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Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Good morning, everyone. I'm Ryan Krueger and I'm the life insurance analyst at KBW. With me is Randy Freitag from Lincoln who is the CFO and Head of the Individual Life business.

Thanks, Randy, for joining us this morning and supporting the conference again this year.

QUESTION AND ANSWER SECTION

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Just to kick it off, last week Lincoln announced that Ellen Cooper will succeed Dennis Glass as CEO next year. Can you discuss what that means for Lincoln as well as you personally?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

I think it's great for Lincoln. And I'll dig it in a little bit. For me personally, I've read some of the reports with a little bit of fascination. Ryan, I have the greatest job in the world and I'll dig into a little bit what I mean by that. So for me, personally, I've had the greatest job in the world and I'm going to continue to have the greatest job in the world. So I continue to be the same excited CFO and Head of Life that I've been for a long time now.

When I think about why do I think of this as like the greatest job in the world, I mean, there are a number of streams that come into that. First, Ryan, you and I have probably talked about this. But my passion for this industry and the company, right – the passion that I have for this industry, which is born of some personal experience. Having lost both my father and my wife way too early in life, it sort of as a way of ties me to this industry, and really drives me each and every day.

And then for Lincoln, right, I mean, I guess, a little over 26 years ago, Lincoln hired a kid with a somewhat sketchy academic record as a senior assistant actuary with exactly zero people reporting to him. And now I'm the CFO for this amazing company. So that passion, that's one's dream of what makes it's the greatest job. But then leadership, right, I mean, if you think about leadership looking backwards, right, I've had the honor of working for Dennis Glass with and for Dennis for all of those 26-plus years. And, Ryan, you spent time with Dennis. He's an amazing leader. I'm going to take so much from him. But if I had to boil it down to one, I mean, the man is just sort of embedded in the culture of Lincoln, this concept of doing the right thing.

And I'm always going to remember that about Dennis, incredibly proud to have worked with and for him so long. And then when I look forward with Ellen taking over the reins, I've known Ellen for a long time, but I was part of the interview team that when we hired Ellen. I remember early on in her tenure, I got to help her understand what it's like to work with Dennis, sort of introduced her to the wide array of connections and relationships I have across Lincoln. I saw – I got to see her come in as a new Chief Investment Officer. And I've seen her sort of develop to the point where now she's sort of a leader among Chief Investment Officers in the industry.

I've seen her continue to take on new responsibilities. She runs our hedge program and overall enterprise risk. And I've seen her sort of take those things and make them better each and every day. And more recently, she took over the annuity business. So I feel wonderful about the transition from Dennis, this man I've worked with so long to Ellen, this person I've not only known for a long time, but I've seen the amazing things she's done in her decade or so here at Lincoln.

So that's – I've got this passion. I work for great people. I work with great people. And then, I'm the CFO for Lincoln who has this amazing track record of performance. If you look at what we've done over a decade, I mean, whether you look at it 3 years, 5 years, 10 years, we've grown EPS at or above our target of 8% to 10%. It's an amazing record of financial performance. And then, as the CFO, when you look at the strength of our balance sheet, as we sit here today, I don't think our balance sheet has ever been stronger than it is today. And then, on other aspect, which makes this job really nice, I mean, we're literally a capital-generation machine.

I know this is sometimes a question that comes up. But at Lincoln, we believe strongly in the fact that organic growth is doing business at appropriate returns is the – at the end the day will drive the ultimate amount of valuation for the company. And so we allocate a lot of capital to new business.

If you look at capital return to shareholders versus capital we allocate to new business, it's probably about two-thirds/one-thirds over time. And when you look at one of those, the amount of capital return to shareholders over the last five years, I was just looking at this yesterday, it's $4.7 billion. That's $944 million a year. That's about 70% to buybacks. It's about 30% to dividends. I think that's a good mix. It's a lot of capital return.

But then, when you factor in the – additionally, we've allocated over $9 billion to support this organic growth engine that we've been. And then, when you factor in that along the way, we were able even to double the size of our group business with the acquisition of Liberty. So over a five-year period, Ryan, that's by my math $15 billion of deployed capital, which is amazing. So, yeah, this is a great job. This is a great company to be part of. I'm very excited about the future for Lincoln.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks, Randy. No, that was great. So I'll transition into something new, you just commented on which is EPS growth. I guess – well, I was hoping we'd be closer to being done with the pandemic at this point. But I guess, we're still somewhat in it, but we are hopefully getting closer. So I was hoping you could talk about both how to help us think about the normalized earnings power of Lincoln at this point in time, and then if you do view the 8% to 10% EPS growth target as achievable in the current environment.

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

Yeah. Ryan, there are two big things that have been impacting earnings in recent quarters. The pandemic negatively impacted us. And then offsetting that, really strong alternative investment income. And if you go back to the last quarter, right, we reported operating EPS of $3.17. And if you adjust for those two items, you would get back to about $2.80, sort of underlying. If you went to the first quarter and did that same math, that number was $2.66. If you went back to the fourth quarter and did that same math, I think it was about $2.58. So that's a powerful record of just underlying growth through this pandemic.

And I think it speaks a lot to the diversity of earnings streams and types of earnings that we have at Lincoln. And I think when you look forward, I mentioned our track record looking backwards about as we sometimes joke, let's not talk about our grandfather's company. Let's think about this looking forward. And I'm very confident when we – we're in the middle of our annual financial planning process, we typically plan for the next three years from a financial standpoint. And I'm very confident that as we sit here today, we'll be able to achieve again what we strive for, which is 8% to 10% EPS growth.

I think the nature of that growth is going to be a little different than the past few years. I think there'll be a little less from organic as a lot of the products that we've rolled out build over the three years. So there'll be a little less of that. We've returned to pre-pandemic levels of buyback. So that'll return to its normal level. But I think we can more than overcome that slightly lower level of organic growth with expense opportunities over the next few years. So yeah, I'm very confident that as we put together a financial plan this year, we'll once again achieve our goals.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Maybe going into more detail on the expense side. You have had a number of expense initiatives. Can you, I guess, both update us on where the current initiatives stand, and then also discuss the new initiative you've been working on and give any sense of how meaningful in size that could be?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

Broadly speaking, Ryan, we think that being an expense leader is a key element of outperforming peers. And that's what we have been looking backwards. And that's what we tend to be looking forward. If you think about how we've done that over the years, we do that with a very disciplined and rigorous annual budgeting process, the benefits of which sort of continue to accrue over time.

But in terms of specific programs, it was a few years ago we launched what we call Project Ambition, which was really around broadly distributing and using digital technologies across the organization. We expected that and we're right on track to achieve $90 million to $150 million of net savings. That program is coming towards the end. And then, during the pandemic, in response to the pandemic, the amazing – we put a goal out there, and the amazing employees of Lincoln delivered $100 million of expense savings that we just permanently took out of the organization. That was an amazing achievement by the organization.

And now we're in the middle stages of the next program, which I think speaks a lot to the fact that the world is really changing at a very rapid pace in terms of technologies that are available, sort of best business practices, those sorts of things. And companies over the years always went through expense programs. They used to occur maybe every decade. Now they seem to occur at a faster pace, which once again I think speaks to the change.

I think in terms of the next program, I think on our next call, we'll be more positioned to talk about that. But I think it is a real opportunity. Where that opportunity occurs, I think, it will be across the organization. But specifically, I think there's a good opportunity in our group business, because the focus of our group business has been more on integration for the last few years. So I think there's a big opportunity there. And I think across the rest of the organization, there is another opportunity and we'll talk about that more on our next call.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. Moving to free cash flow, I guess, pre-pandemic, you typically talked about an annual range of about $850 million to $950 million. As we emerge from the pandemic, is that still the right range? Or have – some of the things you've done on product mix and reducing capital intensity of new business will – could that produce some upside?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

Yeah. I think it's still a reasonable range. I'd point out – I mentioned some numbers earlier what we've done over the last five years, which, on average, has put us at the very tippy top of that range $944 million versus the upper end of that range of $950 million. I think just in terms of helping you understand, I think that mix of roughly $150 million a quarter of buybacks [Technical Difficulty] (13:00) shareholder dividends now are just a little over $300 million.

So I think that $850 million to $950 million range is still a reasonable starting point. But as we do strive for all the time, we always strive to overachieve – at the very least, tip the numbers we talked about, right? And one of the things we're very proud of is that we walk the walk, we don't just talk the talk. I think the facts and performance speaks for itself, but I think that's a reasonable expectation looking forward.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

You touched on this a little bit in your opening comments, but wanted to just go back to it briefly, which is how to – just how to think of when – free cash flow is an output of in-force earnings and new business strain. And just think of those two pieces together? I know you did mention this already, but I just wanted to go back to this, because I think sometimes that's maybe underappreciated by the market, how to think about the new business strain?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

Yeah. It bounces around a little bit. But, at a high level, as I mentioned, when we think about the overall capital we generate and what we choose to do with, it's averaged about two-thirds to support new business organic growth and about a third returned to shareholders either through dividends or buybacks. And I think that's a reasonable rule of thumb as you look forward.

I think in terms of allocating capital to new business, it's all about are you getting the returns consistent with that capital allocation. And that's why, we're so focused each and every day on making sure that we're doing that very thing. And so now, let's look at last year, Life business is probably one of the businesses that's impacted significantly by lower interest rates. And so we had a lot of re-pricing we had to do that led to price increases across a number of products.

But we didn't stop there, because we believe in the underlying thesis of the products we sell. We went out and innovated and created new products. And that's one of the things I talked about how our sales will build over the financial planning as those products get rolled out. But, yeah, I think, Ryan, that sort of two-thirds/one-third is a reasonable proxy, but it's predicated on us getting and achieving the returns that we believe are appropriate.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Got it. And that's helpful. So risk transfer has definitely been a big topic for the industry as well as Lincoln over the last year or two. I was hoping to get your – an update on your latest thoughts on risk transfer. I know you're asked this all the time, but I'll ask it again. What business lines you're most focused on and also just how does your own stock's valuation impact the equation when you're thinking about doing something?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.
A

I think I've said before, Ryan, it's just the nature of these sorts of things that until you announce something that sort of appears from outside like you're doing nothing. But that is definitively not the case. But we do think there's an opportunity. And part of that opportunity is our share price that we believe is undervalued, which means that allocating capital in a differentiated way towards things like buybacks make sense from a financial standpoint.

So when we think there's a big opportunity, I think we've been very clear that we happen to think that opportunity is bigger on the Life side. And that has nothing to – that has – well, let me say this way, that has everything to do with the fact that there are just more buyers for life blocks than annuity blocks. And I'm a believer in the whole theory of supply and demand. And when there's more demand, that means that you'll get better prices. I think that's just – it's a pretty efficient marketplace in that way. So I happen to think there's right now at this red hot moment better opportunity in the life side.

But we've done these things – look, we did an annuity transaction, a fixed annuity transaction a few years ago. I think at this red hot moment, as I mentioned that there is a bigger opportunity in life, but it really comes down to is the – do we believe there's an opportunity for the private marketplace to pay us a price that is above the price that's embedded in our share price. We do believe there's real opportunity. We're allocating a lot of resources to figuring out whether that thesis is in fact true.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Got it. Well, sticking with life, mortality experience within the individual life business has been more favorable than this year than the kind of typical sensitivity at least relative to population deaths with COVID. Can you give a little more detail on what you've seen there so far this year?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.
A

It's interesting. We're a big company obviously with nearly $1 trillion of life insurance in force. So I think really the only surprising quarter is when mortality comes in exactly the number we expect. It's just the nature of this stuff that you're always going to get volatility or typically going to get volatility one way or the other. We have a really good year, when three of the quarters come in a little better than our expectation and one comes a little worse, or we have a bad quarter when it flips the other way, and we have a quarter – or years, excuse me, in line with our expectations when sort of two are above and two are below.

And if you look at the first half of the year, we've had really good underlying individual life experience. And that's been driven by, I believe, in the first quarter, it was primarily about historically favorable flu season, which we typically see elevated mortality in the first quarter of the year, but I think driven by the fact that there was almost a non-existent flu season this year that we didn't see that.

And then, in the second quarter it's tough to say, it's not like we have deep and depth conversations with all of our claimants. But I'd suspect there was a little bit of – what is it called – the bounce-back effect or whatever. The fact that we had elevated claims last year means that those people unfortunately have left, so you can't [Technical Difficulty] (20:12) at a high level. So I think that was a little bit of that.

In terms of looking forward, I expect it to bounce around. I think if you think about COVID itself, we've started in terms of vaccinations which started with sort of older age groups which is we have a lot of younger age people also, but on average, our Individual Life business is a little average of older age than our Group business. So we started to see the benefits of that. I'd expect that to continue. I think on the Individual side, you're sort of looking back COVID was driven by sort of [indiscernible] (20:53) product claims. I think you'll probably see more because the frequency is coming down associated with good vaccination in wherever our business is located. You probably see severity sort of be more of a variable in terms of any particular quarter's impact.

On the Group side, underlying mortality experiences have been running roughly in line with our expectations. We haven't seen the same benefits yet on the Group business of vaccinations. And in fact, I was reading a report the other day that indicates that last year if I forget the exact percentages, but if 65% to 75% of the deaths were in people over age 65 is to kind of flipped this year which would indicate more in line that deaths are flipping to the part of the market, that's more where the group business travels, so they may have a negative impact.

So it is what it is. We are very proud of the businesses in. We'll pay the claims. We've paid a lot of claims over the past year and we still managed to grow our earnings. We've still managed to – I believe our capital has grown $1.5 billion over the last 12 months, which is like amazing in a pandemic. So you won't – we will deliver on the promises we made to consumers, but we'll continue to I believe drive the company forward.

Ryan Krueger Q
Analyst, Keefe, Bruyette & Woods, Inc.

You have I guess much of a view on the post-pandemic mortality potential, I mean it does seem like it's been a very long time, but usually following a pandemic if you go way back in time, it does seem like general population mortality gets better for a little bit of time before reverting back to normal.

Randal J. Freitag A
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

I think you have – I agree, in general, that there should be some bounce back benefit, but I think you're going to have a couple of things fighting against each other in opposite directions. First, a lot of people have passed over the past 18 months that would have passed over the next few years and that means that mortality looking forward should be a little better than we would have thought before the pandemic.

On the other hand, I do believe there probably could be a negative impact from the fact that a lot of people haven't been getting – haven't been doing their annual checkups and that sort of stuff. So it's tough to say which one of those went up. But I think there are pluses and minuses on balance. I'd probably expect it to be a modest positive, but it's really tough to know for sure, Ryan.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. A new business in life insurance, I think you made a number of product changes over the last several, I guess few quarters. Can you talk about what type of new business returns you're getting in the current environment as well as your outlook for growth in the business going forward?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

Yeah, we are across all of our businesses achieving returns at or above our targeted levels. In the Life business at a high level, it's a little different for different products. Once again economics rule the riskier products of higher return targets and the less risky products have little lower targets, but at a high level, if you average it all, but it's roughly in the 12% range. And we are achieving that. Those are the products that are priced reflecting the reality of today's interest rates. So I feel really good about that.

Now what that's meant is that the prices for some of those products went up quite a bit, right, in guaranteed new risk life for instance. We don't sell any of it. It's actually still on our platform. But the price is such that it just doesn't make sense for people to buy it. Fixed MoneyGuard saw its prices go up quite a bit, and you've seen our competitive positioning in that particular space fall and thus our sales fall quite a bit in that space. But we've sort of looked at those products and we've created in the case of MoneyGuard, right, we've rolled out a variable-based MoneyGuard, which is a very different value prop, right, it's more about accumulation.

You're accepting the risk of the taking an exposure to the equity markets. We can't provide the guarantees we did in the fixed product with that sort of risk. So we sort of transfer risk to the consumer but give them access, turn higher returns than we could earn investing in corporate bonds so that we're seeing that product get great uptake. But just as in any new product, it takes a while, right, got to get with all the distribution platforms and got to help advisers understand the nature of the product. So we'd expect that product to continue to grow over the years. So in the Life business but that really across all of our businesses we're achieving our targeted returns we're in.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Just one more on life insurance. The legacy reinsurance pricing has caused some earnings headwinds for that business. Can you talk about where you are in that process at this point? And also, what have been some of the actions you've taken to offset that negative impact?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

I think as we've said, we've reached agreements with really our biggest reinsurance partners, I think the top three, for instance, and that means that from a percentage standpoint, 80% to 90% of our reinsurance arrangements, we've actually reached agreements and the nature of those agreements has varied across the board, right? In some instances, we've taken business back and actually got paid for that. In other instances, we've just taken business back. In other instances, we've accepted some level of price increase.

So substantially, we've resolved that. We do have some outstanding arbitrations on that remaining part. We've put an assumption inside of our DAC models for what the resolution of those arbitrations will be. And I'm very confident that we'll manage any level of price increase or capture or whatever that ends up coming out of those. But I think I see this issue as one that we can largely look at in the rearview mirror, but we do have to be aware of what's in front of us as we do still have a little bit of stuff to deal with.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Do the agreements generally preclude any further actions taken by the reinsurers in the future on that – on those blocks of business?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.
A

Yeah. Just these are all negotiated agreements with these parties. And so, I don't want to sort of speak to them. But when somebody, say, we're very happy with the outcome with our three biggest partners which I'm not going to specifically name, they're still very active participants with us. They tend to think about our relationship holistically. And I think both sides feel very good about the nature of those agreements.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Got it. Well, shifting to the annuity business, the ROA has generally been in the 75 to 80 basis point range, I'd say, over time. If you look at the last couple of quarters and you adjust for variable investment income, it's more towards the lower end of that range. Can you give a little color on your expectations there going forward?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.
A

Yeah. I think, Ryan, over the near to mid-term, I think that still is a reasonable expectation. I think we've seen a little bit of a lag this year because of some of the mechanics of our products. If you think about the VAs with guarantees, we have a feature where the fees we charge are based upon the benefit base as opposed to the account value and those benefit bases reset on an annual basis, so in and out market, you're sort of always lagging...

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay.

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.
A

...that. And so, you've seen the fee rate sort of lag the growth in the markets a little bit. So I think that's had a modest negative impact, but that will catch up and by the way that has great risk management benefits in the [Technical Difficulty] (30:06) markets which is the whole thesis of why we did that. I think over time the ROA will be driven by the nature of the products you're showing. And let's take buffered annuities or indexed variable annuities, for instance, it's a very different risk profile than a view of guarantees.

So those products themselves which don't have the guarantees and that sort of stuff, they're – once again the economics rule. They're going to have modestly lower ROA targets than a product where you're offering guarantees. So over time that could have an impact, but I think near to mid-term, that's a reasonable expectation, 75 to 80, as you've talked about.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, great. We have a couple of different things happening in terms of the – the NEIC is in the process of developing a new interest rate generator, then you have new GAAP accounting for variable annuity liabilities in 2023. To what extent, do these changes have any impact on the way you plan to actually manage the variable annuity business, or do you view them as not affecting how you manage the business and they're just changing accounting?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.
A

I think if you just look at the calendar, the new accounting is nearer than new generator. So we may talk about that one first. Our focus in providing guarantees and variable annuities has always been to run a hedge program, whose focus is to generate the assets needed to provide the claims that we may experience in the future. That means we run a very robust hedge program. It's an expensive program. We charge consumers for the nature of that. And I think as we've talked about, we pull around $500 million of fees of operating income to fund the hedge program. Then, additionally, we have a little bit of expected breakage which appears below the line.

So it's not cheap to offer guarantees. And so less of what we've done historically. Now in running that program, we've sort of had the benefit of not only do we have a program that has this goal and that meets this goal of generating assets we need. But it also has been in alignment with GAAP accounting, right, which is probably fairly unique to Lincoln that we're in that particular position.

So now GAAP accounting is going to change. And we're going to have to look at the facts and the circumstances created by those changes, right? Still have that core goal run a hedge program increase the assets needed to provide for any claims that we're going to experience. We love to think about that in the context of the new GAAP. And probably the best example which I use is guaranteed minimum death benefits and especially the return of premium death guarantee, which is like 90% of our death benefits.

I've looked at this, Ryan, 16 ways to Sunday, I think the FASB is making a big mistake in asking companies to try to fair value those. It's what I call specious precision to think you can value something with – without optionality and no liquidity. It just sort of defies the whole theory of how you value a derivative. It just can't be done. And so, it's highly unlikely that our hedge program is going to be targeted to try to match the movement in something which is a meaningless number which is the fair value of a return of premium death benefit as one example.

And we'll have to think about the collateral impacts. And does that cause us to have to make small tweaks or real tweaks in the program. We're in that analysis phase right now. But at the end of the day, what's not going to change is sort of that core goal of running the hedge program. When it comes to ESG, our current expectation is at the earliest, that's 2023, we may even slip from there kind of similar to the C1 process, right?

The NEIC went out and hired a talented party [indiscernible] (34:53). They came back with an approach and sort of when you looked at that generator, they came out with just some glaring issues with it. Regulators grasped onto the fact that the generator, that was originally provided, does it make sense. So, now we're in the phase of the industry which is the same thing that happened on the C1 factors working with regulators. I think we have a great history of working with regulators. And I have no doubt that we'll end up with a generator that both makes sense and that we'll be able to work with.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. One more on LDTI, just, can you give us any sense of how far you are along in the process at this point and when you think the right time might be to just disclose the impacts to the public?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

I think around the middle of next year. So maybe after second quarter earnings next year something like that, we'll do something with investors. You were in the analysis and there's a lot of systems work and that sort stuff, it's being done, so a lot of that's going on right now. We're sort of doing the analysis on, do we need to make tweaks to the hedge program?

We're trying to sort of button down the final definitional items, right? Whenever they come off the new at accounting pronouncement, it isn't like you can go read the words and go, aha, that's exactly what they need. There's always a lot of interpretation that goes on. So I feel good about our progress, we're right on track. When I talk to the outside experts who've engaged to work with us, they tell us that we're at or ahead of sort of peers. So, I feel good. But it's a ton of work and it's expensive.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. In just the Retirement business, we have seen quite a pickup in consolidation there within the industry. I guess, how do you feel about Lincoln's positioning and scale, and do you have enough – do you feel like you have enough scale in that business to effectively compete with these kind of larger mega players that are starting to emerge?

Randal J. Freitag
Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

A

Yes. And once again, not to hammer this, I sort of look at the facts and it makes it really easy for me to support that statement. And the facts are that we report an ROA in that business in the 20 to 25 basis point range. It was a little higher last quarter because of the strong outperformance. And that's sort of right in line with peers, it's hard to find perfect peers, it's well above what the – just a peer record keepers would earn, but it's aligned with companies that have sort of that mix of business we do.

So the facts we would say that from a return and from an earnings standpoint, yeah, absolutely, we're competitive. Now when you pull back and you go what does it mean to have scale and why is our Retirement business switched? It doesn't have as many assets as some of our peers. Why isn't able to do that? I think it's – there's a number of factors go into that. One I think our Retirement team has amazing leadership. And Jamie Ohl and the team she's created and that's really important. But they also do a great job of leveraging the benefits of being part of the broader Lincoln, right?

So for instance when they are negotiating with underlying fund families that are going to be on the platform, right, it's more than just our Retirement business going into their $100 billion or so of assets, they got the power of an annuity business with a lot of assets. I think they can leverage those benefits. They get to leverage the benefits of LFD, right? And we've said this all the time. We get on every platform from – this is small market of Retirement business in America because LFD has the best in the world that getting an access to these platforms, and we have all of our other products on those platforms.

On a standalone basis, I don't think our Retirement business would be able to be on all of the platforms where it is today. So once, again, it's leveraging the benefit of Lincoln and then Jamie and her team are just very good at understanding that you absolutely have to remain competitive from an expense standpoint. They were early adopters of digital. It's allowed them to drive and I think it was going back to our last review with them, I think they've driven their costs per participant down about 5% a year for the last three years, right, that's each and every year. So – and every metric we look at, our overall costs are once again right in line. And that's reflected in the results. So, yeah, they've done a great job. It's a powerful story of performance, which is at the end of the day what we're all about.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Great. Well, I think we have reached the end of the time, so we're going to wrap it up here. Thanks a lot, Randy and Lincoln, for participating and to the audience for listening and I will end it there.

Randal J. Freitag

Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

Ryan, thank you for having us. It's always nice to see you if only virtually.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Yeah, someday we'll be back in person. All right. Take care, everyone. Thanks, Randy.

Randal J. Freitag

Executive Vice President, Chief Financial Officer & Head-Individual Life, Lincoln National Corp.

Thank you.