and VUL businesses.

As 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. Under our RTM process, on each valuation date, future EGPs are projected using stochastic modeling of a large number of market scenarios in conjunction with best estimates of lapse rates, interest rate spreads and mortality to develop a statistical distribution of the present value of future EGPs for our variable annuity, annuity-based 401(k) and VUL blocks of business. Because variable fund returns are unpredictable, the underlying premise of this process is that best estimate projections of future EGPs need not be affected by random short-term and insignificant deviations from expectations in variable fund returns. However, long-term or significant deviations from expected variable fund returns require a change to best estimate projections of EGPs and unlocking of DAC, VOBA, DSI, DFEL and changes in future contract benefits. The statistical distribution is designed to identify when the deviations from expected returns have become significant enough to warrant a change of the future variable fund growth rate assumption.

The stochastic modeling performed for our variable annuity blocks of business as described above is used to develop a range of reasonably possible future EGPs. We compare the range of the present value of the future EGPs from the stochastic modeling to that used in our amortization model. A set of intervals around the mean of these scenarios is utilized to calculate two separate statistical ranges of reasonably possible EGPs. These intervals are then compared to the present value of the EGPs used in the amortization model. If the present value of EGPs utilized for amortization were to exceed the reasonable range of statistically calculated EGPs, a revision of the EGPs used to calculate amortization would be considered. If a revision is deemed necessary, future EGPs would be re-projected using the current account values at the end of the period during which the revision occurred along with a long-term variable fund growth rate assumption such that the re-projected EGPs would be our best estimate of EGPs.

Our practice is not necessarily to unlock immediately after exceeding the first of the two statistical ranges, but, rather, if we stay between the first and second statistical range for several quarters, we would likely unlock. Additionally, if we exceed the ranges as a result of a short-term market reaction, we would not necessarily unlock. However, if the second statistical range is exceeded for more than one quarter, it is likely that we would unlock. While this approach reduces adjustments to DAC, VOBA, DSI and DFEL due to short-term fluctuations, significant changes in variable fund returns that extend beyond one or two quarters could result in a significant favorable or unfavorable unlocking. Notwithstanding these intervals, if a severe decline or increase in variable fund values were to occur or should other circumstances suggest that the present value of future EGPs no longer represents our best estimate, we could determine that a revision of the EGPs is necessary.

Our long-term variable fund growth rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, is an immediate increase of approximately 1% followed by growth going forward of 6.5% to 8.25% depending on the block of business and reflecting differences in contract holder fund allocations between fixed-income and equity-type investments. If we had unlocked our RTM assumption as of December 31, 2018, we would have recorded an unfavorable unlocking of approximately $25 million, pre-tax, for Annuities and a favorable unlocking of approximately $70 million, pre-tax, for Life Insurance and approximately $10 million, pre-tax, for Retirement Plan Services.

Investments

Invested assets are an integral part of our operations, and we invest in fixed maturity securities that are primarily classified as available-for-sale and carried at fair value with the difference from amortized cost included in stockholders' equity as a component of AOCI. We also invest in equity securities that are carried at fair value with changes in fair value recognized in realized gain (loss). See "Consolidated Investments" below for more information.

Investment Valuation

Our measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or NPR, which would include our own credit risk. Our estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability ("entry price"). We categorize our financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined in Note 1.

The following summarizes our investments on our Consolidated Balance Sheets carried at fair value by pricing source and fair value hierarchy level (in millions) as of December 31, 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	$ 675	$ 79,912	$ -	$ 80,587
Priced by independent broker quotations	-	-	1,641	1,641
Priced by matrices	-	12,362	-	12,362
Priced by other methods (1)	-	-	2,580	2,580
Total	$ 675	$ 92,274	$ 4,221	$ 97,170
Percent of total	1%	95%	4%	100%

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

For the categories and associated fair value of our fixed maturity AFS securities classified within Level 3 of the fair value hierarchy as of December 31, 2018 and 2017, see Notes 1 and 20.

Our investments are valued using the appropriate market inputs based on the investment type, and include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored, and further market data is acquired if certain triggers are met. We incorporate the issuer's credit rating and a risk premium, if warranted, given the issuer's industry and the security's time to maturity. We use an internationally recognized pricing service as our primary pricing source, and we do not adjust prices received from third parties or obtain multiple prices when measuring the fair value of our investments. We generally use prices from the pricing service rather than broker quotes because we have documentation from the pricing service on the observable market inputs they use, as compared to the limited information on the pricing inputs from broker quotes. For private placement securities, we use pricing matrices that utilize observable pricing inputs of similar public securities and Treasury yields as inputs to the fair value measurement. It is possible that different valuation techniques and models, other than those described above, could produce materially different estimates of fair value.

When the volume and level of activity for an asset or liability has significantly decreased in relation to normal market activity for the asset or liability, we believe that the market is not active. Activities that may indicate a market is not active include fewer recent transactions in the market, price quotations that lack current information and/or vary substantially over time or among market makers, limited public information, uncorrelated indexes with recent fair values of assets and abnormally wide bid-ask spread. As of December 31, 2018, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions.

We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of deposit and collateralized debt obligations ("CDOs") when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are generally classified as Level 3 of the fair value hierarchy. As of December 31, 2018, we used broker quotes for 38 securities as our final price source, representing less than 1% of total securities owned.

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

Valuation of Alternative Investments

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

Write-Downs for OTTI and Valuation Allowances

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

For certain securitized fixed maturity securities with contractual cash flows, including asset-backed securities ("ABS"), we use our best estimate of cash flows for the life of the security to determine whether there is an other-than-temporary impairment ("OTTI") of the security. In addition, we review for other indicators of impairment as required by the Investments – Debt and Equity Securities Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC").

As the discussion in Notes 1 and 5 indicates, there are risks and uncertainties associated with determining whether declines in the fair value of investments are other-than-temporary. These include subsequent significant changes in general overall economic conditions, as well as specific business conditions affecting particular issuers, future financial market effects such as interest rate spreads, stability of foreign governments and economies, future rating agency actions and significant accounting, fraud or corporate governance issues that may adversely affect certain investments. In addition, there are often significant estimates and assumptions that we use to estimate the fair values of securities as described in "Investment Valuation." We continually monitor developments and update underlying assumptions and financial models based upon new information.

Write-downs and valuation allowances on commercial mortgage loans, real estate and other investments are established when the underlying value of the property is deemed to be less than the carrying value. All commercial mortgage loans that are impaired have an established valuation allowance. Changing economic conditions affect our valuation of commercial mortgage loans. Increasing vacancies, declining rents and the like are incorporated into the discounted cash flow analysis that we perform for monitored loans and may contribute to the establishment of (or an increase in) a valuation allowance. In addition, we continue to monitor the entire commercial mortgage loan portfolio to identify risk. Areas of emphasis include properties that have deteriorating credits or have experienced debt-service coverage and/or loan-to-value reduction. Where warranted, we have established or increased our valuation allowance based upon this analysis.

We have also established a valuation allowance on our residential mortgage loan portfolio that includes a specific valuation allowance for loans that are deemed to be impaired as well as a general valuation allowance for pools of loans with similar risk characteristics where a property risk or market specific risk has not been identified but for which we anticipate a loss has occurred. The general valuation allowance on our residential mortgage loan portfolio is based on loss history adjusted for current conditions.

Derivatives

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, default risk, basis risk and credit risk. Assessing the effectiveness of these hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk," Notes 1 and 6.

We carry our derivative instruments at fair value, which we determine through valuation techniques or models that use market data inputs or independent broker quotations. The fair values fluctuate from period to period due to the volatility of the valuation inputs, including but not limited to swap interest rates, interest and equity volatility and equity index levels, foreign currency forward and spot rates, credit spreads and correlations, some of which are significantly affected by economic conditions. The effect to revenue is reported in realized gain (loss) and such amount along with the associated federal income taxes is excluded from income (loss) from operations of our segments.

Certain of our variable annuity contracts reported within future contract benefits contain embedded derivatives that are carried at fair value on a recurring basis and are all classified as Level 3 of the fair value hierarchy, including our GLB reserves embedded derivatives, a portion of which may be reported in either other assets or other liabilities. These embedded derivatives are valued based on a stochastic projection of scenarios of the embedded derivative cash flows. The scenario assumptions, at each valuation date, are those we view to be appropriate for a hypothetical market participant and include assumptions for capital markets, actuarial lapse, benefit utilization, mortality,

risk margin, administrative expenses and a margin for profit. In addition, an NPR component is determined at each valuation date that reflects our risk of not fulfilling the obligations of the underlying liability. The spread for the NPR is added to the discount rates used in determining the fair value from the net cash flows. We believe these assumptions are consistent with those that would be used by a market participant; however, as the related markets develop, we will continue to reassess our assumptions. It is possible that different valuation techniques and assumptions could produce a materially different estimate of fair value. Changes in the fair value of these embedded derivatives result primarily from changes in market conditions. For more information, see Notes 1 and 20.

GLB

We have a dynamic hedging strategy designed to mitigate selected risk and income statement volatility caused by changes in the equity markets, interest rates and market-implied volatilities associated with the Lincoln SmartSecurity® Advantage guaranteed withdrawal benefit ("GWB") feature and our i4LIFE® Advantage and 4LATER® Advantage guaranteed income benefit ("GIB") features that are available in our variable annuity products. We have certain GLB variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB, 4LATER®, Lincoln Lifetime IncomeSM Advantage and Lincoln Market SelectSM Advantage features, have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivative reserves. We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. In addition to mitigating selected risk and income statement volatility, the hedge program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits.

Changes in the value of the hedge contracts hedge the income statement effect of changes in GLB embedded derivative reserves and benefit reserves. This dynamic hedging strategy utilizes options and total return swaps on U.S.-based equity indices, and futures on U.S.-based and international equity indices, as well as interest rate futures, interest rate swaps and currency futures. The notional amounts of the underlying hedge instruments are such that the magnitude of the change in the value of the hedge instruments due to changes in equity markets, interest rates and implied volatilities is designed to offset the magnitude of the change in the GLB embedded derivative reserves and GLB benefit reserves caused by changes in equity markets, as well as the change in GLB embedded derivative reserves caused by changes in interest rates and implied volatilities. See "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" below for information on how we determine our NPR.

As part of our current hedging program, equity market, interest rate and market-implied volatility conditions are monitored on a daily basis. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these positions may not completely offset changes in the fair value of embedded derivative reserves and benefit reserves caused by movements in these factors due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets, interest rates and market-implied volatilities, realized market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices, divergence between the actual and expected performance of the hedge instruments or our ability to purchase hedging instruments at prices consistent with our desired risk and return trade-off.

Within our individual annuity business, 64% and 65% of our variable annuity account values contained GLB features as of December 31, 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 December 31, 2018 and 2017, 27% and 5%, respectively, of all in-force contracts with a GLB feature were “in the money,” and our exposure, after reinsurance, as of December 31, 2018 and 2017, was $1.3 billion and $342 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.

As a result of these factors, the ultimate amount to be paid by us related to GLB guarantees is uncertain and could be significantly more or less than $1.3 billion, net of reinsurance. Our fair value estimates of the GLB embedded derivatives, which are based on detailed models of future cash flows under a wide range of market-consistent scenarios, reflect a more comprehensive view of the related factors and represent our best estimate of the present value of these potential liabilities. The market-consistent scenarios used in the determination of the fair value of the GLB embedded derivatives are similar to those used by an investment bank to value derivatives for which the pricing is not transparent and the aftermarket is nonexistent or illiquid. We use risk-neutral Monte Carlo simulations in our calculation to value the entire block of guarantees, which involve 100 unique scenarios per policy or approximately 49 million scenarios. The market-consistent scenario assumptions, at each valuation date, are those we view to be appropriate for a hypothetical market participant. The market-consistent inputs include, but are not limited to, assumptions for capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.), policyholder behavior (e.g., policy lapse, rider utilization, etc.), mortality, risk margins, maintenance expenses and a margin for profit. We believe these assumptions are consistent with those that would be used by a market participant; however, as the related markets develop, we will continue to reassess our assumptions. It is possible that different valuation techniques and assumptions could produce a materially different estimate of fair value. For information on our variable annuity hedge program performance, see our discussion in “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” below.

The following table presents our estimates of the potential instantaneous effect to net income (loss) that could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities (in millions) at the levels indicated in the table and excludes the net cost of operating the hedging program. The amounts represent the estimated difference between the change in the portion of GLB reserves that is calculated on a fair value basis and the change in the value of the underlying hedge instruments after the amortization of DAC, VOBA, DSI and DFEL and taxes. These effects do not include any estimate of unlocking that could occur, nor do they estimate any change in the NPR component of the GLB reserve or any estimate of effects to our GLB benefit ratio unlocking. These estimates are based upon the recorded reserves as of December 31, 2018, and the related hedge instruments in place as of that date. The effects presented in the table below are not representative of the aggregate impacts that could result if a combination of such changes to equity market returns, interest rates and implied volatilities occurred.

	In-Force Sensitivities			
Equity Market Return	-20%	-10%	-5%	5%
Hypothetical effect to net income	$ (86)	$ (28)	$ (10)	$ 3
Interest Rates	-50 bps	-25 bps	+25 bps	+50 bps
Hypothetical effect to net income	$ (21)	$ (6)	$ (2)	$ (12)
Implied Volatilities	-4%	-2%	2%	4%
Hypothetical effect to net income	$ (6)	$ (2)	$ 1	$ 1

The following table shows the effect (dollars in millions) of indicated changes in instantaneous shifts in equity market returns, interest rate scenarios and market-implied volatilities:

	Assumptions of Changes In			
	Equity Market Return	Interest Rate Yields	Market Implied Volatilities	Net Income
Scenario 1	-5%	-12.5 bps	+1%	$ (17)
Scenario 2	-10%	-25.0 bps	+2%	(53)
Scenario 3	-20%	-50.0 bps	+4%	(195)

The actual effects of the results illustrated in the two tables above could vary significantly depending on a variety of factors, many of which are out of our control, and consideration should be given to the following:

· The analysis is only valid as of December 31, 2018, due to changing market conditions, contract holder activity, hedge positions and other factors;

- The analysis assumes instantaneous shifts in the capital market factors and no ability to rebalance hedge positions prior to the market changes;
- The analysis assumes constant exchange rates and implied dividend yields;
- Assumptions regarding shifts in the market factors, such as assuming parallel shifts in interest rate and implied volatility term structures, may be overly simplistic and not indicative of actual market behavior in stress scenarios;
- It is very unlikely that one capital market sector (e.g., equity markets) will sustain such a large instantaneous movement without affecting other capital market sectors; and
- The analysis assumes that there is no tracking or basis risk between the funds and/or indices affecting the GLB reserves and the instruments utilized to hedge these exposures.

Standard & Poor's 500 Index® Benefits

Our indexed annuity and IUL contracts permit the holder to elect a fixed interest rate return or a return where interest credited to the contracts is linked to the performance of the Standard & Poor's ("S&P") 500 Index® ("S&P 500"). Contract holders may elect to rebalance among the various accounts within the product at renewal dates, either annually or biannually. At the end of each 1-year or 2-year indexed term, we have the opportunity to re-price the indexed component by establishing different participation rates, caps, spreads or specified rates, subject to contractual guarantees. We purchase S&P 500 options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity, both of which are recorded as a component of realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). The Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC require that we calculate fair values of index options we may purchase in the future to hedge contract holder index allocations in future reset periods. These fair values represent an estimate of the cost of the options we will purchase in the future, discounted back to the date of the balance sheet, using current market indicators of volatility and interest rates. Changes in the fair values of these liabilities are included as a component of realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss). For information on our S&P 500 benefits hedging results, see our discussion in "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

Future Contract Benefits and Other Contract Holder Obligations

Reserves

Reserves are the amounts that, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. Establishing adequate reserves for our obligations to contract holders requires assumptions to be made regarding mortality and morbidity. The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding contracts. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates and methods of valuation.

The reserves reported in our consolidated financial statements contained herein are calculated in accordance with GAAP and differ from those specified by the laws of the various states and carried in the statutory financial statements of the life insurance subsidiaries. These differences arise from the use of mortality and morbidity tables, interest, persistency and other assumptions that we believe to be more representative of the expected experience for these contracts than those required for statutory accounting purposes and from differences in actuarial reserving methods.

The assumptions on which reserves are based are intended to represent an estimation of experience for the period that policy benefits are payable. If actual experience is better than or equal to the assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is worse than the assumptions, additional reserves may be required. This would result in a charge to our net income during the period the increase in reserves occurred. The key experience assumptions include mortality rates, policy persistency and interest rates. We periodically review our experience and update our policy reserves for new issues and reserve for all claims incurred, as we believe appropriate.

GDB

The reserves related to the GDB features available in our variable annuity products are based on the application of a "benefit ratio" (the present value of total expected benefit payments over the life of the contract divided by the present value of total expected assessments over the life of the contract) to total variable annuity assessments received in the period. The level and direction of the change in reserves will vary over time based on the emergence of the benefit ratio and the level of assessments associated with the variable annuity.

We utilize a delta hedging strategy for variable annuity products with a GDB feature, which uses futures on U.S.-based equity market indices to hedge against movements in equity markets. The hedging strategy is designed to hedge our exposure to earnings volatility that results from equity market driven changes in the reserve for GDB contracts. Because the GDB reserves are based upon projected long-term equity market return assumptions, and because the value of the hedging contracts will reflect current capital market conditions, the quarterly changes in values for the GDB reserves and the hedging contracts may not exactly offset each other. For information on our variable annuity hedge program performance, see our discussion in "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" below.

UL Products with Secondary Guarantees

We issue UL contracts where we provide a secondary guarantee to the contract holder. The policy can remain in force, even if the base policy account value is zero, as long as contractual secondary guarantee requirements have been met. The reserves related to UL products with secondary guarantees are based on the application of a benefit ratio the same as our GDB features, which are discussed above. The level and direction of the change in reserves will vary over time based on the emergence of the benefit ratio and the level of assessments associated with the contracts. For more discussion, see "Results of Life Insurance" below.

Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually as of October 1 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. We perform a quantitative goodwill impairment test where the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the carrying value of the reporting unit exceeds the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value. The results of one test on one reporting unit cannot subsidize the results of another reporting unit.

For the purposes of the evaluation of the carrying value of goodwill, our reporting units (Annuities, Retirement Plan Services, Life

Insurance and Group Protection) correspond with our reporting segments.

The fair values of our reporting units are comprised of the value of in-force (i.e., existing) business and the value of new business. Specifically, new business is representative of cash flows and profitability associated with policies or contracts we expect to issue in the future, reflecting our forecasts of future sales volume and product mix over a 10-year period. To determine the values of in-force and new business, we use a discounted cash flows technique that applies a discount rate reflecting the market expected, weighted-average rate of return adjusted for the risk factors associated with operations to the projected future cash flows for each reporting unit.

As of October 1, 2018, we performed our annual quantitative goodwill impairment test for our reporting units, and the fair value was in excess of each reporting unit's carrying value for Annuities, Retirement Plan Services, Life Insurance and Group Protection.

As of October 1, 2017, we performed our annual quantitative goodwill impairment test for our reporting units that resulted in impairment of the Life Insurance reporting unit goodwill of $905 million during the fourth quarter of 2017 driven primarily from the impact of the December 22, 2017, enactment of the Tax Act that increased the carrying value of the Life Insurance reporting unit in excess of its fair value.

We apply significant judgment when determining the estimated fair value of our reporting units. Factors that can influence the value of goodwill include the capital markets, competitive landscape, regulatory environment, consumer confidence and any items that can directly or indirectly affect new business future cash flows. Factors that could affect production levels and profitability of new business include mix of new business, pricing changes, customer acceptance of our products and distribution strength. Spread compression and related effects to profitability caused by lower interest rates affect the valuation of in-force business more significantly than the valuation of new business, as new business pricing assumptions reflect the current and anticipated future interest rate environment. Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments.

Examples of unfavorable changes to assumptions or factors that could result in future impairment include, but are not limited to, the following:

- Lower expectations for future sales levels or future sales profitability;
- Higher discount rates on new business assumptions;
- Weakened expectations for the ability to execute future reserve financing transactions for life insurance business over the long-term or expectations for significant increases in the associated costs;
- Legislative, regulatory or tax changes that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements or changes to risk-based capital ("RBC") requirements; and
- Valuations of significant mergers or acquisitions of companies or blocks of business that would provide relevant market-based inputs for our impairment assessment that could support less favorable conclusions regarding the estimated fair value of our reporting units.

Refer to Note 10 for goodwill and specifically identifiable intangible assets by segment.

Income Taxes

Management uses certain assumptions and estimates in determining the income taxes payable or refundable for the current year, the deferred income tax liabilities and assets for items recognized differently in its financial statements from amounts shown on its income tax returns and the federal income tax expense. Determining these amounts requires analysis and interpretation of current tax laws and regulations. Management exercises considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are re-evaluated on a continual basis as regulatory and business factors change. Legislative changes to the Internal Revenue Code of 1986, as amended, modifications or new regulations, administrative rulings, or court decisions could increase or decrease our effective tax rate.

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

Acquisitions and Dispositions

For information about acquisitions and divestitures, see Note 3.

RESULTS OF CONSOLIDATED OPERATIONS

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

	For the Years Ended December 31,		
	2018	2017	2016
Net Income (Loss)			
Income (loss) from operations:			
Annuities	$ 1,102	$ 1,074	$ 935
Retirement Plan Services	171	149	127
Life Insurance	645	536	515
Group Protection	187	103	65
Other Operations	(225)	(108)	(102)
Excluded realized gain (loss), after-tax	(37)	(218)	(337)
Gain (loss) on early extinguishment of debt, after-tax	(18)	(3)	(41)
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	2
Benefit ratio unlocking, after-tax	(136)	129	28
Net impact from the Tax Cuts and Jobs Act	19	1,322	-
Impairment of intangibles, after-tax	-	(905)	-
Acquisition and integration costs related to mergers and acquisitions, after-tax	(67)	-	-
Net income (loss)	$ 1,641	$ 2,079	$ 1,192

	For the Years Ended December 31,		
	2018	2017	2016
Deposits			
Annuities	$ 12,363	$ 8,710	$ 8,214
Retirement Plan Services	10,068	8,563	7,657
Life Insurance	6,438	6,317	5,768
Total deposits	$ 28,869	$ 23,590	$ 21,639
Net Flows			
Annuities (1)	$ (139)	$ (2,707)	$ (1,560)
Retirement Plan Services (1)	2,546	1,443	654
Life Insurance	4,679	4,532	4,119
Total net flows (1)	$ 7,086	$ 3,268	$ 3,213

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

	As of December 31,		
	2018	2017	2016
Account Values			
Annuities	$ 121,279	$ 137,016	$ 124,905
Retirement Plan Services	67,055	67,369	58,434
Life Insurance	49,589	49,048	45,789
Total account values	$ 237,923	$ 253,433	$ 229,128

Comparison of 2018 to 2017

Net income decreased due primarily to the following:

- One-time federal income tax benefit in 2017 related to the remeasurement of our net deferred tax liability balance to reflect the new 21% marginal corporate income tax rate as a result of the 2017 Tax Act, partially offset by lower federal income tax expense in 2018 as a result of the Tax Act.
- Acquisition and integration costs incurred as part of our acquisition, higher strategic digitization expense and higher loss on early extinguishment of debt.

- Lower amortization of deferred gain on business sold through reinsurance in 2018 as a gain was fully amortized during the second quarter of 2017.
- 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:

- Goodwill impairment in our Life Insurance segment during 2017 (see "Critical Accounting Policies and Estimates – Goodwill and Other Intangible Assets" above for more information).
- Realized gains as compared to realized losses in 2017.
- Growth in average account values, business in force and group earned premiums.
- The acquisition of Liberty Life effective May 1, 2018.
- The effect of unlocking.

Comparison of 2017 to 2016

Net income increased due primarily to the following:

- One-time federal income tax benefit in 2017 related to the remeasurement of our net deferred tax liability balance to reflect the new 21% marginal corporate income tax rate as a result of the Tax Act (see "Introduction – Executive Summary – Significant Operational Matters – Effective Tax Rates Resulting from the Tax Act" above for more information).
- Growth in average account values, business in force and group earned premiums.
- Lower losses on variable annuity net derivative results in 2017.
- Favorable investment income on alternative investments and higher prepayment and bond make-whole premiums.
- Legal expenses in 2016 related to certain investments.
- Higher realized losses in 2016 driven by asset disposals and an increase in OTTI attributable to individual credit risks within our corporate bond holdings.

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

- Goodwill impairment in our Life Insurance segment during 2017 (see "Critical Accounting Policies and Estimates – Goodwill and Other Intangible Assets" above for more information).
- The effect of unlocking.
- Lower amortization of deferred gain on business sold through reinsurance.
- Higher strategic digitization expense as part of our strategic digitization initiative.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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RESULTS OF ANNUITIES

Income (Loss) from Operations

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

	For the Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Insurance premiums (1)	$ 390	$ 475	$ 331
Fee income	2,342	2,244	2,068
Net investment income	1,005	1,038	1,033
Operating realized gain (loss) (2)	192	179	178
Amortization of deferred gain on business sold through reinsurance	8	-	-
Other revenues (3)	446	442	423
Total operating revenues	4,383	4,378	4,033
Operating Expenses			
Interest credited	587	581	580
Benefits (1)	673	726	597
Commissions and other expenses	1,838	1,798	1,679
Total operating expenses	3,098	3,105	2,856
Income (loss) from operations before taxes	1,285	1,273	1,177
Federal income tax expense (benefit)	183	199	242
Income (loss) from operations	$ 1,102	$ 1,074	$ 935

(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 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, partially offset by an increase in the growth in benefit reserves due to equity market performance and costs associated with our hedge program.

- Amortization of deferred gain on business sold through reinsurance in 2018 as a result of the annuity reinsurance agreement (see "Additional Information" below).

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 and spread compression due to average new money rates trailing our current portfolio yields.

Comparison of 2017 to 2016

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

- Higher fee income driven by higher average daily variable account values.
- Higher federal income tax benefits driven by one-time and run-rate adjustments primarily associated with our separate account dividends-received deduction.

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, partially offset by the effect of unlocking.
- Higher benefits due to costs associated with our hedge program, partially offset by the effect of unlocking.

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

Additional Information

For the year ended December 31, 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 dividends-received deduction as a result of the Tax Act and other items. For the year ended December 31, 2017, the federal income tax expense was driven by one-time and run-rate adjustments primarily associated with our separate account dividends-received deduction.

Effective October 1, 2018, we entered into an agreement with Athene Holding Ltd. ("Athene") to reinsure approximately $7.7 billion of in-force fixed and fixed indexed annuity products on a modified coinsurance ("Modco") basis. The capital generated from this transaction was primarily used to fund the December 2018 accelerated share repurchase program of $450 million. We expect an ongoing reduction in income from operations in future periods as a result of this Modco reinsurance transaction. We continue to remain focused on the continued growth of both our fixed and variable annuity business. For additional information on our annuity reinsurance agreement and this accelerated share repurchase program, see Note 9 and "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – (c) Issuer Purchases of Equity Securities," respectively.

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. As a result of our strategic decision to participate in more segments of the marketplace, we returned to positive net flows during the fourth quarter of 2018. We believe our net flows will continue to remain positive and show continued improvement during 2019 as we continue to focus on our product and distribution expansion.

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%, 9% and 8% in 2018, 2017 and 2016, respectively.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and the interest rate risk due to falling interest rates, see "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" and "Effect of Interest Rate Sensitivity" and "Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

Fee Income

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

	For the Years Ended December 31,		
	2018	2017	2016
Fee Income			
Mortality, expense and other assessments	$ 2,322	$ 2,212	$ 2,038
Surrender charges	30	30	31
DFEL:			
Deferrals	(39)	(37)	(38)
Amortization, net of interest:			
Amortization, net of interest, excluding unlocking	31	33	30
Unlocking	(2)	6	7
Total fee income	$ 2,342	$ 2,244	$ 2,068

	As of or For the Years Ended December 31,		
	2018	2017	2016
Variable Account Value Information			
Variable annuity deposits (1)	$ 5,105	$ 4,524	$ 4,456
Increases (decreases) in variable annuity account values:			
Net flows (1)(2)	(4,580)	(4,530)	(3,231)
Change in market value (1)(2)	(5,412)	16,512	6,416
Contract holder assessments (1)	(2,484)	(2,378)	(2,232)
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	2,867	1,822	2,053
Variable annuity account values (1)	104,737	114,342	102,914
Average daily variable annuity account values (1)	113,595	109,189	100,636
Average daily S&P 500 (3)	2,744	2,448	2,094

(1) Excludes the fixed portion of variable.

(2) The prior years have 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 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 11 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 variable 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. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period 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 "Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" below for discussion of these attributed fees.

Net Investment Income and Interest Credited

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

	For the Years Ended December 31,		
	2018	2017	2016
Net Investment Income			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 835	$ 841	$ 850
Commercial mortgage loan prepayment and bond make-whole premiums (1)	21	45	29
Surplus investments (2)	149	152	154
Total net investment income	$ 1,005	$ 1,038	$ 1,033
Interest Credited			
Amount provided to contract holders	$ 600	$ 568	$ 562
DSI deferrals	(43)	(20)	(14)
Interest credited before DSI amortization	557	548	548
DSI amortization:			
Amortization, excluding unlocking	30	29	30
Unlocking	-	4	2
Total interest credited	$ 587	$ 581	$ 580

(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 Years Ended December 31,		
	2018	2017	2016
Interest Rate Spread			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	3.88%	3.98%	4.14%
Commercial mortgage loan prepayment and bond make-whole premiums	0.10%	0.24%	0.14%
Net investment income yield on reserves	3.98%	4.22%	4.28%
Interest rate credited to contract holders	2.27%	2.34%	2.40%
Interest rate spread	1.71%	1.88%	1.88%

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	As of or For the Years Ended December 31,		
	2018	2017	2016
Fixed Account Value Information			
Fixed annuity deposits (1)	$ 7,258	$ 4,186	$ 3,758
Increases (decreases) in fixed annuity account values:			
Net flows (1)(2)	4,441	1,823	1,671
Contract holder assessments (1)	(31)	(31)	(30)
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(2,867)	(1,822)	(2,053)
Reinvested interest credited (1)	440	878	654
Fixed annuity account values (1)	16,542	22,675	21,991
Average fixed account values (1)	20,591	22,327	21,888
Average invested assets on reserves	18,580	18,315	17,950

(1) Includes the fixed portion of variable.

(2) The prior years have 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 Years Ended December 31,		
	2018	2017	2016
Benefits			
Net death and other benefits, excluding unlocking	$ 699	$ 743	$ 594
Unlocking	(26)	(17)	3
Total benefits	$ 673	$ 726	$ 597

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 GDB 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 Years Ended December 31,		
	2018	2017	2016
Commissions and Other Expenses			
Commissions:			
Deferrable	$ 505	$ 349	$ 357
Non-deferrable	573	567	493
General and administrative expenses	425	417	403
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	4	4	4
Taxes, licenses and fees	34	33	31
Total expenses incurred, excluding broker-dealer	1,541	1,370	1,288
DAC deferrals	(578)	(411)	(409)
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	963	959	879
DAC and VOBA amortization, net of interest:			
Amortization, net of interest, excluding unlocking	403	405	366
Unlocking	7	(4)	17
Broker-dealer expenses incurred	465	438	417
Total commissions and other expenses	$ 1,838	$ 1,798	$ 1,679
DAC Deferrals			
As a percentage of sales/deposits	4.7%	4.7%	5.0%

(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.

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RESULTS OF RETIREMENT PLAN SERVICES

Income (Loss) from Operations

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

	For the Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Fee income	$ 256	$ 248	$ 228
Net investment income	899	899	859
Other revenues (1)	23	18	16
Total operating revenues	1,178	1,165	1,103
Operating Expenses			
Interest credited	555	537	514
Benefits	2	1	1
Commissions and other expenses	421	423	414
Total operating expenses	978	961	929
Income (loss) from operations before taxes	200	204	174
Federal income tax expense (benefit)	29	55	47
Income (loss) from operations	$ 171	$ 149	$ 127

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

Comparison of 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.

Comparison of 2017 to 2016

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

- Higher fee income driven by higher average daily variable account values.
- Higher net investment income, net of interest credited, driven by more favorable investment income on alternative investments within our surplus portfolio and higher prepayment and bond make-whole premiums, partially offset by spread compression due to average new money rates trailing our current portfolio yields.

The increase in income from operations was partially offset by higher commissions and other expenses due to higher average account values driving higher trail commissions and higher incentive compensation as a result of production performance.

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%, 12% and 13% for 2018, 2017 and 2016, respectively.

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%, 25% and 28% for 2018, 2017 and 2016, 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 the interest rate risk due to falling interest rates, see "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" and "Effect of Interest Rate Sensitivity" and "Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

Fee Income

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

	For the Years Ended December 31,		
	2018	2017	2016
Fee Income			
Annuity expense assessments	$ 189	$ 184	$ 170
Mutual fund fees	65	63	56
Total expense assessments	254	247	226
Surrender charges	2	1	2
Total fee income	$ 256	$ 248	$ 228

	For the Years Ended December 31,		
	2018	2017	2016
Net Flows By Market (1)			
Small market	$ 290	$ 232	$ 457
Mid – large market	3,401	2,243	947
Multi-Fund® and other	(1,145)	(1,031)	(750)
Total net flows	$ 2,546	$ 1,444	$ 654

(1) The prior years have 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 Years Ended December 31,		
	2018	2017	2016
Variable Account Value Information			
Variable annuity deposits (1)	$ 1,803	$ 1,954	$ 1,693
Increases (decreases) in variable annuity account values:			
Net flows (1)(2)	(453)	(597)	(311)
Change in market value (1)(2)	(885)	2,545	1,209
Contract holder assessments (1)	(159)	(153)	(144)
Variable annuity account values (1)	14,413	16,129	14,511
Average daily variable annuity account values (1)	15,989	15,052	13,950
Average daily S&P 500	2,744	2,448	2,094

(1) Excludes the fixed portion of variable.

(2) The prior years have 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 Years Ended December 31,		
	2018	2017	2016
Mutual Fund Account Value Information			
Mutual fund deposits	$ 6,219	$ 4,434	$ 3,859
Mutual fund net flows	2,902	1,766	921
Mutual fund account values (1)	32,876	32,516	26,040

(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. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period 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) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Net Investment Income			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 806	$ 789	$ 762
Commercial mortgage loan prepayment and bond make-whole premiums (1)	18	34	28
Surplus investments (2)	75	76	69
Total net investment income	$ 899	$ 899	$ 859
Interest Credited	$ 555	$ 537	$ 514

(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 Years Ended December 31,		
	2018	2017	2016
Interest Rate Spread			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.23%	4.32%	4.50%
Commercial mortgage loan prepayment and bond make-whole premiums	0.09%	0.19%	0.16%
Net investment income yield on reserves	4.32%	4.51%	4.66%
Interest rate credited to contract holders	2.90%	2.92%	3.00%
Interest rate spread	1.42%	1.59%	1.66%

	As of or For the Years Ended December 31,		
	2018	2017	2016
Fixed Account Value Information			
Fixed annuity deposits (1)	$ 2,046	$ 2,175	$ 2,105
Increases (decreases) in fixed annuity account values:			
Net flows (1)(2)	97	274	44
Reinvested interest credited (1)	558	542	513
Contract holder assessments (1)	(11)	(9)	(8)
Fixed annuity account values (1)	19,766	18,724	17,883
Average fixed account values (1)	19,164	18,373	17,081
Average invested assets on reserves	19,044	18,230	16,958

(1) Includes the fixed portion of variable.
(2) The prior years have 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 fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. Commercial mortgage loan prepayments and bond 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

Benefits for this segment include changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

Commissions and Other Expenses

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

	For the Years Ended December 31,		
	2018	2017	2016
Commissions and Other Expenses			
Commissions:			
Deferrable	$ 7	$ 10	$ 14
Non-deferrable	71	67	63
General and administrative expenses	318	331	321
Taxes, licenses and fees	19	17	18
Total expenses incurred	415	425	416
DAC deferrals	(22)	(29)	(30)
Total expenses recognized before amortization	393	396	386
DAC and VOBA amortization, net of interest:			
Amortization, net of interest, excluding unlocking	25	25	25
Unlocking	3	2	3
Total commissions and other expenses	$ 421	$ 423	$ 414
DAC Deferrals			
As a percentage of annuity sales/deposits	0.6%	0.7%	0.8%

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. Distribution expenses associated with the sale of mutual fund products are expensed as incurred.

RESULTS OF LIFE INSURANCE

Income (Loss) from Operations

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

	For the Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Insurance premiums (1)	$ 817	$ 773	$ 703
Fee income	3,392	3,122	2,946
Net investment income	2,697	2,643	2,562
Operating realized gain (loss) (2)	(5)	(13)	1
Other revenues	21	33	34
Total operating revenues	6,922	6,558	6,246
Operating Expenses			
Interest credited	1,414	1,404	1,394
Benefits	3,345	3,189	2,677
Commissions and other expenses	1,371	1,185	1,422
Total operating expenses	6,130	5,778	5,493
Income (loss) from operations before taxes	792	780	753
Federal income tax expense (benefit)	147	244	238
Income (loss) from operations	$ 645	$ 536	$ 515

(1) Includes term insurance premiums, which have a corresponding partial offset in benefits for changes in reserves.
(2) See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

Comparison of 2018 to 2017

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

- Higher fee income due to growth in business in force and the effect of unlocking.
- Lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.

- Higher net investment income, net of interest credited, driven by favorable investment income on alternative investments, partially offset by spread compression due to average new money rates trailing our current portfolio yields and lower prepayment and bond make-whole premiums.

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

- Higher commissions and other expenses due to the effect of unlocking.
- Higher benefits due to growth in business in force and slightly less favorable mortality, partially offset by the effect of unlocking.

Comparison of 2017 to 2016

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

- Lower commissions and other expenses due to the effect of unlocking.
- Higher fee income due to growth in business in force, partially offset by the effect of unlocking.
- Higher net investment income, net of interest credited, driven by favorable investment income on alternative investments, partially offset by spread compression due to average new money rates trailing our current portfolio yields.

The increase in income from operations was partially offset by higher benefits due to the effects of unlocking and growth in business in force.

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

Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and RBC levels above current regulatory required levels. Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation ("XXX") and Actuarial Guideline 38 ("AG38"). For information on strategies we use to reduce the statutory reserve strain

caused by XXX and AG38, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Insurance Subsidiaries' Statutory Capital and Surplus" below.

Additional Information

During 2018, we experienced slightly less favorable mortality as compared to our expectations.

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

Insurance Premiums

Insurance premiums relate to traditional products and are a function of the rates priced into the product and the level of business in force. Business in force, in turn, is driven by sales, persistency and mortality experience.

Fee Income

Details underlying fee income, sales, net flows, account values and in-force face amount (in millions) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Fee Income			
Cost of insurance assessments	$ 2,136	$ 1,981	$ 1,810
Expense assessments	1,529	1,455	1,299
Surrender charges	45	52	40
DFEL:			
Deferrals	(829)	(718)	(593)

Amortization, net of interest:			
Amortization, net of interest, excluding unlocking	457	355	334
Unlocking	54	(3)	56
Total fee income	$ 3,392	$ 3,122	$ 2,946

	For the Years Ended December 31,		
	2018	2017	2016
Sales by Product			
UL	$ 43	$ 52	$ 95
MoneyGuard®	226	268	214
IUL	62	70	90
VUL	268	194	180
Term	113	114	114
Total individual life sales	712	698	693
Executive Benefits	52	100	44
Total sales	$ 764	$ 798	$ 737
Net Flows			
Deposits	$ 6,438	$ 6,317	$ 5,768
Withdrawals and deaths	(1,759)	(1,785)	(1,649)
Net flows	$ 4,679	$ 4,532	$ 4,119
Contract Holder Assessments	$ 4,869	$ 4,647	$ 4,253

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	As of December 31,		
	2018	2017	2016
Account Values			
General account	$ 36,612	$ 36,072	$ 35,525
Separate account	12,977	12,976	10,264
Total account values	$ 49,589	$ 49,048	$ 45,789
In-Force Face Amount			
UL and other	$ 343,922	$ 341,044	$ 336,851
Term insurance	399,877	379,108	356,083
Total in-force face amount	$ 743,799	$ 720,152	$ 692,934

Fee income relates only to interest-sensitive products and includes cost of insurance assessments, expense assessments and surrender charges. Both cost of insurance and expense assessments can have deferrals and amortization related to DFEL. Cost of insurance and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Business in force, in turn, is driven by sales, persistency and mortality experience.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant effect on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the second half of the year with the fourth quarter being our strongest.

Sales in the table above and as discussed above were reported as follows:

- MoneyGuard®, our linked-benefit product – 15% of total expected premium deposits;
- UL, IUL and VUL – first-year commissionable premiums plus 5% of excess premiums received;
- Executive Benefits – single premium bank-owned UL and VUL, 15% of single premium deposits, and corporate-owned UL and VUL, first-year commissionable premiums plus 5% of excess premium received; and
- Term – 100% of annualized first-year premiums.

We monitor the business environment, including but not limited to the regulatory and interest rate environments, and make changes to our product offerings and in-force products as needed, and as permitted under the terms of the policies, to sustain the future profitability of our segment.

Net Investment Income and Interest Credited

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

	For the Years Ended December 31,		
	2018	2017	2016
Net Investment Income			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 2,366	$ 2,337	$ 2,318
Commercial mortgage loan prepayment and bond make-whole premiums (1)	28	46	51
Alternative investments (2)	133	98	45
Surplus investments (3)	170	162	148
Total net investment income	$ 2,697	$ 2,643	$ 2,562
Interest Credited	$ 1,414	$ 1,404	$ 1,394

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

(2) See “Consolidated Investments – Alternative Investments” below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Years Ended December 31,		
	2018	2017	2016
Interest Rate Yields and Spread			
Attributable to interest-sensitive products:			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.93%	5.07%	5.20%
Commercial mortgage loan prepayment and bond make-whole premiums	0.06%	0.10%	0.12%
Alternative investments	0.30%	0.23%	0.12%
Net investment income yield on reserves	5.29%	5.40%	5.44%
Interest rate credited to contract holders	3.82%	3.84%	3.88%
Interest rate spread	1.47%	1.56%	1.56%

	For the Years Ended December 31,		
	2018	2017	2016
Averages			
Attributable to interest-sensitive products:			
Invested assets on reserves	$ 44,015	$ 42,016	$ 40,332
General account values	36,698	36,191	35,554
Attributable to traditional products:			
Invested assets on reserves	4,127	4,311	4,240

A portion of the investment income earned for this segment is credited to contract holder accounts. Statutory reserves will typically grow at a faster rate than account values because of the AG38 reserve requirements. Invested assets are based upon the statutory reserve liabilities and are affected by various reserve adjustments, including financing transactions providing relief from AG38 reserve requirements. These financing transactions lead to a transfer of invested assets from this segment to Other Operations. We expect to earn a spread between what we earn on the underlying general account investments and what we credit to our contract holders' accounts. We use our investment income to offset the earnings effect of the associated growth of our policy reserves for traditional products. Commercial mortgage loan prepayments and bond make-whole premiums and investment income on alternative investments can vary significantly from period to period due to a number of factors, and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

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

	For the Years Ended December 31,		
	2018	2017	2016
Benefits			
Death claims direct and assumed	$ 4,295	$ 4,531	$ 4,088
Death claims ceded	(1,648)	(1,997)	(1,750)
Reserves released on death	(586)	(646)	(593)
Net death benefits	2,061	1,888	1,745
Change in secondary guarantee life insurance product reserves:			
Change in reserves, excluding unlocking	676	665	619
Unlocking	(61)	50	(170)
Change in MoneyGuard® reserves:			
Change in reserves, excluding unlocking	385	317	222
Unlocking	(24)	(19)	(15)
Other benefits (1)	308	288	276
Total benefits	$ 3,345	$ 3,189	$ 2,677
Death claims per $1,000 of in-force	2.82	2.68	2.58

(1) Includes primarily changes in reserves and dividends on traditional and other products.

Benefits for this segment include claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits include the change in secondary guarantee and linked-benefit life insurance product reserves. These reserves are affected by changes in expected future trends of assessments and benefits causing unlocking adjustments to these liabilities similar to DAC, VOBA and DFEL. Generally, we have higher mortality in the first quarter of the year due to the seasonality of claims. See "Future Contract Benefits and Other Contract Holder Funds" in Note 1 for additional information.

Commissions and Other Expenses

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

	For the Years Ended December 31,		
	2018	2017	2016
Commissions and Other Expenses			
Commissions	$ 760	$ 734	$ 734
General and administrative expenses	541	580	536
Expenses associated with reserve financing	91	91	87
Taxes, licenses and fees	179	155	158
Total expenses incurred	1,571	1,560	1,515
DAC and VOBA deferrals	(914)	(847)	(831)
Total expenses recognized before amortization	657	713	684
DAC and VOBA amortization, net of interest:			
Amortization, net of interest, excluding unlocking	545	479	514
Unlocking	165	(11)	220
Other intangible amortization	4	4	4
Total commissions and other expenses	$ 1,371	$ 1,185	$ 1,422
DAC and VOBA Deferrals			
As a percentage of sales	119.6%	106.1%	112.8%

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the life of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business. When comparing DAC and VOBA deferrals as a percentage of sales for 2018 and 2017, the increase was primarily a result of changes in sales mix to products with higher commission rates.

RESULTS OF GROUP PROTECTION

Income (Loss) from Operations

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

	For the Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Insurance premiums	$ 3,383	$ 1,998	$ 1,940
Net investment income	260	168	176
Other revenues (1)	114	35	14
Total operating revenues	3,757	2,201	2,130
Operating Expenses			
Interest credited	5	2	2
Benefits	2,455	1,351	1,322
Commissions and other expenses	1,060	690	706
Total operating expenses	3,520	2,043	2,030
Income (loss) from operations before taxes	237	158	100
Federal income tax expense (benefit)	50	55	35
Income (loss) from operations	$ 187	$ 103	$ 65

(1) Consists of revenue from third parties for administrative services performed, which has a corresponding partial offset in

commissions and other expenses.

	For the Years Ended December 31,		
	2018	2017	2016
Income (Loss) from Operations by Product Line			

Life	$ 72	$ 49	$ 25
Disability	123	55	40
Dental	(8)	(2)	(1)
Total non-medical	187	102	64
Medical	-	1	1
Income (loss) from operations	$ 187	$ 103	$ 65

Comparison of 2018 to 2017

Income from operations for this segment increased due primarily to the acquisition of Liberty Life (see "Additional Information" below for more information) and lower federal income tax expense due to the change in the marginal corporate income tax rate as a result of the Tax Act.

Comparison of 2017 to 2016

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

- Higher insurance premiums due to more favorable persistency experience and higher sales across all of our product lines.
- Higher other revenues due to the recapture in 2017 of certain long-term disability business that was originally ceded to a reinsurer.
- Lower commissions and other expenses due to higher amortization of DAC in 2016 driven by model refinements, partially offset by higher strategic investments to enhance our customer experience and improve efficiency.

The increase in income from operations was partially offset by higher benefits due to favorable reserve refinements in 2016 in our long-term disability business and the recapture in 2017 of certain long-term disability business that was originally ceded to a reinsurer. This increase was partially offset by favorable mortality experience and lower incidence and new claims severity in our disability business.

Additional Information

Income from operations for the year ended December 31, 2018, includes eight months of activity from Liberty Life due to the acquisition that closed on May 1, 2018. The acquisition resulted in increases in all pre-tax line items presented in the table above. For more information about our acquisition, see Note 3.

Management compares trends in actual loss ratios to pricing expectations as group-underwriting risks change over time. We expect normal fluctuations in our total loss ratio, as claims experience is inherently uncertain. For every one percent increase in the total loss ratio, we would expect an approximate annual $31 million to $35 million decrease to income from operations. The effects are symmetrical for a comparable decrease in the loss ratio and, therefore, move in an equal and opposite direction.

For information on the effects of current interest rates on our long-term disability claim reserves, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Effect of Interest Rate Sensitivity."

Insurance Premiums

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

	For the Years Ended December 31,		
	2018	2017	2016
Insurance Premiums by Product Line			
Life	$ 1,246	$ 829	$ 821
Disability	1,838	910	890
Dental	299	259	229
Total insurance premiums	$ 3,383	$ 1,998	$ 1,940
Sales by Product Line			
Life	222	179	178
Disability	257	199	193
Dental	101	126	99
Total sales	$ 580	$ 504	$ 470

Our cost of insurance and policy administration charges are embedded in the premiums charged to our customers. The premiums are a function of the rates priced into the product and our business in force. Business in force, in turn, is driven by sales and persistency experience.

Sales relate to new contract holders and new programs sold to existing contract holders. We believe that the trend in sales is an important indicator of development of business in force over time. Sales in the table above are the combined annualized premiums for our products.

Net Investment Income

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

Benefits and Interest Credited

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

	For the Years Ended December 31,		
	2018	2017	2016
Benefits and Interest Credited by Product Line			
Life	$ 857	$ 540	$ 562
Disability	1,386	633	603
Dental	217	180	159
Total benefits and interest credited	$ 2,460	$ 1,353	$ 1,324
Loss Ratios by Product Line			
Life	68.8%	65.1%	68.4%
Disability (1)	75.4%	67.9%	67.8%
Dental	72.7%	69.3%	69.3%
Total (1)	72.7%	66.9%	68.3%

(1) Excludes the impact of the recapture of certain long-term disability business in the third quarter of 2017.

Generally, we experience higher mortality in the first quarter of the year and higher disability claims in the fourth quarter of the year due to the seasonality of claims. When comparing our life and disability loss ratios for 2018 and 2017, the increase in 2018 was driven primarily by the Liberty Life acquisition as we combined two blocks of business with different loss characteristics.

Commissions and Other Expenses

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

	For the Years Ended December 31,		
	2018	2017	2016
Commissions and Other Expenses			
Commissions	$ 339	$ 257	$ 248
General and administrative expenses	623	374	351
Taxes, licenses and fees	94	49	57
Total expenses incurred	1,056	680	656
DAC deferrals	(94)	(69)	(76)
Total expenses recognized before amortization	962	611	580
DAC and VOBA amortization, net of interest (1)	93	79	126
Other intangible amortization (1)	5	-	-
Total commissions and other expenses	$ 1,060	$ 690	$ 706
DAC Deferrals			
As a percentage of insurance premiums	2.8%	3.5%	3.9%

(1) See Note 3 for information regarding intangible assets acquired as part of the Liberty Life acquisition.

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 as a level percent of insurance premiums of the related contracts, depending on the block of business. Certain broker commissions that vary with and are related to paid premiums are expensed as incurred rather than deferred and amortized. Generally, we have higher amortization in the first quarter of the year due to a significant number of policies renewing in the quarter. When comparing DAC deferrals as a percentage of insurance premiums for 2018 and 2017, the decrease was driven by a change in our sales mix to products with lower commission rates as a result of the blocks of business acquired during 2018.

RESULTS OF OTHER OPERATIONS

Income (Loss) from Operations

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

	For the Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Insurance premiums (1)	$ 11	$ 10	$ 14
Net investment income	224	242	244
Amortization of deferred gain on business sold through reinsurance	1	22	71
Other revenues	(1)	13	3
Total operating revenues	235	287	332
Operating Expenses			
Interest credited	56	65	73
Benefits	106	117	143
Other expenses	25	47	50
Interest and debt expense	274	253	269
Strategic digitization expense	76	43	8
Total operating expenses	537	525	543
Income (loss) from operations before taxes	(302)	(238)	(211)
Federal income tax expense (benefit)	(77)	(130)	(109)
Income (loss) from operations	$ (225)	$ (108)	$ (102)

(1) Includes our disability income business, which has a corresponding offset in benefits for changes in reserves.

Comparison of 2018 to 2017

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

- Less favorable federal income tax benefit due to the change in the marginal corporate income tax rate as a result of the Tax Act.
- Higher strategic digitization expense as part of our strategic digitization initiative.
- Lower amortization of deferred gain on business sold through reinsurance as a gain was fully amortized during 2017.
- Higher interest and debt expense driven by an increase in the average balance of outstanding debt.
- Lower net investment income, net of interest credited, related to lower average invested assets driven by distributable earnings to our segments.

The increase in loss from operations was partially offset by the effect of changes in our stock price on our deferred compensation plans, as our stock price significantly decreased during 2018 (see "Other Expenses" below for more information).

Comparison of 2017 to 2016

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

- Lower amortization of deferred gain on business sold through reinsurance as a gain was fully amortized during 2017.
- Higher strategic digitization expense as part of our strategic digitization initiative.

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

- Lower benefits due to modifying certain assumptions in 2016 on the reserves supporting our run-off disability income business.
- More favorable federal income tax benefits due to excess tax benefits associated with stock option exercises in 2017 and the release of reserves for tax contingencies associated with a prior tax year that closed in the third quarter of 2017.
- Lower interest and debt expense driven by a decline in both average balances of outstanding debt and rates.

Additional Information

We expect to continue making investments as part of our strategic digitization initiative as discussed above in "Introduction – Executive Summary – Significant Operational Matters – Strategic Digitization Initiative."

Net Investment Income and Interest Credited

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

Write-downs for OTTI decrease the recorded value of our invested assets owned by the business segments. These write-downs are not included in the income from operations of our business segments. When impairment occurs, assets are transferred to the business segments' portfolios and will reduce the future net investment income for Other Operations. Statutory reserve adjustments for our business segments can also cause allocations of invested assets between the business segments and Other Operations.

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

Benefits

Benefits are recognized when incurred for institutional pension products and disability income business.

Other Expenses

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

	For the Years Ended December 31,		
	2018	2017	2016
General and administrative expenses:			
Legal	$ 1	$ 1	$ (9)
Branding	40	35	32
Other (1)	9	31	54
Total general and administrative expenses	50	67	77
Taxes, licenses and fees (2)	(13)	(8)	(16)
Inter-segment reimbursement associated with reserve financing and LOC expenses (3)	(12)	(12)	(11)
Total other expenses	$ 25	$ 47	$ 50

(1) Includes expenses that are corporate in nature including charitable contributions, the portion of our deferred compensation plan expense attributable to participants' selection of LNC stock as the measure for their investment return and other expenses not allocated to our business segments.

(2) Includes state guaranty funds assessments to cover losses to contract holders of insolvent or rehabilitated insurance companies. Mandatory assessments may be partially recovered through a reduction in future premium taxes in some states.

(3) Consists of reimbursements to Other Operations from the Life Insurance segment for the use of proceeds from certain issuances of senior notes that were used as long-term structured solutions, net of expenses incurred by Other Operations for its use of LOCs.

Interest and Debt Expense

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

REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

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

	For the Years Ended December 31,		
	2018	2017	2016
Components of Realized Gain (Loss), Pre-Tax			
Total operating realized gain (loss)	$ 187	$ 166	$ 179
Total excluded realized gain (loss)	(46)	(336)	(518)
Total realized gain (loss), pre-tax	$ 141	$ (170)	$ (339)
Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax			
Total excluded realized gain (loss)	$ (37)	$ (218)	$ (337)
Benefit ratio unlocking	(136)	129	28
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (173)	$ (89)	$ (309)
Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax			
Realized gain (loss) related to certain investments	$ (66)	$ (47)	$ (163)
Gain (loss) on the mark-to-market on certain instruments	7	(3)	13
Variable annuity net derivatives results:			
Hedge program performance, including unlocking for GLB reserves hedged	(137)	14	(122)
GLB NPR component	57	(43)	(32)
Total variable annuity net derivatives results	(80)	(29)	(154)
Indexed annuity forward-starting option	(34)	(10)	(5)
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (173)	$ (89)	$ (309)

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

Comparison of 2018 to 2017

We had higher realized losses due primarily to the following:

- Higher losses on variable annuity net derivatives results attributable to unfavorable hedge program performance due to more volatile capital markets, partially offset by favorable GLB NPR component due to an increase in our associated reserves and the widening of our credit spread.
- Higher realized losses related to certain investments originating from asset sales to reposition the portfolio and a decline in the mark-to-market of equity securities due to equity market declines.

Comparison of 2017 to 2016

We had lower realized losses due primarily to the following:

- Lower losses on variable annuity net derivatives results attributable to favorable hedge program performance due to less volatile capital markets.
- A decrease in realized losses related to certain investments originating from decreased OTTI and fewer asset sales attributable to improvements of select corporate bond holdings within the energy and other commodity sectors.
- Legal expenses in 2016 related to certain investments.

The above components of excluded realized gain (loss) are described net of benefit ratio unlocking, after-tax.

See “Variable Annuity Net Derivatives Results” below for a discussion of how our NPR adjustment is determined.

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

Operating Realized Gain (Loss)

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

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

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

Realized Gain (Loss) Related to Certain Investments

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

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

Gain (loss) on the mark-to-market on certain instruments, including those associated with our consolidated variable interest entities ("VIEs") represents changes in the fair values of certain derivative investments (not including those associated with our variable annuity net derivatives results), reinsurance related embedded derivatives and trading securities.

See Note 4 for information about our consolidated VIEs.

Variable Annuity Net Derivatives Results

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

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

Details underlying our variable annuity hedging program (dollars in millions) were as follows:

	As of December 31, 2018	As of September 30, 2018	As of June 30, 2018	As of March 31, 2018	As of December 31, 2017
Variable annuity hedge program assets (liabilities)	$ 2,357	$ 770	$ 1,094	$ 1,194	$ 1,307
Variable annuity reserves – asset (liability):					
Embedded derivative reserves, pre-NPR (1)	$ 252	$ 1,630	$ 1,288	$ 1,179	$ 1,029
NPR	(57)	(140)	(131)	(135)	(142)
Embedded derivative reserves	195	1,490	1,157	1,044	887
Insurance benefit reserves	(1,060)	(757)	(781)	(734)	(665)
Total variable annuity reserves – asset (liability)	$ (865)	$ 733	$ 376	$ 310	$ 222
10-year CDS spread	1.67%	1.35%	1.24%	1.19%	1.05%
NPR factor related to 10-year CDS spread	0.25%	0.18%	0.18%	0.18%	0.14%

(1) Embedded derivative reserves in an asset (liability) position indicate we estimate the present value of future benefits to be less (greater) than the present value of future net valuation premiums.

The following shows the hypothetical effect (in millions) to net income (loss) for changes in the NPR factor along all points on the spread curve as of December 31, 2018:

	Hypothetical Effect
NPR factor:	
Down 25 basis points to zero	$ (91)
Up 20 basis points	42

See “Critical Accounting Policies and Estimates – Derivatives – GLB” above for additional information about our guaranteed benefits.

Indexed Annuity Forward-Starting Option

The liability for the forward-starting option reflects changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC. These fair values represent an estimate of the cost of the options we will purchase in the future, discounted back to the date of the balance sheet, using current market indications of volatility and interest rates, which can vary significantly from period to period due to a number of factors and therefore can provide results that are not indicative of the underlying trends.

CONSOLIDATED INVESTMENTS

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

	As of December 31,		Percentage of Total Investments As of December 31,	
	2018	2017	2018	2017
Investments				
AFS securities:				
Fixed maturity	$ 94,024	$ 94,840	81.6%	83.9%
Equity	-	246	0.0%	0.2%
Total AFS securities	94,024	95,086	81.6%	84.1%
Trading securities	1,950	1,620	1.7%	1.4%
Equity securities	99	-	0.1%	0.0%
Mortgage loans on real estate	13,260	10,762	11.5%	9.5%
Real estate	12	11	0.0%	0.0%
Policy loans	2,509	2,399	2.2%	2.1%
Derivative investments	1,107	915	1.0%	0.8%
Alternative investments	1,725	1,459	1.4%	1.3%
Other investments	530	837	0.5%	0.8%
Total investments	$ 115,216	$ 113,089	100.0%	100.0%

Investment Objective

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

Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

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

Fixed Maturity and Equity Securities Portfolios

We adopted Accounting Standards Update ("ASU") 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, in 2018, which resulted in a new classification and measurement of our equity securities. See Note 2 for additional information. Fixed maturity securities consist of portfolios classified as AFS and trading. Details underlying our fixed maturity AFS securities by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of AFS securities in Note 5; however, the categories below represent a more detailed breakout of the AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

	As of December 31, 2018				
		Gross Unrealized			%
	Amortized Cost	Gains	Losses and OTTI (1)	Fair Value	Fair Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 13,762	$ 465	$ 352	$ 13,875	14.8%
Basic industry	4,542	137	152	4,527	4.8%
Capital goods	6,531	236	182	6,585	7.0%
Communications	4,686	210	133	4,763	5.1%
Consumer cyclical	5,475	160	180	5,455	5.8%
Consumer non-cyclical	14,307	543	507	14,343	15.3%
Energy	6,383	217	227	6,373	6.8%
Technology	3,698	64	81	3,681	3.9%
Transportation	3,289	91	99	3,281	3.5%
Industrial other	1,328	24	30	1,322	1.4%
Utilities	13,330	692	249	13,773	14.6%
Government related entities	2,292	141	63	2,370	2.5%
Collateralized mortgage and other obligations ("CMOs"):					
Agency backed	1,747	52	56	1,743	1.9%
Non-agency backed	732	48	(13)	793	0.8%
Mortgage pass through securities ("MPTS"):					
Agency backed	829	18	10	837	0.9%
Commercial mortgage-backed securities ("CMBS"):					
Agency backed	20	-	-	20	0.0%
Non-agency backed	791	6	13	784	0.8%
ABS:					
Collateralized loan obligations ("CLOs")	1,738	3	24	1,717	1.8%
Commercial real estate ("CRE") CDOs	8	-	(5)	13	0.0%
Credit card	78	16	-	94	0.1%
Equipment receivables	37	1	-	38	0.0%
Home equity	508	17	(9)	534	0.6%
Manufactured housing	15	1	-	16	0.0%

Student loans	38	-	-	38	0.0%
Other	240	7	1	246	0.3%
Municipals:					
Taxable	4,551	711	18	5,244	5.6%
Tax-exempt	96	5	-	101	0.1%
Government:					
United States	390	29	2	417	0.5%
Foreign	406	42	-	448	0.5%
Hybrid and redeemable preferred securities	582	45	34	593	0.6%
Total AFS securities	92,429	3,981	2,386	94,024	100.0%
Trading Securities (2)	1,823	137	10	1,950	
Equity Securities	116	1	18	99	
Total AFS, trading and equity securities	$ 94,368	$ 4,119	$ 2,414	$ 96,073	

	As of December 31, 2017				
		Gross Unrealized			%
	Amortized Cost	Gains	Losses and OTTI (1)	Fair Value	Fair Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 12,059	$ 1,061	$ 36	$ 13,084	13.8%
Basic industry	4,855	413	14	5,254	5.5%
Capital goods	6,270	547	24	6,793	7.2%
Communications	4,151	406	21	4,536	4.8%
Consumer cyclical	5,649	444	28	6,065	6.4%
Consumer non-cyclical	13,680	1,242	74	14,848	15.7%
Energy	6,557	535	85	7,007	7.4%
Technology	3,443	218	9	3,652	3.9%
Transportation	2,927	220	7	3,140	3.3%
Industrial other	979	49	7	1,021	1.1%
Utilities	12,786	1,480	22	14,244	15.0%
Government related entities	2,345	247	20	2,572	2.7%
CMOs:					
Agency backed	1,598	68	33	1,633	1.7%
Non-agency backed	880	53	(21)	954	1.0%
MPTS:					
Agency backed	849	34	5	878	0.9%
CMBS:					
Agency backed	22	-	-	22	0.0%
Non-agency backed	568	10	-	578	0.6%
ABS:					
CLOs	789	2	2	789	0.8%
CRE CDOs	14	-	(5)	19	0.0%
Credit card	77	21	1	97	0.1%
Equipment receivables	40	-	-	40	0.0%
Home equity	587	22	(21)	630	0.7%
Manufactured housing	17	1	-	18	0.0%
Other	182	7	-	189	0.2%
Municipals:					
Taxable	4,009	937	6	4,940	5.2%
Tax-exempt	163	16	-	179	0.2%
Government:					
United States	527	41	1	567	0.6%
Foreign	395	56	-	451	0.5%
Hybrid and redeemable preferred securities	575	87	22	640	0.7%
Total fixed maturity AFS securities	86,993	8,217	370	94,840	100.0%
Equity AFS Securities	247	16	17	246	
Total AFS securities	87,240	8,233	387	95,086	
Trading Securities (2)	1,425	203	8	1,620	

Total AFS and trading securities	$ 88,665	$ 8,436	$ 395	$ 96,706

(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.
(2) Certain of our trading securities support our Modco reinsurance agreements and the investment results are passed directly to the reinsurers. See “Trading Securities” below for more information.

AFS Securities

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

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

NAIC Designation (1)	Rating Agency Equivalent Designation (1)	As of December 31, 2018 Amortized Cost	Fair Value	% of Total	As of December 31, 2017 Amortized Cost	Fair Value	% of Total
Investment Grade Securities							
1	AAA / AA / A	$ 49,086	$ 51,118	54.4%	$ 46,455	$ 51,494	54.3%
2	BBB	39,872	39,641	42.1%	36,703	39,518	41.7%
Total investment grade securities		88,958	90,759	96.5%	83,158	91,012	96.0%
Below Investment Grade Securities							
3	BB	2,565	2,448	2.6%	2,785	2,840	3.0%
4	B	803	741	0.8%	768	743	0.8%
5	CCC and lower	95	63	0.1%	271	229	0.2%
6	In or near default	8	13	0.0%	11	16	0.0%
Total below investment grade securities		3,471	3,265	3.5%	3,835	3,828	4.0%
Total fixed maturity AFS securities		$ 92,429	$ 94,024	100.0%	$ 86,993	$ 94,840	100.0%
Total securities below investment grade as a percentage of total fixed maturity AFS securities		3.8%	3.5%		4.4%	4.0%	

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

we base the ratings disclosed upon internal ratings.

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

As of December 31, 2018 and 2017, 95% and 88%, respectively, of the total fixed maturity AFS securities in an unrealized loss position were investment grade. See Note 5 for maturity date information for our fixed maturity investment portfolio. Our gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) ("OCI"), on fixed maturity AFS securities as of December 31, 2018, increased by $2.0 billion since December 31, 2017. As more fully described in Note 1, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of December 31, 2018, does not represent OTTI as: (i) we do not intend to sell the debt securities; (ii) it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. For further information on our unrealized losses on AFS securities, see "Composition by Industry Categories of our Unrealized Losses on AFS Securities" below.

In our evaluation of OTTI, we concluded: (i) that it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis; and (ii) that the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. This conclusion is consistent with our asset-liability management process. Management considers the following as part of the evaluation:

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

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

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

As reported on our Consolidated Balance Sheets, we had $117.6 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled $106.7 billion as of December 31, 2018. If it were necessary to liquidate fixed maturity AFS securities prior to maturity or call to meet cash flow needs, we would first look to those fixed maturity AFS securities that are in an unrealized gain position, which had a fair value of $48.5 billion as of December 31, 2018, rather than selling fixed maturity AFS securities in an unrealized loss position. The amount of cash that we have on hand at any point in time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the ongoing cash flows from new and existing business.

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

As of December 31, 2018 and 2017, the estimated fair value for all private placement securities was $15.3 billion and $15.2 billion, respectively, representing 13% of total invested assets.

Trading Securities

Trading securities, which in certain cases support reinsurance funds withheld and our Modco reinsurance agreements, are carried at fair value and changes in fair value are recorded in net income as they occur. Investment results for these certain portfolios, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. Offsetting these amounts in certain cases are corresponding changes in fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. See Notes 1 and 9 for more information regarding our accounting for Modco.

Mortgage-Backed Securities (Included in AFS and Trading Securities)

Our fixed maturity securities include mortgage-backed securities ("MBS"). These securities are subject to risks associated with variable prepayments. This may result in differences between the actual cash flow and maturity of these securities than that expected at the time of purchase. Securities that have an amortized cost greater than par and are backed by mortgages that prepay faster than expected will incur a reduction in yield or a loss. Those securities with an amortized cost lower than par that prepay faster than expected will generate an increase in yield or a gain. In addition, we may incur reinvestment risks if market yields are lower than the book yields earned on the securities. Prepayments occurring slower than expected have the opposite effect. The degree to which a security is susceptible to either gains or losses is influenced by: the difference between its amortized cost and par; the relative sensitivity of the underlying mortgages backing the assets to prepayment in a changing interest rate environment; and the repayment priority of the securities in the overall securitization structure.

We limit the extent of our risk on MBS by prudently limiting exposure to the asset class, by generally avoiding the purchase of securities with a cost that significantly exceeds par, by purchasing securities with improving collateral performance, and by primarily investing in securities that are current pay and senior priority in their trust structure. A significant amount of assets in our MBS portfolio are either guaranteed by U.S. government-sponsored enterprises, supported in the securitization structure by junior securities or purchased at discounted prices significantly lower than their expected recovery value, enabling the assets to achieve high investment grade status.

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

Delinquency and loss rates on residential mortgages and home equity loans have been showing positive trends, and, as long as the unemployment rate remains stable to improving, we expect these trends to continue. We continue to expect to receive payments in accordance with contractual terms for a significant amount of our securities, largely due to the seniority of the claims on the collateral of the securities that we own. The tranches of the securities will experience losses according to their seniority level with the least senior (or most junior), typically the unrated residual tranche, taking the first loss. Our ABS home equity and RMBS had a market value of $4.0 billion and a net unrealized gain of $93 million as of December 31, 2018.

The market value of AFS securities and trading securities backed by subprime loans was $447 million and represented less than 1% of our total investment portfolio as of December 31, 2018. AFS securities represented $443 million, or 99%, and trading securities represented $4 million, or 1%, of the subprime exposure as of December 31, 2018. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions) as of December 31, 2018:

	Agency		Prime		Alt-A		Subprime/ Option ARM (1)		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type										
RMBS	$ 2,581	$ 2,576	$ 255	$ 241	$ 231	$ 217	$ 306	$ 274	$ 3,373	$ 3,308
ABS home equity	1	1	55	53	93	89	385	365	534	508
Total by type (2)(3)	$ 2,582	$ 2,577	$ 310	$ 294	$ 324	$ 306	$ 691	$ 639	$ 3,907	$ 3,816
Rating										
AAA	$ 2,321	$ 2,318	$ -	$ -	$ -	$ -	$ 9	$ 8	$ 2,330	$ 2,326
AA	253	251	8	8	14	13	11	11	286	283
A	8	8	14	14	9	9	66	64	97	95
BBB	-	-	15	15	16	16	29	29	60	60
BB and below	-	-	273	257	285	268	576	527	1,134	1,052
Total by rating (2)(3)(4)	$ 2,582	$ 2,577	$ 310	$ 294	$ 324	$ 306	$ 691	$ 639	$ 3,907	$ 3,816
Origination Year										
2008 and prior	$ 486	$ 449	$ 309	$ 293	$ 323	$ 305	$ 691	$ 639	$ 1,809	$ 1,686
2009	190	181	-	-	-	-	-	-	190	181
2010	255	245	-	-	-	-	-	-	255	245
2011	150	148	-	-	-	-	-	-	150	148
2012	45	47	-	-	-	-	-	-	45	47
2013	252	258	-	-	-	-	-	-	252	258
2014	69	67	1	1	-	-	-	-	70	68
2015	148	152	-	-	-	-	-	-	148	152
2016	512	554	-	-	1	1	-	-	513	555
2017	265	271	-	-	-	-	-	-	265	271
2018	210	205	-	-	-	-	-	-	210	205
Total by origination year (2)(3)	$ 2,582	$ 2,577	$ 310	$ 294	$ 324	$ 306	$ 691	$ 639	$ 3,907	$ 3,816
Total AFS securities backed by pools of residential mortgages a percentage of total AFS securities									4.2%	4.1%
Total prime, Alt-A and subprime/option ARM as a percentage of total AFS securities									1.4%	1.3%

(1) Includes the fair value and amortized cost of option adjustable rate mortgages (“ARM”) within RMBS, totaling $256 million and $227 million, respectively.
(2) Does not include the fair value of trading securities totaling $86 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $86 million in trading securities consisted of $78 million prime, $4 million Alt-A and $4 million subprime.
(3) Does not include the amortized cost of trading securities totaling $84 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $84 million in trading securities consisted of $76 million prime, $3 million Alt-A and $5 million subprime.
(4) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody’s and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second lowest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

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

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions) as of December 31, 2018:

	Multiple Property		Single Property		CRE CDOs		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type								
CMBS	$ 792	$ 800	$ 12	$ 11	$ -	$ -	$ 804	$ 811
CRE CDOs	-	-	-	-	13	8	13	8
Total by type (1)(2)	$ 792	$ 800	$ 12	$ 11	$ 13	$ 8	$ 817	$ 819
Rating								
AAA	$ 777	$ 789	$ -	$ -	$ -	$ -	$ 777	$ 789
AA	6	6	7	6	-	-	13	12
A	3	3	5	5	-	-	8	8
BB and below	6	2	-	-	13	8	19	10
Total by rating (1)(2)(3)	$ 792	$ 800	$ 12	$ 11	$ 13	$ 8	$ 817	$ 819
Origination Year								
2008 and prior	$ 23	$ 17	$ 12	$ 11	$ 13	$ 8	$ 48	$ 36
2010	3	3	-	-	-	-	3	3
2011	11	10	-	-	-	-	11	10
2012	27	27	-	-	-	-	27	27
2013	156	158	-	-	-	-	156	158
2015	10	10	-	-	-	-	10	10
2016	82	87	-	-	-	-	82	87
2017	315	324	-	-	-	-	315	324
2018	165	164	-	-	-	-	165	164
Total by origination year (1)(2)	$ 792	$ 800	$ 12	$ 11	$ 13	$ 8	$ 817	$ 819
Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities							0.9%	0.9%

(1) Does not include the fair value of trading securities totaling $7 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. These trading securities consisted entirely of CMBS.

(2) Does not include the amortized cost of trading securities totaling $7 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. These trading securities consisted entirely of CMBS.

(3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit rating agencies are not equivalent, the second lowest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

As of December 31, 2018, the fair value and amortized cost of our AFS exposure to monoline insurers was $424 million and $400 million, respectively.

Composition by Industry Categories of our Unrealized Losses on AFS Securities

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

The composition by industry categories of all securities in an unrealized loss position (in millions) as of December 31, 2018, was as follows:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Gross Unrealized Losses and OTTI	% Gross Unrealized Losses and OTTI
Banking	$ 3,666	8.3%	$ 3,855	8.3%	$ 189	7.7%
Food and beverage	2,623	6.0%	2,805	6.0%	182	7.4%
Electric	3,442	7.8%	3,616	7.8%	174	7.1%
Pharmaceuticals	1,981	4.5%	2,126	4.6%	145	6.0%
Chemicals	1,729	3.9%	1,845	4.0%	116	4.7%
Healthcare	2,013	4.6%	2,117	4.6%	104	4.3%
Diversified manufacturing	1,723	3.9%	1,821	3.9%	98	4.0%
Independent	979	2.2%	1,065	2.3%	86	3.5%
Technology	2,232	5.1%	2,313	5.0%	81	3.3%
Midstream	1,158	2.6%	1,224	2.6%	66	2.7%
Transportation services	1,101	2.5%	1,155	2.5%	54	2.2%
Media – entertainment	820	1.9%	871	1.9%	51	2.1%
Property and casualty	857	2.0%	907	2.0%	50	2.1%
Retailers	837	1.9%	884	1.9%	47	1.9%
Oil field services	331	0.8%	378	0.8%	47	1.9%
Automotive	776	1.8%	820	1.8%	44	1.8%
Government owned, no guarantee	520	1.2%	564	1.2%	44	1.8%
Life	600	1.4%	642	1.4%	42	1.7%
Railroads	611	1.4%	652	1.4%	41	1.7%
Aerospace	758	1.7%	798	1.7%	40	1.7%
Industries with unrealized losses less than $40 million	15,161	34.5%	15,905	34.3%	744	30.4%
Total by industry	$ 43,918	100.0%	$ 46,363	100.0%	$ 2,445	100.0%
Total by industry as a percentage of total AFS securities	46.7%		50.2%		100.0%	

As of December 31, 2018, the fair value and amortized cost of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss position was $121 million and $153 million, respectively.

Mortgage Loans on Real Estate

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

	As of December 31, 2018			
	Commercial	Residential	Total	%
Credit Quality Indicator				
Current	$ 13,012	$ 247	$ 13,259	100.0%
Delinquent (1)	-	1	1	0.0%
Foreclosure (2)	-	-	-	0.0%
Total mortgage loans on real estate	$ 13,012	$ 248	$ 13,260	100.0%

	As of December 31, 2017			
	Commercial	Residential	Total	%
Credit Quality Indicator				
Current	$ 10,760	$ -	$ 10,760	100.0%
Delinquent (1)	-	-	-	0.0%
Foreclosure (2)	2	-	2	0.0%
Total mortgage loans on real estate	$ 10,762	$ -	$ 10,762	100.0%

(1) As of December 31, 2018, nine commercial loans and two residential loans were delinquent. As of December 31, 2017, no mortgage loans were delinquent.
(2) As of December 31, 2018, no mortgage loans were in foreclosure. As of December 31, 2017, one commercial mortgage loan was in foreclosure.

As of December 31, 2018, no commercial mortgage loans on real estate were impaired. As of December 31, 2017, three commercial mortgage loans on real estate were impaired, or less than 1% of the total dollar amount of commercial mortgage loans on real estate. No residential mortgage loans on real estate were impaired as of December 31, 2018 or 2017. The total outstanding principal and interest on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2018 and 2017, was $1 million and $4 million, respectively.

See Note 1 for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

The carrying value of mortgage loans on real estate by business segment (in millions) was as follows:

	As of December 31,	
	2018	2017
By Segment		
Annuities	$ 3,962	$ 3,244
Retirement Plan Services	3,599	3,141
Life Insurance	3,829	3,628
Group Protection	1,089	332
Other Operations	781	417
Total mortgage loans on real estate	$ 13,260	$ 10,762

The composition of commercial mortgage loans (in millions) by property type, geographic region and state is shown below:

	As of December 31, 2018 Carrying Value	%		As of December 31, 2018 Carrying Value	%
Property Type			State Exposure		
Apartment	$ 4,074	31.3%	CA	$ 2,965	22.8%
Office building	3,216	24.7%	TX	1,539	11.8%
Retail	2,428	18.7%	MD	657	5.0%
Industrial	2,419	18.6%	GA	611	4.7%
Other commercial	602	4.6%	FL	580	4.5%
Mixed use	199	1.5%	OH	535	4.1%
Hotel/motel	74	0.6%	NY	488	3.8%
Total	$ 13,012	100.0%	VA	482	3.7%
Geographic Region			WA	466	3.6%
Pacific	$ 3,717	28.6%	TN	447	3.4%
South Atlantic	3,081	23.7%	PA	418	3.2%
West South Central	1,632	12.6%	NC	394	3.0%
East North Central	1,397	10.7%	IL	325	2.5%
Middle Atlantic	976	7.5%	WI	320	2.5%
Mountain	706	5.4%	OR	286	2.2%
East South Central	590	4.5%	MA	281	2.2%
West North Central	530	4.1%	AZ	272	2.1%
New England	383	2.9%	Other states under 2%	1,946	14.9%
Total	$ 13,012	100.0%	Total	$ 13,012	100.0%

The following tables show the principal amount (in millions) of our commercial and residential mortgage loans by origination year and by year in which the principal is contractually obligated to be repaid:

	As of December 31, 2018			
	Commercial	Residential	Total	%
Origination Year				
2013 and prior	$ 3,097	$ -	$ 3,097	23.4%
2014	1,267	-	1,267	9.5%
2015	1,842	-	1,842	13.9%
2016	2,047	-	2,047	15.4%
2017	2,063	-	2,063	15.5%
2018	2,713	240	2,953	22.3%

Total	$ 13,029	$ 240	$ 13,269	100.0%

	As of December 31, 2018			
	Commercial	Residential	Total	%
Principal Repayment Year				
2019	$ 489	$ 3	$ 492	3.7%
2020	494	3	497	3.8%
2021	875	3	878	6.6%
2022	808	3	811	6.1%
2023	858	4	862	6.5%
2024 and thereafter	9,505	224	9,729	73.3%
Total	$ 13,029	$ 240	$ 13,269	100.0%

See Note 5 for information regarding our loan-to-value and debt-service coverage ratios and our valuation allowance for loan losses.

Alternative Investments

Investment income (loss) on alternative investments by business segment (in millions) was as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Annuities	$ 27	$ 23	$ 11
Retirement Plan Services	15	11	5
Life Insurance	161	119	54
Group Protection	14	8	3
Other Operations	5	4	2
Total (1)	$ 222	$ 165	$ 75

(1) Includes net investment income on the alternative investments supporting the required statutory surplus of our insurance businesses.

As of December 31, 2018 and 2017, alternative investments included investments in 237 and 224 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

Non-Income Producing Investments

As of December 31, 2018 and 2017, the carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing was $7 million and $9 million, respectively.

Net Investment Income

Details underlying net investment income (in millions) and our investment yield were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Net Investment Income			
Fixed maturity AFS securities	$ 4,209	$ 4,163	$ 4,138
Equity AFS securities	-	12	11
Trading securities	84	94	100
Equity securities	4	-	-
Mortgage loans on real estate	496	440	422
Real estate	1	2	2
Policy loans	123	135	140
Invested cash	26	11	14
Commercial mortgage loan prepayment and bond make-whole premiums (1)	79	139	120
Alternative investments (2)	222	165	75
Consent fees	4	6	5
Other investments	23	2	5
Investment income	5,271	5,169	5,032
Investment expense	(186)	(179)	(158)
Net investment income	$ 5,085	$ 4,990	$ 4,874

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

	For the Years Ended December 31,		
	2018	2017	2016
Interest Rate Yield			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.44%	4.55%	4.70%
Commercial mortgage loan prepayment and bond make-whole premiums	0.07%	0.14%	0.12%
Alternative investments	0.21%	0.16%	0.08%
Net investment income yield on invested assets	4.72%	4.85%	4.90%

	For the Years Ended December 31,		
	2018	2017	2016
Average invested assets at amortized cost	$ 107,731	$ 102,844	$ 99,553

We earn investment income on our general account assets supporting fixed annuity, term life, whole life, UL, interest-sensitive whole life and the fixed portion of retirement plan and VUL products. The profitability of our fixed annuity and life insurance products is affected by our ability to achieve target spreads, or margins, between the interest income earned on the general account assets and the interest credited to the contract holder on our average fixed account values, including the fixed portion of variable. Net investment income and the interest rate yield table each include commercial mortgage loan prepayments and bond make-whole premiums, alternative investments and contingent interest and standby real estate equity commitments. These items can vary significantly from period to period due to a number of factors and, therefore, can provide results that are not indicative of the underlying trends.

Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums

Prepayment and make-whole premiums are collected when borrowers elect to call or prepay their debt prior to the stated maturity. A prepayment or make-whole premium allows investors to attain the same yield as if the borrower made all scheduled interest payments until maturity. These premiums are designed to make investors indifferent to prepayment.

The decrease in prepayment and make-whole premiums when comparing 2018 to 2017 was attributable primarily to decreased refinancing activity.

Realized Gain (Loss) Related to Certain Investments

Details of the realized gain (loss) related to certain investments (in millions) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Fixed maturity AFS securities: (1)			
Gross gains	$ 38	$ 19	$ 70
Gross losses	(80)	(44)	(133)
Gross OTTI	(7)	(20)	(101)
Equity AFS securities:			
Gross gains	-	6	7
Gross OTTI	-	-	(1)
Gain (loss) on other investments (2)	(13)	(12)	(68)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(22)	(21)	(24)
Total realized gain (loss) related to certain investments	$ (84)	$ (72)	$ (250)

(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 $(17) million for the year ended December 31, 2018.

Amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds reflect an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, we recognize a true-up to our DAC, VOBA, DSI and DFEL amortization and changes in other contract holder funds within realized losses reflecting the incremental effect of actual versus expected credit-related investment losses. These actual to expected amortization adjustments could create volatility in net realized gains and losses.

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During 2018 and 2017, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects

declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with the AFS classification.

We consider economic factors and circumstances within industries and countries where recent write-downs have occurred in our assessment of the position of securities we own of similarly situated issuers. While it is possible for realized or unrealized losses on a particular investment to affect other investments, our risk management strategy has been designed to identify correlation risks and other risks inherent in managing an investment portfolio. Once identified, strategies and procedures are developed to effectively monitor and manage these risks. The areas of risk correlation that we pay particular attention to are risks that may be correlated within specific financial and business markets, risks within specific industries and risks associated with related parties.

When the detailed analysis by our external asset managers and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Critical Accounting Policies and Estimates – Investments – Write-downs for OTTI and Valuation Allowances" above for additional information on our portfolio management strategy.

Details underlying write-downs taken as a result of OTTI (in millions) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
OTTI Recognized in Net Income (Loss)			
Fixed maturity AFS securities:			
Corporate bonds	$ (5)	$ (13)	$ (80)
ABS	(1)	(2)	(5)
RMBS	(1)	(2)	(11)
CMBS	-	(2)	(2)
State and municipal bonds	-	(1)	(3)
Total fixed maturity securities	(7)	(20)	(101)
Equity AFS securities	-	-	(1)
Gross OTTI recognized in net income (loss)	(7)	(20)	(102)
Associated amortization of DAC, VOBA, DSI and DFEL	-	2	-

Net OTTI recognized in net income (loss)	$ (7)	$ (18)	$ (102)

The $7 million of impairments taken during 2018 were all credit-related impairments. The decrease in write-downs for OTTI when comparing 2018 to 2017 was primarily attributable to the stabilization of certain corporate bond holdings within the energy and other commodity sectors that experienced deteriorating fundamentals in prior years.

We recognized less than $1 million of OTTI in OCI for the years ended December 31, 2018 and 2017. We recognized $55 million of gross OTTI in OCI, offset by $12 million for the change in DAC, VOBA, DSI and DFEL, for the year ended December 31, 2016. The decrease in OTTI recognized in OCI was primarily attributable to the fair values and recovery values being more aligned on impaired securities resulting in a decline of the non-credit portion of the impairment.

REINSURANCE

Our insurance companies cede insurance to other companies. The portion of our life insurance risks exceeding each of our insurance companies' retention limit is reinsured with other insurers. We seek life and annuity reinsurance coverage to limit our exposure to mortality losses and/or to enhance our capital and risk management. We acquire other reinsurance as applicable with retentions and limits that management believes are appropriate for the circumstances. The consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" reflect insurance premiums, insurance fees, benefits and DAC amortization net of insurance ceded. Our insurance companies remain liable if their reinsurers are unable to meet contractual obligations under applicable reinsurance agreements. We utilize inter-company reinsurance agreements to manage our statutory capital position as well as our hedge program for variable annuity guarantees. With regard to risk retention from a consolidated basis, these inter-company agreements do not have an effect on our consolidated financial statements. For information regarding reserve financing and LOC expenses from inter-company reinsurance agreements, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Uses of Capital – Contractual Obligations" below.

We focus on obtaining reinsurance from a diverse group of reinsurers. We have established standards and criteria for our use and selection of reinsurers. In order for a new reinsurer to participate in our current program, we require the reinsurer to have an A.M. Best rating of A+ or greater or an S&P rating of AA- or better and a specified RBC percentage. If the reinsurer does not have these ratings, we generally require them to post collateral as described below; however, we may initially waive the collateral requirements based on the facts and circumstances. In addition, we may require collateral from a reinsurer to mitigate credit/collectability risk. Typically, in such cases, the reinsurer must either maintain minimum specified ratings and RBC ratios or establish the specified quality and quantity of collateral. Similarly, we have also required collateral in connection with books of business sold pursuant to indemnity reinsurance agreements.

Reinsurers, including affiliated reinsurers, that are not licensed, accredited or authorized in the state of domicile of the reinsured ("ceding company"), i.e., unauthorized reinsurers, are required to post statutorily prescribed forms of collateral for the ceding company to receive reinsurance credit. The three primary forms of collateral are: (i) qualifying assets held in a reserve credit trust; (ii) irrevocable, unconditional, evergreen LOCs issued by a qualified U.S. financial institution; and (iii) assets held by the ceding company in a segregated funds withheld account. Collateral must be maintained in accordance with the rules of the ceding company's state of domicile and must be readily accessible by the ceding company to cover claims under the reinsurance agreement. Accordingly, our insurance subsidiaries require unauthorized reinsurers to post acceptable forms of collateral to support their reinsurance obligations to us.

Effective October 1, 2018, we entered into a Modco agreement with Athene to reinsure fixed and fixed indexed annuity products, which resulted in a $7.5 billion deposit asset reflected within other assets on our Consolidated Balance Sheets as of December 31, 2018. For additional information, see "Results of Annuities – Income (Loss) from Operations – Additional Information" above and Note 9.

Our amounts recoverable from reinsurers represent receivables from and reserves ceded to reinsurers. As of December 31, 2018, approximately 84%, or $14.8 billion, of our total reinsurance recoverable was secured by collateral for our benefit. Of this amount, $14.5 billion was held by reinsurers in reserve credit trusts (such reserve credit trusts are held by non-affiliated reinsurers; therefore, they are not reflected on our Consolidated Balance Sheets), $1.7 billion was reflected as funds withheld reinsurance liabilities on our Consolidated Balance Sheets as of December 31, 2018, although only $224 million can be utilized as collateral due to excess funds withheld above the reinsurance recoverable from our reinsurers, and $95 million was secured by LOCs for which we are the beneficiary, an off-balance sheet arrangement.

We regularly evaluate the financial condition of our reinsurers and monitor concentration risk with our largest reinsurers at least annually. We monitor all of our existing reinsurers' financial strength ratings on a monthly basis. We also monitor our reinsurers' financial health, trends and commitment to the reinsurance business, statutory surplus, RBC levels, statutory earnings and fluctuations, current claims payment aging and our reinsurers' own reinsurers. In addition, we present at least annually information regarding our reinsurance exposures to the Finance Committee of our Board of Directors. For more discussion of our counterparty risk with our reinsurers, see "Part I – Item 1A. Risk Factors – Operational Matters – We face risks of non-collectability of reinsurance and increased reinsurance rates, which could materially affect our results of operations."

For more information about reinsurance, see Notes 9 and 14 and "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Insurance Subsidiaries' Statutory Capital and Surplus" below.

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

REVIEW OF CONSOLIDATED FINANCIAL CONDITION

Liquidity and Capital Resources

Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided cash of $1.9 billion, $788 million and $1.3 billion in 2018, 2017 and 2016, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

The sources of liquidity of the holding company are principally comprised of dividends and interest payments from subsidiaries, augmented by holding company short-term investments, bank lines of credit and the ongoing availability of long-term public financing under an SEC-filed shelf registration statement. These sources of liquidity and cash flow support the general corporate needs of the holding company, including its common stock dividends, interest and debt service, funding of callable securities, securities repurchases, acquisitions and investment in core businesses.

Details underlying the primary sources of our holding company cash flows (in millions) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Dividends from Subsidiaries			
The Lincoln National Life Insurance Company	$ 910	$ 954	$ 950
First Penn-Pacific	15	20	20
Lincoln Investment Management Company	25	20	40
Lincoln National Management Corporation	-	75	25
Lincoln National Reinsurance Company (Barbados) Limited	75	-	-
Total dividends from subsidiaries	$ 1,025	$ 1,069	$ 1,035
Loan Repayments and Interest from Subsidiaries			
Interest on inter-company notes	$ 145	$ 122	$ 96
Other Cash Flow Items			
Amounts received from (paid for taxes on) stock option exercises and restricted stock, net	$ 2	$ 60	$ 34

The table above focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic issuance and retirement of debt and cash flows related to our inter-company cash management program (discussed below). Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company. Also excluded from this analysis is the modest amount of investment income on short-term investments of the holding company. See "Part IV – Item 15(a)(2) Financial Statement Schedules – Schedule II – Condensed Financial Information of Registrant" for the parent company cash flow statement.

Restrictions on Subsidiaries' Dividends and Other Payments

We are a holding company that transacts substantially all of our business directly and indirectly through subsidiaries. Our primary

assets are the stock of our operating subsidiaries. Our ability to meet our obligations on our outstanding debt and to pay dividends

and our general and administrative expenses depends on the surplus and earnings of our subsidiaries and the ability of our subsidiaries

to pay dividends or to advance or repay funds to us.

Our insurance subsidiaries are subject to certain insurance department regulatory restrictions as to the transfer of funds and payment of dividends to the holding company. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including our primary insurance subsidiary, The Lincoln National Life Insurance Company ("LNL"), may pay dividends to LNC without prior approval of the Indiana Insurance Commissioner (the "Commissioner") only from unassigned surplus or must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding 12 consecutive months, would exceed the statutory limitation. The current statutory limitation is the greater of 10% of the insurer's contract holders' surplus, as shown on its last annual statement on file with the Commissioner or the insurer's statutory net gain from operations for the previous 12 months, but in no event to exceed statutory unassigned surplus. Indiana law gives the Commissioner broad discretion to disapprove requests for dividends in excess of these limits. LNL's subsidiaries, the Lincoln Life & Annuity Company of New York ("LLANY"), a New York-domiciled insurance company, and LLACB, a New Hampshire-domiciled company, are bound by similar restrictions, under New York law and New Hampshire law, respectively. Under both New York and New Hampshire law, the applicable statutory limitation on dividends is equal to the lesser of 10% of surplus to contract holders as of the end of the immediately preceding calendar year or net gain from operations for the immediately preceding calendar year, not including realized capital gains.

Indiana law also provides that following the payment of any dividend, the insurer's contract holders' surplus must be reasonable in

relation to its outstanding liabilities and adequate for its financial needs, and permits the Commissioner to bring an action to rescind a

dividend that violates these standards. In the event the Commissioner determines that the contract holders' surplus of one subsidiary

is inadequate, the Commissioner could use his or her broad discretionary authority to seek to require us to apply payments received

from another subsidiary for the benefit of that insurance subsidiary.

We expect our domestic insurance subsidiaries could pay dividends of approximately $825 million in 2019 without prior approval from the respective state commissioners. The amount of surplus that our insurance subsidiaries could pay as dividends is constrained by the amount of surplus we hold to maintain our ratings, to provide an additional layer of margin for risk protection and for future investment in our businesses.

We maintain an investment portfolio of various holdings, types and maturities. These investments are subject to general credit, liquidity, market and interest rate risks. An extended disruption in the credit and capital markets could adversely affect LNC and its subsidiaries' ability to access sources of liquidity, and there can be no assurance that additional financing will be available to us on favorable terms, or at all, in the current market environment. In addition, further OTTI could reduce our statutory surplus, leading to lower RBC ratios and potentially reducing future dividend capacity from our insurance subsidiaries.

Insurance Subsidiaries' Statutory Capital and Surplus

Our insurance subsidiaries must maintain certain regulatory capital levels. We utilize the RBC ratio as a primary measure of the capital adequacy of our insurance subsidiaries. The RBC ratio is an important factor in the determination of the credit and financial strength ratings of LNC and its subsidiaries, as a reduction in our insurance subsidiaries' surplus may affect their RBC ratios and dividend-paying capacity. For a discussion of RBC ratios, see "Part I – Item 1. Business – Regulatory – Insurance Regulation – Risk-Based Capital."

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. Our term products and UL products containing secondary guarantees require reserves calculated pursuant to XXX and AG38, respectively. As discussed in "Part I – Item 1A. Risk Factors – Legislative, Regulatory, and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and result of operations," our insurance subsidiaries employ strategies to reduce the strain caused by XXX and AG38 by reinsuring the business to reinsurance captives. Our captive reinsurance and reinsurance subsidiaries provide a mechanism for financing a portion of the excess reserve amounts in a more efficient manner. We use long-dated LOCs and debt financing as well as other financing strategies to finance those reserves. Included in the LOCs issued as of December 31, 2018, was approximately $3.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements for UL products containing secondary guarantees ($350 million will expire in 2019, $1.0 billion will expire in 2021 and $1.9 billion relates to arrangements that will expire by 2031). For information on the LOCs, see the credit facilities table in Note 13. Our captive reinsurance and reinsurance subsidiaries have also issued long-term notes of $3.1 billion to finance a portion of the excess reserves as of December 31, 2018; of this amount, $2.1 billion involve exposure to VIEs. For information on these long-term notes issued by our captive reinsurance and reinsurance subsidiaries, see Note 4. We have also used the proceeds from senior note issuances of $875 million to execute long-term structured solutions primarily supporting reinsurance of UL products containing secondary guarantees. LOCs and related capital market solutions lower the capital effect of term products and UL products containing secondary guarantees. While we believe we have sufficient capital to support the statutory reserves on this business, an inability to obtain efficient capital market solutions could affect our returns on these types of products.

Our captive reinsurance and reinsurance subsidiaries free up capital the insurance subsidiaries can use for any number of purposes, including paying dividends to the holding company. The NAIC's adoption of the Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. Principles-based reserving places a greater weight on our past experience and anticipated future experience as well as considers current economic conditions in calculating life insurance product reserves in accordance with statutory accounting principles. We adopted the framework for our newly issued term business in 2017 and will phase in the framework by January 1, 2020, for all other newly issued life insurance products. We believe that these changes may reduce our future use of captive reinsurance and reinsurance subsidiaries for reserve financing transactions for our life insurance business. For more information on principles-based reserving, see "Part I – Item 1. Business – Regulatory – Insurance Regulation."

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees, product design and reinsurance arrangements. As a result, the relationship between reserve changes and equity market performance is non-linear during any given reporting period. Market conditions greatly influence the ultimate capital required due to its effect on the valuation of reserves and derivative assets hedging these reserves. We also utilize inter-company reinsurance arrangements to manage our hedge program for variable annuity guarantees. The NAIC is currently in the process of implementing changes to the statutory reserving, capital and accounting framework for variable annuities that will go into effect as of January 1, 2020. The NAIC is also considering modifications to the NAIC RBC C-1 capital charges for bonds, which may impact the level of the C-1 related RBC we are required to hold. For more information, see "Part I – Item 1A. Risk Factors – Federal Regulation – Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements."

Changes in equity markets may also affect the capital position of our insurance subsidiaries. We may decide to reallocate available capital among our insurance subsidiaries, including our captive reinsurance subsidiaries, which would result in different RBC ratios for our insurance subsidiaries. In addition, changes in the equity markets can affect the value of our variable annuity separate accounts. When the market value of our separate account assets increases, the statutory surplus within our insurance subsidiaries also increases. Contrarily, when the market value of our separate account assets decreases, the statutory surplus within our insurance subsidiaries may also decrease, which may affect RBC ratios, and in the case of our separate account assets becoming less than the related product liabilities, we must allocate additional capital to fund the difference.

We continue to analyze the use of our existing captive reinsurance structures, as well as additional third-party reinsurance arrangements, and our current hedging strategies relative to managing the effects of equity markets and interest rates on the statutory reserves, statutory capital and the dividend capacity of our life insurance subsidiaries.

Financing Activities

Although our subsidiaries currently generate adequate cash flow to meet the needs of our normal operations, periodically we may issue debt or equity securities to maintain ratings and increase liquidity, as well as to fund internal growth, acquisitions and the retirement of our debt and equity securities.

We currently have an effective shelf registration statement, which allows us to issue, in unlimited amounts, securities, including debt securities, preferred stock, common stock, warrants, stock purchase contracts, stock purchase units and depository shares.

Details underlying debt and financing activities (in millions) for the year ended December 31, 2018, were as follows:

	Beginning Balance	Issuance	Maturities, Repayments and Refinancing	Change in Fair Value Hedges	Other Changes (1)	Ending Balance
Short-Term Debt						
Current maturities of long-term debt	$ 450	$ -	$ (450)	$ -	$ -	$ -
Long-Term Debt						
Senior notes	$ 3,687	$ 1,100	$ (287)	$ (63)	$ (5)	$ 4,432
Bank borrowing (2)	-	200	-	-	-	200
Capital securities (3)	1,207	-	-	-	-	1,207
Total long-term debt	$ 4,894	$ 1,300	$ (287)	$ (63)	$ (5)	$ 5,839

(1) Includes the net increase (decrease) in commercial paper, non-cash reclassification of long-term debt to current maturities of long-term debt, accretion (amortization) of discounts and premiums, amortization of debt issuance costs and amortization of adjustments from discontinued hedges, as applicable.

(2) We refinanced a $250 million floating rate loan that was scheduled to mature on June 6, 2018, into a $200 million floating rate loan maturing on June 6, 2023.

(3) To hedge the variability in rates, we purchased interest rate swaps to lock in a fixed rate of approximately 5% over the remaining terms of the capital securities.

On February 12, 2018, we completed the issuance and sale of $150 million aggregate principal amount of our 4.00% senior notes due 2023 and $450 million aggregate principal amount of our 4.35% senior notes due 2048. We used these proceeds to repurchase $200 million of our 7.00% senior notes due 2018 and $287 million of our 8.75% senior notes due 2019. In addition, on February 12, 2018, we completed the issuance and sale of $500 million aggregate principal amount of our 3.80% senior notes due 2028. We used these proceeds, together with cash on hand and other arrangements, to fund our acquisition as described in Note 3. As of December 31, 2018, the holding company had available liquidity of $465 million. Available liquidity consists of cash and invested cash, excluding cash held as collateral, and certain short-term investments that can be readily converted into cash, net of commercial paper outstanding.

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Note 13.

We have not accounted for repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets as sales. For information about our collateralized financing transactions on our investments, see “Payables for Collateral on Investments” in Note 5.

If current credit ratings or claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event with respect to LNC if its long-term senior debt ratings drop below BBB-/Baa3 (S&P/Moody's); or with respect to LNL if its financial strength ratings drop below BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa1 (S&P/Moody's) as of December 31, 2018. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See "Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" for more information. See "Part I – Item 1. Business – Financial Strength Ratings" for additional information on our current financial strength ratings.

Our indicative credit ratings published by the primary rating agencies are set forth below. Securities are rated at the time of issuance so actual ratings may differ from the indicative ratings. There may be other rating agencies that also provide credit ratings, which we do not disclose in our reports.

The long-term credit rating scales of A.M. Best, Fitch, Moody's and S&P are characterized as follows:

- A.M. Best – aaa to d
- Fitch – AAA to D
- Moody's – Aaa to C
- S&P – AAA to D

As of February 14, 2019, our indicative long-term credit ratings as published by the principal rating agencies that rate our long-term credit were as follows:

A.M. Best	Fitch	Moody's	S&P
a-	BBB+	Baa1	A-
(7th of 22)	(8th of 21)	(8th of 21)	(7th of 22)

The short-term credit rating scales of A.M. Best, Fitch, Moody’s and S&P are characterized as follows:

- A.M. Best – AMB-1+ to d
- Fitch – F1+ to D
- Moody’s – P-1 to NP
- S&P – A-1+ to D

As of February 14, 2019, our indicative short-term credit ratings as published by the principal rating agencies that rate our short-term credit were as follows:

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A.M. Best	Fitch	Moody's	S&P
AMB-1	F2	P-2	A-2
(2nd of 6)	(3rd of 8)	(2nd of 4)	(3rd of 7)

A downgrade of our debt ratings could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described in “Part I – Item 1. Business – Financial Strength Ratings.”

All ratings are on outlook stable, except Fitch ratings, which are on outlook positive. All of our ratings are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that we can maintain these ratings. Each rating should be evaluated independently of any other rating.

Management monitors the covenants associated with LNC’s capital securities. If we fail to meet capital adequacy or net income and stockholders’ equity levels (also referred to as “trigger events”), terms in the agreements may be triggered, which would require us to make interest payments in accordance with an alternative coupon satisfaction mechanism (“ACSM”). This would generally require us to use commercially reasonable efforts to pay interest in full on the capital securities with the net proceeds from sales of our common stock and warrants to purchase our common stock with an exercise price greater than the market price. We would have to utilize the ACSM until the trigger events above no longer existed. If we were required to utilize the ACSM and were successful in selling sufficient shares of common stock or warrants to satisfy the interest payment, we would dilute the current holders of our common stock. Furthermore, while a trigger event is occurring and if we do not pay accrued interest in full, we may not, among other things, pay dividends on or repurchase our capital stock. We have not triggered either the net income test or the overall stockholders' equity test looking forward to the quarters ending March 31, 2019, and June 30, 2019. For more information, see "Part I – Item 1A. Risk Factors – Covenants and Ratings – We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve specified capital adequacy or net income and stockholders' equity levels."

Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans between LNC and participating subsidiaries that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. As of December 31, 2018, the holding company had a net outstanding receivable (payable) of $(12) million from (to) certain subsidiaries resulting from loans made by subsidiaries in excess of amounts placed (borrowed) by the holding company and subsidiaries in the inter-company cash management account. Any change in holding company cash management program balances is offset by the immediate and equal change in holding company cash and invested cash. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana and New Hampshire-domiciled insurance subsidiaries, the borrowing and lending limit is currently 3% of the insurance company's admitted assets as of its most recent year end. For our New York-domiciled insurance subsidiary, it may borrow from LNC less than 2% of its admitted assets as of the last year end but may not lend any amounts to LNC.

Our insurance subsidiaries, by virtue of their general account fixed-income investment holdings, can access liquidity through securities lending programs and repurchase agreements. Our primary insurance subsidiary, LNL, is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). Membership allows LNL access to the FHLBI's financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets, agency securities or U.S. Treasury securities. LNL had an estimated maximum borrowing capacity of $5.0 billion under the FHLBI facility as of December

31, 2018. Borrowings under this facility are subject to the FHLBI's discretion and require the availability of qualifying assets at LNL. As of December 31, 2018, our insurance subsidiaries had investments with a carrying value of $4.2 billion out on loan or subject to repurchase agreements. The cash received in our securities lending programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 5.

Cash Flows from Collateral on Derivatives

Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset decreases (or increases), the collateral required to be posted by our counterparties would also decrease (or increase). Likewise, when the value of a derivative liability decreases (or increases), the collateral we are required to post to our counterparties would also decrease (or increase). During 2018, our collateral payable for derivative investments decreased due primarily to increasing interest rates that decreased the fair values of our associated over-the-counter derivative investments. In the event of adverse changes in fair value of our derivative instruments, we may need to post collateral with a counterparty if our net derivative liability position reaches certain contractual levels. If we do not have sufficient high quality securities or cash and invested cash to provide as collateral, we have liquidity sources, as discussed above, to leverage that would be eligible for collateral posting. For additional information, see "Credit Risk" in Note 6.

Divestitures

For a discussion of our divestitures, see Note 3.

Uses of Capital

Our principal uses of cash are to pay policy claims and benefits, operating expenses, commissions and taxes, to purchase new investments, to purchase reinsurance, to fund policy surrenders and withdrawals, to pay dividends to our stockholders, to repurchase our stock and to repay debt.

Return of Capital to Common Stockholders

One of the Company's primary goals is to provide a return to our common stockholders through share price accretion, dividends and stock repurchases. In determining dividends, the Board of Directors takes into consideration items such as current and expected earnings, capital needs, rating agency considerations and requirements for financial flexibility. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Free cash flow for the holding company generally represents the amount of dividends and interest received from subsidiaries less interest paid on debt.

Details underlying this activity (in millions) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Dividends to common stockholders	$ 286	$ 259	$ 236
Repurchase of common stock	810	725	879
Total cash returned to stockholders	$ 1,096	$ 984	$ 1,115
Number of shares repurchased	13.2	10.4	19.3

On October 31, 2018, our Board of Directors approved an increase of the quarterly dividend on our common stock from $0.33 to $0.37 per share. Additionally, we may repurchase additional shares of common stock during 2019 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – (c) Issuer Purchases of Equity Securities."

Other Uses of Capital

In addition to the amounts in the table above in "Return of Capital to Common Stockholders," other uses of holding company cash flow (in millions) were as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Debt service (interest paid)	$ 286	$ 257	$ 285
Capital contribution to subsidiaries	502	60	-
Total	$ 788	$ 317	$ 285

The above table focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic retirement of debt and cash flows related to our inter-company cash management account. Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company.

We made an investment in our Group Protection business through our acquisition of Liberty Life, now a subsidiary of LNL, which impacted our liquidity and capital position. For additional information on our acquisition, see "Introduction – Executive Summary" above and Note 3.

Contractual Obligations

Details underlying our future estimated cash payments for our contractual obligations (in millions) as of December 31, 2018, were as follows:

	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years	Total
Future contract benefits and other contract holder obligations (1)	$ 20,208	$ 35,413	$ 29,018	$ 107,984	$ 192,623
Short-term and long-term debt (2)	-	600	1,000	4,086	5,686

Reserve financing and LOC expenses (3)	70	135	119	399	723
Payables for collateral on investments (4)	3,930	-	-	-	3,930
Operating leases (5)	44	81	69	88	282
Capital leases (5)	97	126	158	28	409
Football stadium naming rights (6)	8	16	8	-	32
Retirement and other plans (7)	110	213	209	494	1,026
Total	$ 24,467	$ 36,584	$ 30,581	$ 113,079	$ 204,711

(1) Estimates are based on financial projections over 40 years. New business issued or acquired, business ceded or sold, changes to or variances from actuarial assumptions and economic conditions will cause these amounts to change over time, possibly materially. See Note 1 for details of what these liabilities include and represent.

(2) Represents principal amounts of debt only. See Note 13 for additional information.

(3) Estimates are based on the level of capacity we expect to utilize during the life of the LOCs and other reserve financing arrangements. See Note 13 for additional information.

(4) Excludes collateral payable held for derivative investments. See Note 5 for additional information.

(5) See Note 14 for additional information.

(6) Includes a maximum annual increase related to the Consumer Price Index. See Note 14 for additional information.

(7) Includes anticipated funding for benefit payments for our retirement and postretirement plans through 2028 and known payments under deferred compensation arrangements. In addition to these benefit payments, we periodically fund the employees' defined benefit plans. The majority of contributions and benefit payments are made by our insurance subsidiaries with little effect on holding company cash flow. See Note 17 for additional information.

Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of December 31, 2018, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $16 million of unrecognized tax benefits and its associated interest have been excluded from the contractual obligations table above. See Note 7 for additional information.

Contingencies and Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity or capital resources. Details underlying our contingent commitments and off-balance sheet arrangements (in millions) as of December 31, 2018, were as follows:

	Amount of Commitment Expiring per Period				Total
	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	Amount Committed
Bank lines of credit	$ 350				