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Lincoln National Corp. (LNC)

Investor Meeting

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MANAGEMENT DISCUSSION SECTION

Christopher A. Giovanni

Senior Vice President, Corporate Treasurer, Lincoln National Corp.

Thank you all and good morning. If I could ask everyone to silence their phones we'd greatly appreciate it. So, I am Chris Giovanni, Corporate Treasurer and Head of Investor Relations for Lincoln Financial, and on behalf of all of us, welcome to our 2019 Conference for Analysts, Investors and Bankers. Let me start by thanking those in the room and others that have joined us on the webcast for your participation today. We appreciate you taking the time to learn more about the company and the strategies we have in place to create long-term value for our shareholders.

For a quick look at the agenda which you can find in the front of your booklets. Dennis Glass will lead things off. We will then move to presentations on the businesses with Will Fuller, Dick Mucci and Randy Freitag. And then, after Q&A and a short break, Jamie Ohl, Will Fuller, Ellen Cooper will then present. Lastly, Randy will come up and conclude with a financial overview with a long Q&A at the end.

We do have two question-and-answer sessions over the course of the day, and as always, we ask if you please wait for the microphone, identify yourself and your firm, limit yourself to one question and one follow-up, and then we'll re-queue at the end if you have additional questions. After the Q&A session, we will be holding lunch where breakfast was on the other side of the hallway. For those they can stay, a lot of our other leadership team is here in the room and throughout the day, so we'd ask you to please engage with them over the course of lunch and during the breaks.

Lastly, I just want to turn your attention to our cautionary language statements which you can find in the booklets. As you can see, we will be making forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially. We describe these risks and uncertainties in the disclosures that you can find in the appendix, as well as in our most recent Forms 10-K and 10-Q. These forward-looking statements are made only as of today and we undertake no obligation to update or revise them to reflect events or circumstances that occur after this date.

Today's presentation also contain non-GAAP measures, and where appropriate, we have included in the appendix to your booklets reconciliations of these non-GAAP measures to their most directly comparable GAAP measures, together with explanatory notes describing how we measure these and the reasons that we do.

So, now at this time, we will get started with our President and Chief Executive Officer, Dennis Glass.

Dennis R. Glass

President, Chief Executive Officer & Director, Lincoln National Corp.

Thank you, Chris. Good morning, everybody, and let me add my welcome as well. Thank you for joining us today both in the room and on the webcast. We genuinely, genuinely appreciate the fact that you take the time to learn more about Lincoln, our strategies, our accomplishments and appreciate you being here. And therefore, we put a lot of effort into these presentations to make the day as productive as possible for every person in the room. So, again, thank you and we'll work hard to make it a good day.

So, we're going to cover performance, strategy and answer questions throughout the day. But let me start by saying that Lincoln has demonstrated a decade of strong results which have been durable, differentiated, diversified and dependable. And let's start the day by looking at our 10-year track record. As you can see on this slide, for the last 10 years, we've compounded our earnings per share growth by 11%, and when you look at the shape of the earnings, we've done that without a lot of volatility. While we're growing earnings at that 11% compound growth rate, we've managed to expand our ROE by 620 basis points, excellent results.

Happily, the performance has been reflected in our share price which outperformed the industry in each of the three, five and 10-year periods shown here. So, great operating results, great ROE expansion, and that's translated into excellent results for our shareholders. I have to say when I show these 10-year histories, sometimes investors and one in particular, I don't know if I see him in the room, who said I'm really not interested in your grandfather's company, 10 years ago, it was your grandfather's company. Well, again, when we look at a decade of performance, and to some extent, of course I agreed with that, and today is all about where are we today, what are the economics in the capital markets of today and how are we positioned to move the company forward over the next 10 years.

But coming back to this period, it does cover a variety of economic and capital market headwinds and tailwinds. As we all know 2008 to 2018, there was quite a lot of activity in that, including the Great Recession. So, what we've demonstrated with these consistent results is an ability to overcome headwinds and take advantage of the tailwinds to produce these good results. So, there is something to learn from the 10 years of results that we have shown here. And again, investors should take comfort that we have seen a lot and demonstrated an ability to succeed in many different circumstances.

So, today's themes revolve around the strength of our four businesses and I'd like to think of them as each of having successful franchises or being a successful franchise supported by our strong investment portfolio and balance sheet, and strategic actions that management has taken which will continue to drive our future performance. So, we are confident, our consistent strategy positions us to continue our success and positive momentum, and let me give you a brief recap. You've heard us talk about our strategy. Where do we compete, attractive and growing segments of the Annuities, Retirement, Life and Group Protection markets.

Each of these businesses is at scale for its target market and each has large and growing distribution, and broad and expanding product portfolios. We marry those franchises and activities within the franchises and the businesses with industry-leading risk management. I think one example of that is our economic hedge program where we are recognized by third-parties for having one of the most effective hedge program in the industry. Added to things like that, we have rigorous expense management, efficient capital allocation. So, again, our strategy which is very consistent, has been consistent for the last 10 years, has worked for the last decade and we believe it will work for decades to come.

So, within the broad overview of what we do and where we participate and what we add to that form of management actions, each and every one of our businesses are contributing. We don't have any bad businesses and Dick, Jamie, Randy will expand on the strategy within each of these. But a quick highlight from my perspective on each of them. In the Annuity business, of course, over the last 24 months, we've expanded the segments of the market that we participate in, which has driven significantly our cash flows and our sales.

In RPS, which is outperforming the industry as well, we have a differentiated high touch, high tech model and we're adding new products in that business. The Life business is an industry leader in scale and product breadth. And Group, particularly with the acquisition of Liberty is a leader in each market that it participates in. So, these are solid franchises, all of which are well-positioned for profitable growth.

On top of building each businesses, we had taken other strategic actions to further build the aggregate franchise, driving us towards creating additional long-term value for our shareholders. What are some of these important strategic actions? We've tilted our new business sales towards products without long-term guarantees, and now 77% of what we sell is not a long-term guarantee product. We still like long-term guarantee products and we're still going to sell them, but we like to tilt towards less of a percentage of our sales being in the long-term guarantee category.

We've increased – importantly, we've increased the percentage of our earnings from insurance risks with the Liberty acquisition, and now we're close to 30% of our earnings being driven by insurance risk profits, close to our target of 30%. Again, we actively direct capital to highest and best uses, balancing investment in growth and returning capital to our shareholders, as well as opportunistic buybacks such as our recent reinsurance transaction. In total, if you look back to 2010, we've actually repurchased 42% of our outstanding shares in that period of time.

Several years ago – continuing on with strategic actions we're taking, several years ago, we launched a digital initiative to enhance the customer experience and reduce cost. Born digital companies like Airbnb, Amazon, Uber, are setting consumer expectations that have to be matched by other industries, Lincoln included, and the insurance industry. We can't any longer just compete against traditional insurers from a customer service standpoint. So, our digital initiative is focused on dramatically improving the customer experience and we've already introduced industry-leading activities – digital activities. But importantly, at the same time, we're driving significant run rate savings over the next several years and we've discussed and talked about the magnitude of that several times.

So, we're going to try to move into the business units, but let me just touch on interest rates here a little bit. A lot of the pre-work that I saw coming from the sell side talked about interest rates impact and we'll touch on that. Well, let me just say and come back to this point of we've seen a lot and we've done a lot, low interest rates are not new. We've seen that in the decade where we achieved 11% earnings per share growth. There's not any one silver bullet or solution to lower interest rates, but there are levers and we have taken the appropriate actions over time to combat interest rates when they're at lower levels.

What does that include, re-pricing and pivoting our product portfolio to achieve the necessary return on capital, initiating expense savings to replace the earnings loss by spread compression because of lower interest rates. And if you come back to our digital program, when we set a expense saving number, it was exactly that replacing lost income from lower interest rates that we expected to see, because of lower interest rates. And then, other actions include, and Ellen will highlight this later, we've found opportunities in the investment portfolio to boost yield, focusing on high credit quality, but less liquid securities. So, we've been there. We've reacted to it. We have levers to react to it again and we will. I'm not concerned about low interest rates. We're concerned about low interest rates, but we're not concerned that we don't have levers to respond to them.

Staying with low interest rates and earnings, again – or earnings in general, as you can see here, we're confident that we can still achieve our 8% to 10% earnings growth targets as we look out over the next number of years. Why do I have confidence in that? Our businesses are growing. We have meaningful expense savings flowing into our earnings from both the Liberty integration and our digital initiatives. We're not over reliant on the ebb and flow of capital markets and we plan to consistently execute on our share repurchase programs. We don't share internal financial forecasts, although obviously that we do them, but I will tell you that our internal financial forecasts which we have excellent track record of accomplishing are consistent with this 8% to 10% adjusted op earning per share growth target that we show on this slide. So, we're consistently in that 8% to 10% rate and our financial forecasts tell us that we can continue to achieve it.

Now, as we've incorporated, and this is important to the ebb and flow of equity markets and interest rates, as we've incorporated the higher equity markets and lower interest rates into our forecast, what we're seeing is actually better total earnings as fees on assets under management outpaced lost earnings from lower interest rates. So, for all these reasons, we are confident we can continue to meet our expectations and execute towards these earnings per share growth rates. I'm optimistic about the future, not the sense that we're going to wake up with permanent tailwinds, but that we have the strategy, management and resources to grab opportunities that we had in the past and overcome challenges as we had in the past, and to state it again, we'll continue to build value for our shareholders.

With that, let me turn it over to the team that will make it happen, starting with Will Fuller. Thank you very much.

Will H. Fuller

Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

Thank you, Dennis. Good morning, everyone. I am pleased to continue our day and kicking the business unit sections off with a discussion around the capability that Lincoln made a conscious decision over a decade ago to make very strategic in the way in which we want to differentiate and compete in the marketplace, that is building a powerful distribution franchise.

At Lincoln, we run distribution as a business. It is a competitive advantage, and it's essential to achieving the financial forecasts that Dennis just referred to, that earnings growth of 8% to 10%. Half of that growth are future earnings that are developed from the new business that we sell today. That's how we win. Half of that contribution, that's how important it is for us to have that consistent market presence, the ability to sell similar amounts year in year out, throughout our market cycle.

That's why it's important we have that broad product portfolio, so that we can make adjustments as we need to, given the preferences of consumers and advisors, they can shift from time to time, and that's why we have the distribution franchises that we have at Lincoln. And our foundation of how we run distribution as a business is very strong. And there are some points through the bottom of this slide that are proof points to its strength; 800 wholesalers and growing. Those 800 wholesales are experienced wholesalers with long track records in our industry and at Lincoln. They work directly with and access a very large base of advisors, over 90,000, and these advisors collectively are serving millions of consumers in America.

We operate with an expanded product portfolio, expanded from when we were together at the last IRB, and that product portfolio has yielded even more broad shelf space. You see it in Lincoln's ability to expand our distribution and create new channels. We have meaningful new channels of distribution for the company that adds to that growth trajectory. And then, we've shown you time and time again that when called upon when necessary, we have an ability to pivot.

Now, our partners value our approach to distribution. Our model is aligned with their model. We have a worksite franchise, we have a wholesale franchise and we have a retail franchise. They value our broad product portfolio. Put yourself in their shoes. Would you rather work with one company that has a broad suite of the most relevant life products, a broad suite of the most relevant annuity products, a broad suite of the most relevant retirement plan products, one company or would you rather access multiple companies to put those pieces together.

They tell us they would prefer having a meaningful high quality relationship. They value the national breadth of our sales force. Because we're committed to having a consistent market presence, because we're committed to consistently selling year in, year out in our businesses, we're willing to invest long-term to have a national scale of a sales force and ones that can work in local markets, a physical presence in local markets. It's actually quite unique in our business.

They value that we're channelized. There's not just one business model in the marketplace, there's different channels. Wirehouses operate very differently than banks, which operate very differently than independent broker-dealers. They serve their markets differently. They, in some cases, might even have different consumer cohorts that they're targeting. We channelize, we align to the way they do business. So, our wholesalers, our bank wholesalers get immersed in the bank channel, they understand how the bank channel operates, our wirehouse wholesalers do the same for wirehouse. They appreciate that we're channelized and then they can count on Lincoln to have the operations, the service, the technology to support the business they're selling today, but also to care for the policyholders, who are their clients of the business that was sold in the past and they can – they know that we're here for the long haul. We're one of the few companies that consistently put all these pieces together. They talk about putting all these pieces together to be successful.

Next is LFD is a career destination for talent in our industry. We offer multiple career paths to a distribution professional. They can come and work inside of a business that's integrated across sales, marketing, competitive intelligence, analytics, digital tools and applications all focused as a team working to achieve those new business plans and achieving them within the product pricing allowable. And what this leads to is a very experienced company of distribution talent.

I'm going to talk about experience in two ways. First, if you just look at our sales force, on average, our sales force has a decade of experience. That is continuity. That is continuity in a territory. That is continuity working with the advisors in that territory and it also demonstrates strong retention. This is the place that our wholesalers want to be. Why might that be the case? A wholesaler who makes their career generating new business year after year, values working for a company that's committed to that product category, that's committed to selling through a cycle. It is well known by our sales force and it's also well known by the best distribution talent industry that Lincoln doesn't enter and exit product sales like others in the industry has. And so it's why it's also why LFD is where experienced wholesalers in the industry want to be.

Now how can I say that? Let me give you a proof point. Last two years, we'd expanded our sales force 14%, that's 60 wholesales; 60 new positions that we've hired. And when you take that cohort of new hires, the 60 wholesalers, on average, have 16 years of industry experience. So our sales force is experienced. When we want to go out and attract sales people, not only can we attract them, we attract the best most experienced. These wholesalers are known in their territories. They are well-regarded by their advisers and for this reason is why we believe this is where experienced wholesalers want to anchor their career and as a career destination.

Now, we direct our wholesalers to independent distribution. We believe in independent distribution because this is where the majority of sales in our products are. We also believe in distribution because you can direct that sales force to a large group of advisers, not just a smaller captive group, but a very large group. You can work with those advisers, you can work with the underlying clients that they serve and they have you can work with the underlying clients that they serve, and they have clients of very different demographics in these, different parts of their life, different transitions, and so we have the ability to work with them, with our broader product portfolio.

We have the ability to distribute multiple products to them, and we have the ability because it's a broad adviser base to make those pivots as we need to, as there is a shifting consumer adviser preferences, we can make those shifts, if we need to make those shifts, we can make those shifts and here I just remind you of a very successful life and annuity pivots that we executed in the past decade, culminates in Dennis' point that the 77% of our sales are now guaranteed, culminates in the point that, I can say that there's not a single product at Lincoln that has a disproportionate share of our sales.

We also manage distribution effectively in different market conditions. I think that's one thing experience brings. When I look at our sales leadership team of LFD, I'm talking about sales leaders that have 20 years to 30 years of experience, they've seen a lot of different market conditions, they've seen a lot of different product evolution. Here's just two examples, I use the Annuity business for both, first is how do we manage the sale force in varying market condition. There's three points, on the graph to the left.

First is, when industry sales declined in Annuities, what did we do? We reduce the size of our sales force. We reduce the size of our sales force to support what we expected to be some period of time to lower sales volumes. But then as an industry sale rebounded, and we reignited our sales growth beyond the industry, we were successfully able to ramp up that sales force very, very quickly, and then the third point, is as we enter new channels and we needed to stand up wholesales teams like entering in the all stage channel for instance where we have had no experience in the property/casualty channel before, we were able to assemble a full team before launch. So just an example of how we manage our sales force day-to-day.

The next is an example of how we activate distribution. And I'm going to use the example of our most recent Index VA product. Over the course of last 10 years we've invested time and resources to develop a very sophisticated advisor analytics database and this database tells us a lot about the advisors that we call on. What does it tell us? It tell us which advisors are selling the products that we manufacture, which products are they actually selling, how much are they selling, what licenses do they have. So we know what they actually are able to sell. One of the great frustrations of a wholesaler spending time on an advisor only to learn after spending many – much time that the advisor isn't even able to offer the product to begin with.

So we know a lot about our – we know a lot about the advisers. We provide this data to our wholesalers in real time on their iPad app, how they manage their territory. So not only are they giving analytics about their sales and their activities and their close ratios, they're getting data about advisers in the market that are doing business with other companies. It allows them to know more about their market. So we knew when we launched the Index VA, we knew there were 20,000 advisors selling Index VA in the marketplace. We knew who they were and we knew how to reach them. So we could prioritize where we went to get shelf space to the distributors had larger concentration of advisers. We had to prioritize our marketing communication efforts, our launch efforts, our sales. And the end result was a great combination of product innovation and distribution execution, which is the most successful product launch in Lincoln's history $1.4 billion of sales, a few thousand advisors, more shelf space to add, more advisors to acquire and we can do that not just in indexed VA, but we can do that in many of our other products.

Just an example of how – when you're committed to distribution for a long period of time, you can invest in capabilities that support it. We are well-positioned to continue our sales momentum. What we are seeing is that our success is not isolated. Our success is broad based, it's broad based, it's double-digit growth across all of our major channels. And if you dug in deep into each channel, you would find the same story of broad based growth at the distributor level. And what are you going to hear from the business units today, our teams that are driving this growth. I'll just sum them up. One is expanding shelf space.

We came through a period of regulatory uncertainty about the time of our last IRB where higher quality companies were a net winner in protecting their shelf space and adding to it. And then we've extended that advantage by our introduction of new products and capabilities across life annuity and retirement. So, expanding shelf space is a theme across throughout. We've added new distribution partners, an example of which would be PNC Bank, so even in places where we've had established presence for years, we're able to find distribution relationships that we could add to our focus list. We've increased our sales force as I've shared with you and with that is coming the ability to support growth as well as productivity growth.

And then lastly the bottom of the slide, we're entering established channels for the insurance industry where Lincoln did not have a presence. We're entering some of these channels and being able to compete and take share on our term. And what this is doing is just adding to our growth. So I'm giving you two examples. The first is the IMO channel for annuity distribution. This is one of the largest distribution channels for fixed indexed annuities. We entered it last year for the first time with a couple of partnerships and that strategy has generated $0.5 billion of sales to our – to our business, so off to a good start. And then lastly is Allstate, our first entry to the Property-Casualty channel. We introduced Lincoln to the Allstate Advisors in January, assembled the sales team and expect this also to add incrementally to sales this year.

We don't just stop with channels that are established where we go and take share. We also are looking at potential future channels for future partners that could create share longer term. And I categorize these as really longer term opportunities that are new to the insurance industry and they're important to focus on today not because in and of themselves they're large, but that there's significant potential for sales that could be generated in the future.

So it's an investment today for the potential opportunity of sales in tomorrow. First is the RAA channel, this has been channel we've been investing in since 2015. Why? What do we like about it? Was it a fast growing channel of advisors? It predominantly serves an ultra-high net worth consumer segment, which is not necessarily the consumer segment that is dominant for Annuities, Annuities has a tendency to serve clients with $75,000 to $250,000 of income. So this is a consumer segment with a higher – a little bit of higher wealth. This channel historically does not offer insurance products, RAAs or fee-based advisors, which means to have a presence in this channel you have up to the product portfolio that pays zero commissions and no compensation. Brian Kroll and his team launched a full suite of variable annuity and fixed annuities that are fee based annuities, no commissions and we've assembled a dedicated field force and we're making some good headway as you see here, a couple of hundred million of sales in 2018 and this success has continued into 2019, still early days, but contributing to sales, an example that Lincoln is going to build for the future.

Second is a term insurance in the digital aggregator space. This is our way of reaching millennials that we don't necessarily – or do it yourself is that we don't necessarily reach through our traditional independent agent distribution. We have some initial partnerships, we've developed some really interesting solutions you'll hear here Randy talk about it is TermAccel and you'll see again while still early days sales ramping up. And another trend we're paying very close attention to is the developing robo-advisor segment. Now understand that robo advisors predominantly are focused on low cost saving, low cost investing. The tools don't move into things like retirement plan, retirement income planning or financial planning, but if they were to do so – we're exploring firms that if they were to do so, then the insurance products, the retirement income products that we have would be a nice fit. So just an example that Lincoln not only are we busy working and achieving the sales plans and the sales growth that we have today, we're also looking at planting seeds for growth that we have tomorrow.

So I started off, we have powerful distributions. Now let me close it and bring it home what does it mean? Takeaways, we attract the best talent. Our model and approach to distribution is the one valued by our partners. It's why it yields us some of the best and broadest shelf space in the industry. We have access to those 90,000 of the most productive advisors in the industry. We can develop new channels of distribution, whether it's entering channels that exist or creating new channels for the company and when called upon and when needed, we have the ability to pivot. And we demonstrated this time and again that we don't just participate in these, we lead in these areas. And so, today you're going to hear from our business unit leaders that in each of our businesses, we have room to grow, we have multiple ways to win, the investment in distribution enables that growth and allows us to achieve this new business forecasts that make us a significant contribution to their earnings growth that will as a management team aiming to achieve.

So, thank you, and with that I'd like to invite Dick Mucci, to discuss our Group business. Thank you.

Thank you.

Richard L. Mucci

Executive Vice President & President, Group Protection, Lincoln National Corp.

Thank you, Will. Good morning, everyone. It's great to be with you this morning to share our Group Protection story. It's a very good story. We're very excited about our future. I want to leave with you some key messages this morning and my overall message is that Group Protection is a market leading and powerful franchise, position to drive profitable growth.

There are three themes that I will explore with you further during my presentation to support this overall message. First the Liberty acquisition is going extremely well. We're exceeding financial objectives and realizing, the competitive advantages that we anticipated. Second; we're building on those competitive advantages in driving top line growth by acquiring new customers, selling into – cross-selling into our expanded book of business and pursuing the employee paid market. Third, we expect further improvement in our margin and margin expansion driven primarily by expense efficiency, but also incremental pricing leverage as we enhance the capabilities of the services we provide our customers. When you look at our long-term earnings growth profile, we believe our earnings growth drivers will enable us to grow earnings 7% to 9%.

Now there are some important aspects of this that are worth noting. First in Group Protection, our earnings growth is almost exclusively driven by organic factors. The capital markets really do not influence or impact our earnings growth. Equity values do not directly impact our business and investment returns on our reserves, primarily LCD have minimal influence. The organic earnings trajectory is a function of really two factors, one is the top line growth which is both sales and persistency and margin expansion, expense efficiency, effective claims management, disciplined pricing, supports of a fundamental factor to support margin expansion.

So in summary, our earnings growth is a function of our premium growth while prudently managing expenses and sustaining favorable loss ratios. In addition, we believe there're some significant upside in the near term on the 7% to 9% growth, given current claims and expense trends. As I mentioned we're very pleased with the financial results of our Liberty integration, and I want to highlight some of our success on this slide.

First our re-pricing effort is going extremely well. We've been able to re-price $1.4 billion of premium renewed and that has yielded renewal persistency better than expectations, very favorable, and also most importantly, a very good margin pickup. We have $400 million to go on this first tranche of renewals and we feel that we have – we'll have continual success.

Now when we announced the transaction, we said it would take two, three pricing cycles to achieve our re-pricing objectives. We now believe that one cycle will be sufficient. Our persistency is outperforming. Last year our persistency on the acquired block was 3 percentage points to 4 percentage points better than our expectation.

And that, and some additional sales pre-closing has led to our current premium – annualized premium run-rate of over $4 billion, it's much higher than our initial outlook.

We're doing well with expense takeout. Our expense synergy target was $100 million pre-tax and we now believe that we'll be able to achieve that target this year, at the end of this year, in 2019, a full year ahead of schedule, and we expect additional upside of up to $25 million in 2020. So, when you combine these factors together, we're very pleased in terms of our ability to improve our profit margin at a faster rate than we originally anticipated. In fact, last year we achieved 5.5% margin well into our 5% to 7% target range and well ahead of our initial expectation when we announced the transaction.

When you look at top-line growth, we expect to grow our premium 5% to 7% annually in the long-term, and we believe that growth will be incremental to the industry growth and we believe that we can achieve that incremental growth based on three major strategies or what we call strategic imperatives.

We're a market leader in disability and leave management. We're not going to relinquish that lead. We're going to continue to fortify our position. Second, with our expanded book of business, expanded market reach, we plan to effectively sell and service – serve employers of all sizes. And third, we will pursue the profitable and fast growing employee-paid market.

In reference to the first strategic imperative, our leadership and disability and leave management, an important component of that is our claims management function. We have tremendous scale in our claims management function. We have probably one of the largest disability and leave management organizations in the industry, that claims function is geographically dispersed, it's supported by robust technology like claimant portals at – that where claimants can receive information and also provide self-service to them and also support employer needs for information.

We, at scale, also provide a very large database and we continue to enhance our analytics to get the most out of that database and the data we have. Our claims organization also includes a proprietary clinical model. This is a group of physicians, nurses, rehab counselors who provide expertise and insight to our claims management. This function is also supported by our analytics that assigns claims to the right person at the right time.

We continue to enhance our leave management service and capabilities and this is really resonating with our customers, and we've had good growth in a number employees covered by our leave programs, adding 3 million employees at the end of last year. So, you can see the combination of these factors really provide superior value to employers, great service and supporting their need to sustain workforce productivity by our industry-leading top quartile performance and returning employer – employees to productive work. And we're also helping employees navigate the complex and fast changing world of leave management both at the federal and state level, including emerging paid family leave programs.

Now, the Liberty acquisition has expanded our market reach, and on this slide, I'd like to describe the size and scope of our distribution channel, distribution relationships, as well as the breadth of our employer market coverage. Our distribution channel is made up of a large number of sales reps and account management staff. Both of those areas have been augmented by acquisition. In fact, our account management staff is just about double what it was pre-acquisition. And the reason for that is that we're in the larger case business now which requires a higher touch service model. This staff is supported by specialized practice areas, one of which supports the employee-paid market and cross-selling. Another supports broker development, again with statistics and data that helps target opportunities to expand our brokerage relationships, as well as a specialized area to provide really high-touch intense service to our largest customers.

We value our distribution partnerships and according to our surveys they value their relationships with us. We do business with over 7,000 benefit brokers and consultants, about 25% of our sales are sourced through three major national firms; Mercer, AON, and Willis Towers Watson, they tend to focus in a large case market. We have another cadre of about 350 producers that produce – that give us about 50% of our sales; they're highly productive in both sales and in-force premium. And we have very good penetration in the book of business, more than 20%.

We also have – you can see in the pie chart on the lower left of the slide, a very good coverage of the employer market from the smallest companies to largest corporations in America. So, a combination of our channel – our distribution channel, our distribution relationships in that market breadth, we feel that we can drive very good growth in our sales. We believe in the near term that we can achieve 7% to 9% annual growth and growth in all sized markets, but in particular the highest growth in the large case market where we're catching up to the pre-acquisition sales levels.

Now when we executed the acquisition, we expanded our book of business, and currently we – currently we serve over 35,000 employers who employ more than 10 million employees. So, this is obviously a tremendous source for additional business and sales. One of the ways we do that is through cross-selling additional lines of coverage to these employer customers.

I have three examples here. One is selling more group life insurance to the large case market to come up to the cross-selling levels we see in the small and mid-sized markets. Second is to pursue cross-selling of dental to small case market where employers value the packaging of benefits for convenience and simplicity. And we recently ramped – revamped our title suite of accident and critical illness voluntary products, and we believe there is opportunity to sell those – cross-sell those across the entire customer base. These three examples alone indicate an additional $700 million of premium. We see more of our business coming from our existing customer base. We've seen that in the last two years and we – our target is to, in the near term to achieve 40% or more of our sales coming from the existing customer base. Now cross-selling is one key contributor. But another contributor is our employee-paid marketing programs, where we're looking to increase the participation of employees in these programs, not only the numbers of employees but also the average size purchase.

Let me dig a little deeper on this concept of the employee-paid market. And it's both new business and selling to our existing customers – our new customers as well as selling to our existing customers. We define employee-paid market as employee purchase insurance at the worksite where the employee pays some or all the premium. Our industry uses terms like worksite or voluntary to describe this market. It really covers the full gamut of products. The top five lead off with life – term life insurance, that's the largest segment. Dental, short-term disability, accident and critical illness that rounds all the top five. But there are several other products that fall into this market category.

The industry has seen this employee-paid business grow faster than employer pay. And there are several factors for that. One is that there is a need, most employees don't have a lot of emergency funding or finances to support unexpected life events. And also, there's a greater awareness of risk among employees of the impact of unexpected health events, and I believe that the turmoil we've seen in the medical world – the medical insurance world has affected employees in terms of a greater awareness of the risks they have.

The other – another factor is most employees don't have financial planners and insurance agents. They'll intend to think about purchasing an insurance protection that's at the worksite and they like purchasing insurance at the worksite. They appreciate the employer endorsement and they appreciate the convenience of purchasing insurance and payroll deduction. Employers also like sponsoring these programs. They can provide a valuable benefit to their employees, and I have to pay the whole cost and in some cases pay another cost. So, this is driving strong growth in the industry and we also see it at Lincoln. The employee-paid market is growing faster than employer-paid. We actually anticipate that market for us to grow in the low double-digits in the near-term. And we believe that will be incremental to the industry growth and we think we can achieve that because of the expanded market reach we have and expand the book of business. We also believe and observe that this business is more profitable than employer-paid.

In fact, our targeted profit margins are about one-third greater from the employee-paid versus the employer-paid. The way we're going to pursue this market really is in three major areas of strategies. First, continue to – we're going to continue to update and modernize our portfolio and suite of products and add to that suite of products as well. Second, we're going to continue to enhance our ability to reach the – a customer, reach the end employee, improve our consumer marketing and to educate them about the need they have, educate them about the products we sell that can meet those needs and mitigate the risk. To provide decision support that really guides their purchase decisions and most of this support to the end consumer will be done digitally in a virtual environment. And the third area is to continue to make the fulfillment process, the actual purchase, easier, faster, simpler and core to that is the whole enrollment function again with a heavy dose of technology.

Now this is not just our technology, what's important for us is to be able to interface with technology that the employer provides or their broker or in many cases a third-party benefit administrator that is bringing technology to the work side to help support human resource management and benefit administration.

Now I'm going to shift gears from our top-line growth prospects to our view of profitability and our ability to sustain attractive margins and margin expansion going forward. First, I'd like to talk about our operating – plans for creating operating efficiency, which is a key driver in the short-term in terms of margin expansion. Certainly, we've had success with the synergy -- expense synergies of our acquisition. We're able to -- we were able to take out $75 million of run rate expenses by the end of last year from the combined pro forma of the two companies. That's about 2% reduction in expense rates. Going forward, in the near-term, we expect another $80 million of cost take out. That includes some additional remaining portion of the expense synergies that we expect from the Liberty transaction, but also an incremental $30 million of expense savings due to other efficiency initiatives. And that's another 2% reduction in expense ratios. And, with that reduction, we will be approaching -- our expense ratios will be approaching the top quartile cost structure of the industry.

Now, there are some major areas of focus to drive that. First, of course, continue to be successful in integrating our transaction, our acquisition of Liberty and get those expenses and synergies that we talked about. Second, as we grow premium to be prudent how we manage fixed costs and create additional expense ratio leverage by controlling those costs. Third, is to recognize that we are investing heavily in process and technology and to drive the enhanced customer experience which helps certainly drive the top-line, but also creates operating efficiency for us. This includes capitalizing on the enterprise digital efforts and we see that as an opportunity to leverage enterprise's expertise, the functions and initiatives that [ph] are growing (00:53:13) across in all our businesses and this is a very exciting area for us in terms of investment and return.

Finally, I think with the – another way to look at the this too is an opportunity is that with the expanded marketplace we have with dealing with employers of all sizes, we are revamping our service models. We want to be able to speak to the unique needs of employers that vary by size and other characteristics as well including the customization that large customers require. But we want to do that in a more economic way. So, we're looking at that as improving our operating efficiency, so it's a win-win, improve the results for the end consumer, the customer, the employer as well as improve our operating efficiency. So those are the key drivers that we look at improving our expense ratios.

When we look ahead and think about attaining attractive -- achieving attractive profit margins and sustaining margin improvement and sending up to any adverse changes in the external environment, my first point is that we're starting in a good place. The marketplace is rational, that rationality is supported by the fact that the industry is growing at a solid rate and that takes some pressure off of the competitors to not necessarily grab -- aggressively grab market share. That rationality is also supported by the recent consolidation of the industry, especially with some large players like ourselves and that had an additional stability with fewer larger players in the marketplace. We at Lincoln believe that we're very well-positioned to continue to improve our margins even with less than favorable changes in the economic and competitive environment. There are several factors that lead to that confidence. One is that we have scaled up our businesses with the acquisition, we're very diverse in our business and have great diversification around products and markets. Second, we've already built in some claim experience normalization into our business plans and we're anticipating some of that. Third, we are – with the investments in enhancing the customer experience, we believe that we have some and we'll be developing some enhanced pricing power based on that ability to serve our customers more effectively than our competition.

We also, as I mentioned in the previous slide, in the near term much of our margin improvement is operating efficiency, that's much more in our control than relying on time experienced trends or marketplace pricing. We also look at our disability claims management expertise which I talked about earlier as an important lever in managing profit and risk. And with the growth – my final point with the growth of the employee-paid market, the more profitable employee-paid market, that gives us an additional hedge on our profit improvement plans. So we're confident that we'll continue to expand our margins well into our 5% to 7% target range and approach the top end of that range in the near-term.

So in closing, let me reiterate some key themes. First, the Liberty transaction is growing extremely well. We're exceeding our financial objectives. We're taking – we're realizing the competitive advantages as we anticipated when we announced the transaction. We are building on those competitive advantages and driving top-line growth, I'm very bullish about our ability to drive top-line growth. And we were confident in our ability to achieve attractive margins and sustain margin expansion.

So, in summary, our Group Protection business is positioned for a sustainable profitable growth. Thank you for your attention this morning. And I'd like to turn it now to Randy Freitag, who will give you an update on our Life Insurance business. Randy?

Randal J. Freitag

Executive Vice President, Chief Financial Officer and Head of Individual Life, Lincoln National Corp.

Thank you. Thank you. So, we are going to end up the morning presentations with a discussion about the business of Life. Specifically, how we have built, maintained and grown an industry leading Life Insurance franchise. We're going to do that by focusing on three topics. First, we will talk about how by marrying a very broad and competitive product portfolio with an equally broad distribution system we have and can continue to grow. Second, I'll talk about [ph] how by leveraging (00:58:17) profitable growth, scale and a disciplined approach to management we have navigated through a period that has not been without headwinds. And lastly, I'll talk briefly about where we will go for growth in the future.

So, at Lincoln, we have built a Life Insurance business that has the potential to grow 4% to 6% over the longer term with almost all of that growth being driven organically. It's really pretty simple profit model when you think about it for a business that at its core can be somewhat complex. The key in this business, the absolute key is selling a significant amount of profitable new business. If either side of that equation lags, is the amount of business you sell, the profitability of that business. Growth becomes more difficult, not impossible but more difficult.

One of the very favorable aspects about the Life business and I think something that's underappreciated is the persistent and long term nature of the profit stream. It's very comforting that when we wake up on January 1 of any given calendar year, we know that roughly 95% of last year's earnings are coming back. That really makes the math pretty simple. This much earnings is leaving, how much do we need to add and can we sell enough business at our profit target to meet that goal? It's really pretty simple math.

Additionally, as a large player, as you would expect, we expect to continue to drive expense efficiencies into the Life business. And while spread compression has declined from where it was a few years ago and will continue to decline going forward, we can use more expense synergies driven by things like digital in the near-term to offset any amount of elevated spread compression. So that is our growth potential in the Life business.

In the Life business, we compete against a broad group of high quality public companies. And the last five years has actually been a period with a significant amount of change. We've actually seen a number of our top competitors leave the business for one reason or the other. We've seen many of our other competitors struggled to grow. In fact only one company has successfully grown at sales, one public company has successfully grown at sales over the last five years and that's all.

So how have we done that? Three things I'd say, distribution, product and innovation and it's about those three things working together, our focus today on product and distribution. We could have the best distribution system in the country. And if we had an uncompetitive product portfolio, we'd have weak sales. We could have the most competitive product portfolio and if we had weak distribution, we would likely have weak sales. It's when you bring the strength of that distribution together with the strength of that portfolio that the magic happens, that magic being the differential performance we have shown over an extended period of time.

How does that happen? It starts with a broad suite of products that both meet our profit targets and meet ever changing consumer demands, because, yes, those things are changing all of the time. We match up this broad suite of products with access to these incredible advisors spread out across the country. In fact, 65,000 advisors will sell a Lincoln product over any given two year period. And you know what? It's not a static 65,000, it's an ever changing set of advisors who is getting married up with the products we are featuring and that's the job of our 250 wholesalers, they go out and they marry advisors with the products Lincoln is featuring products that both meet consumer demand and our return targets.

So, over the last few years, there have been a number of items, topics of interest we can call them in the Life's business. [ph] And since this is (01:03:16) Life Insurance, let's start with mortality. I think we've been very clear that if you look at any given quarter, our mortality results can vary quite a bit, driven primarily by seasonality. But if you pull out to a longer period of time such as a calendar year, what you see is a very tight correlation between our mortality results and our annual expectations.

Morbidity became very topical last year and so we spent a lot of time talking about MoneyGuard and why MoneyGuard is different, how actually the majority of the benefits are paid out of the death benefit, how given when it was priced all the assumptions reflected, all the knowledge that companies had earned over the years, all of those things, which led us have the ability to show you about a significant amount of sufficiency that exists inside of MoneyGuard reserves even under multiple significant stress scenarios.

Reinsurance costs have been very topical and we have not been immune. Reinsurance costs have increased, started roughly five years ago. We have not been immune from it as I mentioned. We have embedded in our results that you see today, higher reinsurance costs. We also have embedded in our future expectation and assumption that they will continue to increase. Spread compression, it was bigger five years ago and still exists today. It'll continue to decline as we go forward. We continue to proactively whether it's the managing expenses or working with Ellen's team to find investments that fits the Life liability profile. We continue to manage through this particular item.

So, as a large player, as a scale player, you might expect, I expect that we focus on managing expenses and we have done that in spades. In fact over the last five years we have grown our expenses at one-third the rate of our revenues bringing our ratio down from over 8% to under 7% in a single five year period. How we've done this? No big surprises. We've implemented modern business practices, if you want to call them that, things like outsourcing when there's a lower cost option. Things like changing procurement policies, travel policies to centralized business functions. We've married that with investments and technology and data, which are yielding significant expense savings. Whether that's lowering the cost of underwriting or designing products, we've done it all. And we've continued to drive those expenses out of the operation of the Life business.

We have managed through a period over the last five years that has had a fair amount of headwinds. But every business, I don't care what it is has some headwinds that it's facing at some point time, we tend to focus a lot in the Life business on these two which have been very real, spread compression and reinsurance costs, I have mentioned them both. In fact, if you look over the last five years, those two items have represented a $250 million headwind. Now, as I mentioned, every business has to think about things that are going against this. I know good management team just stops there. They try to figure out how they can overcome and that's exactly what we've done by combining profitable sales growth, a focus on expenses, by looking at all of those things, by managing our business, we have more than overcome those $250 million of headwinds. So we're at the point today where we have a margin in our Life business well above those of our peers. We're not done. We are not done focused on managing expenses. We are not done growing revenues. The playbook while probably similar going forward, we're going to continue making investments in technology, which are going to continue to yield expense efficiencies, whether that things like lowering the time it takes to reprice a product, I expect to lower that by 50%. That allowing us to significantly ramp up the number of products we can price in any given year, whether it's continuing to use automation and data to drive down the cost of underwriting, interjecting more automation, more data into this process over the next few years. We expect to drive down the cost per application by 15%. No, we are not done driving our expense ratio even lower.

So, while expenses are very important, it has been a key component of how we have overcome headwinds, what's equally important is growth. We will not grow earnings if we don't grow. So how are we going to grow looking forward? Two big pockets I will talk about today. The first is two areas of the business where we are a dominant player today, those being the hybrid market and the variable universal life market. The number one player Lincoln is in both of those markets, those happen to be markets that are growing faster than the industry. Our job is to grow with those markets while protecting that market share. These happen to both the products with very complex, tightly-linked value chains something we specialize in.

Beyond those markets, there are places where we don't sell much business today and we can look in the future for growth, one being the small face term market. We sell a lot of term insurance but most of it if you look at it is well over a $1 million, it's term insurance but sold as part of a complex financial plan, but were relatively small when it comes to term insurance once you get down to that $0.5 million and below level. While by introducing automation, introducing a product like TermAccel, which is a product where 60% of the policies issued will be issued through an automated underwriting process, that's a product where the communication both from the app submission to the delivery of the policy is all electronic. By introducing products like that we expect to significantly grow our sale, in small face term that is about a $1 billion marketplace.

Additionally, index universal life, we've been a relatively small participant in this large fast growing market, about a 2% market share. We came out with new products earlier this year and I expect to significantly change that dynamic growing our market share from 2% to something more in line with our overall share of the market, Life marketplace. When you add all that up, we see $150 million to $200 million of incremental growth opportunities. So that is the business of Life. It's about distribution strength, product strength, disciplined financial management and investing in attractive markets to drive future growth. That is the business of Life. It's pretty simple. I think we are now going to go to Q&A. We're going to invite up the presenters from this morning. And Chris is going to drive this. He is going to set up the living room here quickly.

So we're going to do a Q&A session here again. We will have an hour at the end of the day as well. So we ask if you try and limit your questions to the presentations from this morning. And again one question, one follow-up and then we'll get to everyone else. If we could start first here with Tom and then we'll go to Ryan.

QUESTION AND ANSWER SECTION

Thomas Gallagher Q
Analyst, Evercore ISI

Tom Gallagher, Evercore.

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

Okay.

Q

A couple of questions for Will. So, you mentioned that 55% of your variable annuity sales have a living benefit guarantees. Can you talk about the 45% that don't, what types of products are those? Could you describe those in a little more detail? What type of return profile that those have? Are they about the same from an ROE standpoint or much better? And then final question for you Will, can you also comment on the SEC regulation best interest standard that just came out, what you see that impact being for you?

Will H. Fuller A
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

Great. Happy to. We'll get into more of the annuity discussion in the later morning session. But the variable annuities that do not carry a living benefit would be ones like the index variable annuity that I talked about in my distribution presentation, it would be variable annuities where there's not an election for a living benefit which would mean that one's interested in having tax deferral or perhaps maybe will add the living benefit rider at a future date and that would be our core product, [ph] CoreChoice (01:13:58), ChoicePlus rather and American Legacy. It could also be the investment -- investor advantage which is an investment only variable annuity which is really more of a pure tax deferred vehicle with no living benefit associated with it or it could be someone that's exercising our eye for Life at point of purchase.

And so, all of those products we geared towards the returns that we talk about with you all the time in the mid-teens, interest rates have the greatest and this may be embedded somewhere in your questions, but interest rates have the greatest impact on living benefit returns. So, you don't see the type of actually very attractive returns on our non-guaranteed and on our index VA that don't react in the same way as living benefits do, they tend to move up or down.

In terms of the best interest, we're very, very pleased as a company that the SEC voted in past regulation best interest, we were supportive all along that the SEC take the lead here. The model of regulation that the SEC put forth really did hit on all of the major Lincoln points that we made in the DOL that Dennis even met with the Chairman, they said, what don't you like about it? And Dennis as well as we like most of it. So we're very pleased, but in particular what were some of the points that the SEC had, the SEC [ph] is the enforce (01:15:42) is going to – it doesn't have a private right of action as the primary enforcement mechanism, it's SEC and FINRA. So that's a good idea.

A second good idea is there's a difference between whether you're an investment adviser or you're operating in a brokerage relationship, that difference is really important to give consumers of all sizes to us. It doesn't discriminate between commissions or fees. It believes that both can be right as an example. It specifically mentions that you can't just offer the low cost option you've got to look for the benefits of the cost to serve the client's best interests. And interestingly, in the regulation, there was talk about the need to take into consideration longevity risk and lifetime income when making recommendations in the client's best interest. So, there's a lot in there for the industry to like, it's a very strong regulation for consumers. It is a strong best interest standard and the SEC was the right agency to take the lead on them. It's still pretty early days, 700 pages of regulations, so we're still as an industry working through it, but from what we can tell very positive.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Ryan Krueger?

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

Q

Thanks. Ryan Krueger, KBW. First one for Randy, on the Individual Life 4% to 6% growth target, I think you mentioned that there is some near-term headwinds when it comes to the higher reinsurance comps and spread compression? Can you give us a sense of the magnitude of those?

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

A

As I mentioned, the spread compression which was much bigger five years ago has probably been cut in about half. Over the next few years, I'd expect spread compression to average 2% to 3% for the Life business and it will continue to decline over those years. So that's the magnitude of that. I think we're over half way on the reinsurance side. We have not talked about this as we've brought the higher cost of reinsurance into our earnings stream. We've just done things to overcome it. So, it hasn't been an issue from a growth standpoint in the past and I expect it will be the same going forward. I feel like we're over halfway, but, it'll depend on how negotiations and arbitrations, et cetera, et cetera go. So, that's about that. I think the $250 million of headwinds we've faced over the last five year will be – five years will be smaller in the next five years significantly.

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

Q

And then for Dick Mucci on, I think you said you can get to the higher end of the – towards the high end of the 5% to 7% margin target. Did you say that that did assume some normalization in claims and I guess does that suggest if you don't see that you could potentially exceed that target in the near-term?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp. **A**

That's correct. We have put in some normalization claims. I would say probably is at the modest to medium level and if that doesn't materialize it could be a little more upside.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp. **A**

Suneet? Right behind Ryan.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc. **Q**

Thanks, Chris. Suneet Kamath from Citi. Starting with Dick again on the Group business, you had some commentary about pricing power going forward and it seems like industry results have been pretty strong across the board. So I'm just curious. How confident are you in achieving that? What sort of the magnitude and then what's behind it?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp. **A**

Well, I think with confidence would say that it's not a slam dunk. We believe – there's couple of things that point out here. First what's happening in industry that the competition really shifted to service and capabilities, especially in the larger players. The idea of trying to grab market share with pricing changes so forth, that's really not the way the industry and competitors are looking at it. So the ability to those companies that really invest in improving those competitive features around service and capabilities are the ones going to win. And we believe that by our heavy investment in service, capabilities, technology, process will give us an edge in terms of retaining business, selling business, retaining business and be able to retain business at a higher price. And like I said it's not a slam dunk but we anticipate that given our investment, if we execute well on that investment, we think we'll have some edge.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc. **Q**

Okay. And then my follow up also on Group is, I think you had said about 40% of your sales should come from existing relationships kind of going forward, is the idea there that you were adding coverage to firms that don't have it or are you expecting to replace existing product providers?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp. **A**

Well, you always – well, that's actually a combination of both. You add additional line of coverage for the smaller employers, small and mid-sized market, it's really adding a coverage they don't have today. For the larger players, larger employees, you're probably replacing somebody, but the – lot of the voluntary products like accident and critical illness, those are virgin sales, the employees don't have those products in their portfolio. So those will be new sales as well. And also well, that's what I would describe, how I would describe that. So it's combination of some replacement of existing coverage and also adding some new coverages that employees don't have.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Thanks.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

We can go to Erik Bass in the aisle.

Erik Bass
Analyst, Autonomous Research US LP

Q

Thank you. Erik Bass with Autonomous. Another question for Dick. You had commented on the employer paid or sorry employee-paid policies being about a third more profitable, can you just describe a little bit more why that's the case and do you think that's sustainable over time given that a lot of insurers have identified that as a key growth area?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.

A

Yeah. Well, first thing I would say it's been present in the industry for a long time. And the reason that I believe that's the case is that the employee-paid purchases less price sensitive, employees are more – the availability of benefits, the ability to educate employees above the need, the fulfillment process, the convenience, those are bigger factors around shopping for the best price versus shopping for the best price. I mean there is a threshold, your price has to be reasonable or an employee is not going to purchase at all, but it's about dropping a price more around providing the benefits and providing capabilities to enroll those effectively so forth.

The other factor is that when you – nothing is done unless you go through the employer and the heavy negotiation for pricing is in the employer paid segment of the insurance program because that affects the employee's pocketbook, that is more heavily negotiated than employee paid coverage. So I think those are two factors and they're related.

Erik Bass
Analyst, Autonomous Research US LP

Q

Thanks and just to follow up. As you think about pricing a case then how do you differentiate, I think you probably have a better idea of what you're getting on the employer side and then making the assumption about what penetration would be on the kind of employee paid side. How does that factor into the price, competitive...?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.

A

Well you want to make sure you can get decent participation in employee paid side. You don't have anti-selection of risk. So as part of the underwriting process to understand the potential for selling the employee paid coverage. For example Life Insurance is a little easier because there's a lot of – the frequency of people buying up life insurance is much higher. The voluntary product by like accident and critical illness is not so much. So you have to be little bit careful in terms of managing the participation levels, make sure you have a good spread of risk. Does that answer your question?

Erik Bass
Analyst, Autonomous Research US LP

Q

Yeah, right.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Perfect. If we could come upfront to Elyse?

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thanks. Elyse Greenspan, Wells Fargo. So my first question if we look at your long term, your EPS growth target, that 8% to 10%. If we think about maybe perhaps similar transactions to the reinsurance deal you entered into with Athene, can you just give us a sense on what might be in the pipeline where thoughts are there and if there was a transaction, would that be something that you're thinking about being additive up to the EPS growth targets?

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

So in our normal financial planning, we don't take into consideration any non-organic action. So we never had the Athene transaction in any financial plan. Our financial plans on an 8% to 10% we're talking about is based simply on expanding the franchise, expense efficiencies, integration of Liberty and the things that have been mentioned this morning, we had mentioned this afternoon. So on top of that, we'll continue to look for opportunities for additional growth.

My team and I will be sitting down after this meeting because we want to replace some of the earnings that lower interest rates are going to take from the financial plan even though we get more fees and assets under management. We'll continue to look at Athene type transactions, but I just to put that into the context, both sides have to work what people are willing to buy at what internal rates of return and where our share prices at a moment in time so that's not always in sync such that you [ph] can just competitively (01:26:00) do these transactions. So again 8% to 10% is all organic and we'll continue to try to find additional activities to build on top of the 8% to 10%.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks. And then my second question is [indiscernible] (01:26:15) during your section, you pointed to some new distribution on IMO channel and then also with Allstate. Can you just give us a sense like in your longer term projections on kind of expansion and potential from those two initiatives and then are there other carriers like an Allstate where you guys are potentially pursuing [indiscernible] (01:26:38) additional distribution arrangements?

Will H. Fuller
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

A

Yeah, so Allstate specifically is a new partnership where we're able to distribute our variable and our fixed product. And we have measures that we expect that to be incremental to our sales by 5% this year so we view it as a meaningful new business opportunity that's incremental sales because it's a new channel, we're not participated in, it's being driven by a dedicated team, so it's not taking focus away from our other teams.

IMO channel would fall to the same dynamic, it's a new channel for us, it's being focused on by a dedicated sales team, so not taking away attention and focus, and it's about 10% to 15% of our total fixed sales, so fixed only distribution channel. And so we do that with two partners today. Should we add another partner or two, you of course would see that 10% to 15% be higher. But these two combined are meaningful incremental growth channels for us. And then the other one, I mentioned which is of similar size to Allstate, maybe a little bit larger now given the success is adding a new product like Index VA to our already existing distribution through broker dealers. So that's a – it's the same sales force, it's the same partner but it's meaningfully expansion of our shelf space.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp. **A**

All right. Thanks. We'll go right behind Elyse to Josh.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc. **Q**

Thank you. Josh Shanker from Deutsche Bank. Question for Dick. You mentioned in that one slide, your large bevy of medical professionals who you have employed. And to what extent you can kind of differentiate it from your competitors and to what extent if you hire more medical professionals, could you continue to bring down claims cost at the expense of higher operating costs per se?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp. **A**

Well, we think the clinical model is differentiated in couple of respects. One, the physicians we have are independent contractors, they have other practices, they're – many of them involved with – as professors at medical schools. So, I think we have run a full range of different types of specialties and with national coverage. So, I think the quality of the physician staff is very high. Also, we believe that our ability to assign these medical professionals, I mentioned the use of analytics to the right point in time is an important factor. And, in fact, part of our integration work was pretty interesting. We combined the experience of both companies, 800,000 claims we looked at, and we actually made some changes that we were applying physicians to claims and really wasn't that impactful to resolve and there are other places where we wanted to do more of that.

So, I think it's more about striking the right balance between applying the medical advice at the right point and just more is not necessarily better. It has to be, I think what we found was that there are cases where it really wasn't adding much value, in other places where it would add a lot of value. For example, psychiatric problems, the intervention by a physician especially working with the treating physician of the claim, it can have an impact, versus more limited disabilities due to a short-term impact of operation or even a cardiovascular event. So, there are differences. So, this adding more resources is not necessarily going to drive down claim costs, it is how you use them and to what extent.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc. **Q**

And to what extent are there better outcomes? Do you have, I guess, a history of knowing what the outcomes were before the clinical overlay was put on top versus the outcome since that you know that this has created 50 basis points or 100 basis points of margin or whatnot?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp. **A**

Yeah. One of the interesting aspects of the integration is the company use clinical resources differently. And to great extent, Lincoln pre-acquisition was not as robust in terms of using clinical resources, Liberty was more, and in fact, it was one of their calling cards in terms of the large case markets. So, we're actually – we're able to compare cohorts of claims that had different types of utilization of medical professionals and we could compare the results and outcomes. And this is a work-in-progress, we'll continue with these very large database we have, continue to refine how we utilize clinical professionals and other functions of our claim management area, and that's the advantage of having a lot of data to look at.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

A

Thanks.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

We'll take one last question for the morning and then we'll come back. Humphrey [indiscernible] (01:32:03).

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Humphrey Lee from Dowling & Partners. All of the questions for Dick. Looking at your growth outlook from the different segments within Group Protection, it looks like you're more bullish about the larger case market, that seems to be a little bit different from many of your competitors talk about, as they kind of shift towards the lower case and I was just wondering if you can talk about your experience and what you see in the different market segments and what drove the more bullish outlook on the larger case market?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.

A

Well, the first point I would make is we're growing all size segments. In the long term, we don't necessarily see more growth in large case versus small case business. In the short term, we do, and the reason is that as part of the disruption from the acquisition, we saw the biggest impact in the larger case is the larger national brokers, more dislocation with those, especially those who were used to doing business with Liberty. So, the near-term higher growth in the large case market is really a catch-up to the sales levels we were seeing before the acquisition. And over the long term, at this point we expect profitable growth from all segments.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Okay. And then in terms of the recovery rates that you show in your slides, like we've heard from many of the industry players talk about recoveries continue to be very good, but looking at the chart that you showed, it seems there is a little bit of a dip from your competitors, but do you feel like the good recovery story is kind of selling to [indiscernible] (01:33:46) or it's just more of [indiscernible] (01:33:48)?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.

A

Well, from the information we have, yes, recoveries have deteriorated some. That was the top quartile though, more than the median. But, remember, this is both an incidence and recovery story. It's not just recoveries that's driving the favorable industry experience. So, both those are in play and so – and I wouldn't read too much into it in terms of the bottom-line loss ratio experience, but the information does show some deterioration in recovery rates in the last few years, but I wouldn't see that as a turning point, if you will, at this point.

Christopher A. Giovanni

Senior Vice President, Corporate Treasurer, Lincoln National Corp.

Great. So, we're going to take a 10- to 15-minute break, and then again we'll have plenty of time at the end for more questions. Thank you.

[Break] (01:34:33-01:48:52)

Unverified Participant

Ladies and gentlemen, please take your seats, our program is about to resume. Ladies and gentlemen, please welcome back to the stage, Chris Giovanni.

Christopher A. Giovanni

Senior Vice President, Corporate Treasurer, Lincoln National Corp.

Thank you. I will keep this very brief. Let me bring up our next, Jamie Ohl, to talk through Retirement Plan Services.

Jamie Leslie Ohl

Executive Vice President, Lincoln National Corp.

Thank you, Chris. Thank you, Chris. Good morning, everyone. Today I'm excited to share with you the insight into how our strategy in Retirement Plan Services is delivering success and driving profitable growth for the business and for Lincoln. The Retirement business is a growth industry that continues to evolve and it's only going to become more important to Americans. That creates a significant opportunity for future growth for Lincoln. I will focus today on the major themes differentiating our Retirement business that allow us to capitalize on that opportunity. First, our high-touch, high-tech model creates a competitive advantage in our target markets positioning us to continue outperforming the industry. Second, how leveraging the distribution power of Lincoln and capitalizing on product innovation to meet customer and market demands is driving both top-line opportunities and bottom-line growth. And finally, how we continue to drive in-force optimization and execute on expense efficiencies to offset spread compression and improve pricing competitiveness. Our targeted strategy is built on these differentiators and through focused execution, we have and continue to drive profitable growth for Lincoln.

Before getting into the detail of each of these points, let's start with the key drivers of earnings growth for the Retirement business. We expect new business first year sales to drive 5% to 7% of growth. This is partially offset by the net activity of our in-force block of business at a rate of 1% to 3%. At the same time, margin and expense improvement contribute an additional 1% to 3%, adding equity market growth of 3% to 5% and the abatement of spread compression in the out years nets organic growth rate for the Retirement business in the long-term of 8% to 10%.

Now, let me add a little more color about how we achieve this growth rate. We began by leveraging a combined high-touch, high-tech model that appeals to a diverse population across five generations that are saving for and living in Retirement today and into the future. While the Retirement industry is adding more and more digital capabilities for participants, employers and advisors, our data shows that the best outcomes are achieved combining a personalized digital experience with face-to-face service. And, contrary to popular belief, a recent Lincoln survey showed that millennials don't just want digital, they want a personal service that is key to our high-touch model even more so than Gen Xers and baby boomers.

At Lincoln, we have invested and continue to invest in both digital capabilities and face-to-face service. Today, we have over 150 Retirement consultants and relationship managers across the country working with individuals and employers to increase access to retirement plans, increase the number of people saving for retirement, as well as increase the amount people are saving for retirement. At the same time, we are leveraging technology to deliver an omni-channel experience. That means we're meeting customers when, where and how they want to engage with us. With the tools like Click2Meet, chat bots and voice bots combined with our mobile and phone teams, we can effectively scale our high-touch model to meet with more individuals and drive better outcomes for our customers.

Let me give you a couple quick examples of how our model delivers better outcomes. First, 60% who use our new quick enroll feature rolled out last year save at a rate of at least 6%, that's 50% higher than those who do not use this feature. Second, the savings rate for participants who engage in a combination of our high-touch and high-tech model saves 50% more than their counterparts. We are also using a comprehensive wellness solution to drive positive outcomes for our customers. Financial wellness is about giving participants the tools and the confidence to make smarter decisions in every aspect of their financial life. From everyday budgeting to goal setting and prioritization, we recognize that people want to understand and improve their current financial state.

WellnessPATH adds a powerful digital tool to our existing comprehensive wellness offerings and we launched this late last year. While it's still early, we are very encouraged about the initial results. It leverages the high-touch personalized model we have in place today and augments it with integrated digital capabilities. The power of our model, a differentiator for Lincoln in the Retirement marketplace is driving higher overall asset growth across our target markets with a growth rate for Lincoln of 10% compared with an industry growth rate in our target markets of 8%. And we see that growth coming from each of our target markets. And these are the markets that were the fastest growing and the most profitable within a growth industry retirement. We compete in all tax codes within the target markets 401k, 403b, 457, 401a and we are growing faster in each and every one of those segments not just in the aggregate. Our brand and our model resonate with our customers, with employers and with advisors. Lincoln is the number three provider in healthcare and a top 10 provider in both small 401k and the government market.

In addition to asset growth, the power of Lincoln's Retirement business is reflected in our ability to both grow and retain business. Let's start with sales. Nearly 90% of our sales are in our target markets. Once we make that for sale, then we get the more participants enrolled and saving at a higher rate, that's demonstrated by 17% growth in recurring deposits over the past five years. And finally, it's also about being easy to do business with for these employers and a proven ability to retain that business, that's reflected in a 420 basis point improvement in plan sponsor termination rates over the past five years.

A key driver in both retaining and winning the business is distribution, a common theme you've heard today. We're able to compete with the largest players in the industry by leveraging the broader capabilities of Lincoln including distribution which as you heard both Dennis and Will say is a key differentiator for Lincoln Financial. The size and quality of our distribution team are critical to our success. As the market has moved to more of a consultative sale, we have successfully grown our sales team by 33% and more importantly we have seen an increase in productivity of 45%. Given the depth and breadth of Lincoln's distribution, we have the ability to attract business across five segments within our target market which opens up a significant opportunity for future growth and gives us access to a majority of the market. As we continue to expand both our capabilities and our distribution, we see a balanced mix of sales by size within our target markets, a clear indication that our model is resonating with more plans across tax codes, plan sizes and geography. You can see this all comes together in our top line sales. 2018 was a record sales year, nearly doubled 2013. Our sales success is not just limited to one market, as you can see each and every segment that we plan, we are up significantly over the industry.

And now, let me shift to one of the key drivers of future sales growth, product innovation. We continue to create and deliver products that meet the ever-changing needs of the market. Today, I will focus on two recent product successes for the Retirement business. The first is a product we launched late last year called YourPath. It is a proprietary alternative to target-date funds. YourPath has the potential to drive significant future sales growth based on the overwhelming positive market response, 89% of our proposals today are launched are going out with YourPath models included. Our YourPath models are qualified default investment alternatives or as you all know more familiar QDIAs, and they combine both retirement age and customizable solutions. With more than half of the industry deposits going to target-date funds annually, we recognize the need to provide an alternative that is both flexible and can be customized at both the employer and the employee level.

Participants can choose their level of risk, employers get flexible investment management styles and stable value to protect against volatility and Lincoln derives additional revenue from YourPath. This is a win for participants, a win for employers, and a win for Lincoln.

The second product success is an expansion of our stable value. At the beginning of the presentation, you heard me speak about the importance of serving multiple generations with different needs. There is a significant need to address the capital preservation needs of baby boomers as they are moving into retirement. We continue to meet that need by offering our stable value as part of our core retirement solution and now we offer it as a standalone investment on other recordkeeping platforms.

This gives participants outside of Lincoln's Retirement Plans access to our stable value. It provides a capital preservation solution to a broader segment of the retirement market exactly when they need it. Our investment-only stable value solution leverages our distribution and strategic partner relationships and as a result, we've been able to scale up quickly in this market where we currently have more than 600 contracts in place. As we again successfully meet a market need at the right time with the right product, our stable value investment-only solution has proven to be a profitable strategy that is accretive to earnings and ROA.

I have spent most of my time today talking about the drivers of top line growth. Let me take a few minutes to address another critical component of our success, taking profitable actions. We do that in two ways. First, we have a strong focus on managing our expenses and then leveraging technology and the digital initiatives to make sure we're more efficient. Expense management is a combination of re-engineering our processes to streamline operations and leveraging technology to increase the scalability of our business, while at the same time providing a better customer experience. This is driving a significant reduction in our cost per participant, which improved on average 2% per year over the last three years, and we expect to see an even greater expense efficiency of 3% to 5% in the near-term.

Second, we continue to work on the profitability of our in-force block to offset spread compression. Spread compression is our primary headwind and we have taken numerous actions to manage the impact, including; first, driving new business to lower guaranteed minimum interest rate products; second, restrict inflows to higher interest rate crediting products; and third, re-pricing existing business, which includes adjustments to fees, crediting rates and services offered, all of these actions were to lower our crediting rates, reduce risk and ultimately improve profitability going forward. Everything that we have discussed today, our high-touch, high-tech model, the power of Lincoln's distribution, product innovation and successfully managing expenses and our in-force block comprised the management actions that are driving success across leading growth indicators for the Retirement business. These include growth in deposits. We have seen an 8% annual growth rate in deposits over the last five years.

Lower withdrawal rates in addition to the lower plans sponsor terminations. We have seen a total reduction of 160 basis points in total withdrawal. And finally and most importantly, net flows, $4.2 billion in total net flows over the past five years. I hope today I gave you insight into what differentiates Lincoln's Retirement business and how execution of our focus strategy is driving our success. We are leveraging our high-touch, high-tech model, the distribution power of Lincoln, product innovation, in-force optimization and disciplined expense management. I'm confident that Lincoln's Retirement business is well-positioned to take advantage of the opportunity going forward. We are the right company in the right industry at the right time to help Americans achieve the retirement they envision.

Thank you very much. And with that, I would like to transition to Will Fuller to talk about the Annuity business.

Will H. Fuller

Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

Thank you. Glad to be back and glad to be here to talk about the Annuity business. This is a terrific business and it's been a terrific business for Lincoln for a very long time. So I think what qualifies as a terrific business. Well, in my opinion what qualifies for a terrific business is one that has a target market that is very, very large and growing larger. It's one component where the consumers in that market want and need your product or service.

A terrific business is one where your product and service is different, unique from others that might aim to serve that market, maybe and perhaps, where there's a barrier-to-entry certain business model requirement or certain expertise to serve the market. Terrific business can generate compelling financial results and can do where you can win in that market on your terms. The reason we say this is a terrific business for Lincoln is because we can say all of these things about our Annuity franchise. And we think that just simply based on our fundamentals as the business that it continues to be an underappreciated and undervalued business.

So, let's start with earnings, forecasts and what we expect going forward. What's different about this slide from when I was here at the last IRB is the 6% to 8% earing gross – earnings growth target that we have. And what's driving that is the bar all the way to the left which is our new business, increases or higher sales is driving a 200-basis-point growth to the organic growth rate. So our strategy to participate in more markets is leading and contributing to us being back to our – excuse me, this is a different slide, this is the Life Insurance earnings growth slide. Can we check to make sure we're on this right presentation? I just noticed some odd looks on the faces, and...

Unverified Participant

[indiscernible] (02:07:40)

Will H. Fuller

Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

Yeah.

Unverified Participant

Not your fault.

Unverified Participant

[indiscernible] (02:07:46) do better than that.

Will H. Fuller

Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

Well, Randy just shows you the 4 to 6, well I'm going to show you we can be much better, all right.

This is where you want to kind of queue the jeopardy music. That we've all been reintroduced to recently. If we're unable to get the slide going...

Unverified Participant

Here we go.

Will H. Fuller

Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

You got it. Okay. Thank you. [ph] Jeff (02:09:23), thank you. Let's rewind this and let's start with our earnings forecast. This is now 6% to 8% target was driving that difference of course is what I was sharing with you earlier is our higher sales have led to 200-basis-point improvement to the – again, our earnings rates, the last time I was with you and you see that reflected and our higher levels of new business. The rest of the bars to the right are represent how we run the business. We expect people to use the benefits and we have steady outflow rates in the middle part of this range that reflect them doing just that. We plan each year, every single year, in our financial planning process and in our forecasting to add to earnings growth with expense efficiencies and adding to our margin. And lastly, here we reflect our baseline equity market growth rate and we tightly manage spread compression. So, this is a very compelling, and I would note, achievable future expectation of growth.

Now supporting this expectation, the first point I made about a terrific market, what constitutes terrific market. We focus in the Annuity business; we focus on consumers 55 and over. We focus on those consumers that are near retirement, in retirement, and we focus on the consumers that have saved and accumulated assets for retirement. This is the largest and fastest growing age cohort of any of the other age cohorts. So not only is it large it's the fastest growing. And beyond that, most of the investable assets in the hands of consumers in America, 75% are in the hands of these consumers that we're focused on serving more people and the most money, this is a very attractive market, the U.S. consumer retirement market has to be one of the most attractive markets in the world.

And our industry has a differentiated value proposition, consumer protection in three ways: Protected lifetime income for the consumer; downside protection for the consumer; principal protection for the consumer. This is protection that resonate with consumers, they have a need for it and they value it.

Now, we have been actively engaged in the U.S. Annuity business for decades. We've managed this business from day one to a formula of success; this is a winning formula that directs how we compete and how we create value.

Now, this morning, I talked about the left-hand side, the virtues, the combination, the power of that broad product portfolio, investing in distribution and consistent presence in the cycle. But what consistent presence in the cycle for Annuities means? It means that we're able to sell similar amounts of annuities year in, year out which diversifies our risk across market cycles beyond the merit of the benefits this has to our product – to our distribution partners that rely on our products and services and like our consistent market presence. This combination on the left here is a powerful way and a proven way to compete and to win.

Now on the right is a formula of how we create value. How we think about product manufacturing, how we think about risk management. I'm going to start at the top and work down. We've always taken a disciplined approach to product design and a product pricing. You saw the discipline in our approach when we declined to participate in the VA living benefit arms race that led up to the financial crisis. You saw it in our move to increase rider fees on multiple occasions post-crisis. You saw it again in our design changes that required investment restrictions. So a long track record of being disciplined with product design and product pricing. We've also been prudent in our assumption setting from the beginning. Over the past decade, our minimal unlocking impacts demonstrate our judgment on assumptions has been sound. And in a bit, I'm going to walk you through why we do not expect material impact from the upcoming VA statutory changes.

And in the last bar here is always ensuring hedge readiness before a single dollar of sales. And without question, this has been an outstanding hedge program over the years. This is our winning formula. We're one of the few companies to put these pieces together consistently and this is how we run the business every single day. And it's what leads to and it has created that high-quality book of business we enjoy and as we add high-quality new business to that book over time.

And we did also deliver on our commitment to grow and return to positive net flows. You already know that our sales have increased significantly since we made the decision to broaden our participation market segments and add some distribution. What I'm showing you here on the right is our range in market share over the last decade in fixed annuities and in variable annuities. And you'll see it from below – from the lower end to the upper end.

What you'll see is from these decisions, from our execution of our plan, we've increased our market share in fixed and in variable while improving our new business profitability over this period of time. And looking forward because of our actions in our fixed annuity product portfolio distribution and in our variable annuity product portfolio distribution, we have room to grow from here

And we have more ways to win in our markets than we've had before. To put a number to the upper end of this range, the upper end of this market share range, on fixed and variable would be combined of $17 billion of annual sales and higher, which is more than sufficient for us to accomplish that new business contribution that I showed you earlier, more than sufficient.

Now, this slide illustrates you put all those pieces together, what are the compelling financial results that we've enjoyed off to – off of our high-quality book of business and you see, no matter how you slice it, results that are compelling, strong and consistent, whether it's our earnings growth with very limited volatility over the course of last decade or 22% ROEs, 20%, when you include VA hedge performance. And while these are always impressive, it's even more so when you consider how we capitalize our business, holding capital above the CTE-98 level for our variable annuities.

Over the same time period on the bottom right, our return on account values has grown significantly, up 32 basis points. These results are another proof point to this being a terrific business and a business that's managed very well at Lincoln. And now, I'm going to show you why it's a high-quality book of business too from a risk management perspective.

Now, over the years, we've been responsive to illustrating for you key aspects of our book of business and risk management and where we can illustrate it in a way that allows you to compare us to peers which is our intention for the next three slides. This slide tells you what we've told you before, which is our net amount of risk is far below our peers and it always has been. And similarly striking are our historical unlocking impacts. I want you to consider this. Over this time period, we've reported $5 billion of operating earnings, and we've only had $37 million of unlocking impacts. These are two proof points to a high quality book of business, the top net amount of risk validates our strategy of discipline product pricing and design and consistently selling through the market, and the unlocking validates our prudent assumption setting from the beginning.

Now hot topic in the industry right now are the VA statutory assumption changes that are upcoming. I said earlier we don't expect material changes from installing these changes. And this slide explains why. It's because we have assumed all along that our policyholders would hold onto their annuities. That they would – this would be a long-term buy and hold investment that they will hold onto their annuities. So we set our lapse and mortality assumptions accordingly.

On the other side of this slide is we also assume from the beginning that policyholders buying an annuity with an income benefit, would use it. And you see in our assumption grading up to 100% utilization. Bottom line, we are already aligned to the VA statutory assumption changes.

Now two years ago, at the 2017 IRB, Randy showed you an analysis of our VA better book-of-business using the present value of cash flow methods. We showed two scenarios. We showed a baseline scenario with a modest separate account return of 5%. We showed a stress scenario and what were the assumptions of the stress scenario was a 30% decline in the equity market, a corresponding 100% decline in interest rates.

And this is simply an update of that analysis from the fourth quarter of 2016 to the first quarter of 2019, and what you see that in both scenarios under this analysis, our book is increasing the value, 18% of the baseline, even 5% in the stress scenario. So, extremely profitable in our base, profitable in our stress.

Over that period of time adding high-quality vintage of new business has added to this value. And once again, we reiterate, once again, we are already aligned with the VA assumption changes. We do not expect any material impacts and this is another example that when you compare Lincoln to peers, we come out on top.

So what have I shared with you today? I've shared with you that we focus on the target market that is the largest demographic consumer cohort in America that's growing fast, that holds the most amount of investable assets in our hands. That's why we focus day in, day out with our products and our services. I share with you we have more ways to win. We have more room to grow. Better book of business has generated compelling financial results. I've highlighted where our risk management is sound. I've noted some places that we compare very favorably to peers and now what I want to show is just highlight another comparable to an industry.

Our annuity business is simply an asset manager with a protection overlay. That protection overlay requires risk management and we manage this risk well. Within this slide, there are few compelling characteristics of our business, relative to traditional asset managers that demonstrate we have strong fundamentals. Now there are a number of ways to look at this. Dennis talked about durable, dependable, differentiated. So I pick three.

First, net flows. Lincoln has average positive flows, often that flows over this period of time, over this decade, whereas traditional asset managers have experienced outflows. Another way to look at it is asset retention. We have customers that buy our products for the protection, they intend to hold them for the long term, you see that in a very low, steady, outflow rate, high-single digits. We have a far more persistent book of business than a traditional asset manager. In fact, it is why asset managers have long – have worked for decades and sought out to have their funds available inside of [ph] our MA (02:23:03) VA product, because that investment is more persistent than when its outside of the VA product.

And third, clearly an outperforming fee structure. The graphs here kind of speaks for itself. We've been able to increase our fees over this period of time while asset managers have faced fee compression. And yet, when you take the track record of Lincoln that I just talked about, you take these fundamentals and you just compare the valuations, [ph] it's at odds (02:23:41). Lincoln valuation at 7 times, well less than 7 times, while traditional asset manager in negative net flows being at 10 times.

So, let me close on a positive note. This is a terrific business. We've a stronger franchise today. We've got room to grow. We've got multiple ways to win. We deliver durable and dependable financial results. We've managed this business the right way from the beginning to the winning formula of success. We operate this business today with the same winning formula of success. We operate this business tomorrow with the same winning formula for success. And we're helping more and more Americans live in their retirement with protection and security. So this is a terrific business and it's one that we hope will be appreciated and valued accordingly.

Now, I'd like to turn it over to Ellen to talk about and discuss our investment portfolio. Thank you.

Ellen Cooper

Chief Investment Officer & Executive Vice President, Lincoln National Corp.

So good morning, everybody. I am here today to provide an overview of the general account investment portfolio. So, as you all know, market conditions are always changing, but I am here to talk to you today about Lincoln's unique investment approach and how it allows us to deliver strong results in steady and also in shifting markets.

So there is three themes that I'm going to touch on today. The first are the compelling benefits of our multi-manager framework. The second is that we have multiple investment strategies that are working for us to deliver strong new money yield. And the third is that diligent portfolio construction, robust risk management, which includes proactively de-risking over the last few years, allows us the flexibility in many market environments.

So you've heard from our four businesses this morning and you've heard from them and know that we work very closely with them. And one of the overall investment objectives as we partner with them is that we are looking at all times at the trade-off of generating sufficient yield while also balancing the trade-off of risk. We do not take excess credit risk. We do not take duration risk. And our investment philosophy is really predicated on three pillars. The first is ALM, asset liability management, is a hallmark of what we do at Lincoln. We manage ALM at the line-of-business level and also of course in aggregates.

Additionally, we also have effective portfolio construction, and that's built on diversification and stress testing, and that really establishes the structure of our investment and risk objective. And the third point that I want to make is around our unrelenting focus on risk management, and here we have what we refer to as the multiple lines of defense approach.

So what do we mean? This starts with our external managers. Our external managers provide views, research, analysis and insights to us. We bring those back, we have an internal experience team of investment and risk professionals, and they synthesize the information, they aggregate it, and they ultimately determine what the appropriate course of action is. This is the powerful model, a key competitive advantage, and we view it as a cornerstone for our unique approach.

So, as I mentioned previously, our multi-manager framework is the powerful operational model. The process with our managers is high-touch and it's collaborative. We are partnering with them and many of our managers we are interacting with multiple times a day. As for the structure of how we operate with them, Lincoln starts first of all with developing our broad investment strategy and that's of course within our own risk objective.

We also build the framework for portfolio construction and that's both across asset classes as well as within asset classes. We monitor, we manage and we aggregate the overall risks and then we go out and we select the best managers, and our managers subject to our risk and our ALM constraints will choose the best securities to meet our overall objective.

So the effectiveness of this model is demonstrated in three ways. First, we have increased flexibility to enhance our sourcing by adding managers. For example, we now have six teams specialized asset managers that's up from six a few years ago. And this is enabling us to grow and expand its asset classes we like, and in a number of cases, our managers are sourcing directly, and therefore, there is a little overlap from one manager to the next and directly source assets or expanding corporates, mortgages and structures.

Next, our managers provide views day to day as they monitor the portfolio but also as they look for and evaluate new money opportunities, and we effectively utilize the extensive research teams, the market insights, the outlooks, their advanced analytics and tools, and again, importantly, managers often have different points of view. We get multiple perspectives, and again, our team is able to bring that all together, synthesize it and ultimately drive to the appropriate decision and course of action. And finally, another added benefit is capturing the trend of lower investment management fees.

So since 2013, as we have been adding and expanding managers, we also have been reducing our overall investment fees. As a matter of fact, we've reduced them 50% from about five years ago and worth mentioning that our investment fees are considerably lower than the average of our peers as well.

So, as I mentioned on the previous slide, the increased sourcing from proactively expanding managers is a key contributor to our strong fixed income new money spreads. We have achieved 180 basis points on average over the 10-year treasury over the last five years. And close to half of that, we attribute to investing in less liquid strategies. We are achieving attractive illiquidity premium and that is without taking on additional credit risk, and we have ample room to continue to grow these strategies and I'm going to touch on the strategies in a moment, but first, I am excited to show you the trend as you look at our new money purchase mix and that we have been increasing our allocation into less liquid securities.

If you look at the middle chart and you look at the trend from 2013 to 2017, which is the left hand bar, and you look at less liquid securities and compare them to 2018, what you can see is that we have increased our new money purchase mix into less liquid securities by 6% versus the previous years. And we are doing this, if you look over to the right, we are not moving down in credit quality. We see value in diversified and less liquid strategies.

So let's drill into them. I'm going to touch on the three asset classes where we are seeing good relative value. I want to highlight for you what we're doing, what we like and what we are not doing, and that we continue to position the portfolio more defensively as the cycle extends. So the first is mortgage loans. So we continue to add value in our disciplined CML strategy. We're adding about 35 basis points to 45 basis points over comparable corporates.

Here different from the other asset classes, we have an internal team, an internal experienced team that has an excellent track record through multiple credit cycles. We've been increasing our new money allocation with a continued focus on portfolio construction and high quality. 2018 originations had an average LTV of 54% and a debt service coverage ratio of 2.1 times. And additionally, we have been diversifying within property type and leaning into two property types that I will cover quickly.

The first is the industrial sector and here we are primarily originating in major distribution hubs and multifamily properties that are fully stabilized with a consistent history of durable income generation. What we are not doing. We are avoiding higher risk loans, loans that are exposed to project completion risk and/or structure. We – at this point in the cycle, we have no exposure to construction, bridge and mezzanine financing.

The next asset class I want to cover are privates. So private corporate debt is an asset class that we have been investing in for decades. We continue to achieve attractive spreads here of 35 basis points to 45 basis points over comparable public corporates, and we participate in syndicated and directly sourced privates with covenants that provide downside protection. We are playing defense as offense. We are increasing new money purchases into sectors that have proven to be robust through past cycle turns such as project finance, and we are reducing our purchases in more cyclical sectors such as energy.

Structured, so within structured, we are seeing good relative value in CLOs, where we have been achieving 55 basis points to 65 basis points over comparable public corporates. Within CLOs, we're focused on diversification, diversification across CLO managers, issuers and issues. In addition, we are only investing in NAIC 1s that have historically had no principal losses and also there is even more credit enhancement today than in previous cycles. So what are we not doing in CLOs? We don't invest in BBB and lower tranches as our stress testing demonstrates that subordinated structure may not provide adequate downside protection.

The fixed income portfolio yield decline, so we've talked about strong fixed income new money yields and we all know that we continue to manage through the low yield environment and although rates are down from earlier this year, we do expect our portfolio yield decline to continue to moderate. So as we look back to 2012 through 2018, we had two significant headwinds contributing to the decline. The first are the yields on runoff and the second is a lower new money rate. So on average, the fixed income portfolio yield declined minus 13 basis points per year.

As we look forward to 2019 to 2021 and assuming a 4% new money rate, the expected decline would be minus 7 basis points. That is about a 50% reduction in the portfolio yield decline and you heard each of our lines of business referred to achieving that modest decline in the next couple of years. And looking further out to 2022 and beyond, that portfolio yield declines further.

So, two points to note. First, the 4% new money yield is for illustrative purposes only. This is not a forward view. The second is that we're benefiting from the lower projected runoff yields. And I also want to mention that this, as you all know, is solely a fixed income investment portfolio projection. We also had and will continue to take product crediting rate actions to further mitigate spread compression. In summary, assuming a 4% new money yield, our portfolio yield decline continues to moderate.

Another important investment strategy that has been adding incremental net investment income to the portfolio in variable investment income is our alternatives portfolio. So, here, we have delivered strong results with an annualized return of 10% since 2013, while shifting and diversifying the mix. On shifting the mix, we've talked to you at prior Investor Days about reducing our overall hedge fund exposure and pivoting into private equity. And today, our hedge fund exposure is down to 12% on diversifying the mix. As you can see on the left, the portfolio is well diversified by strategy. And as you can see on the right, it's well diversified by industry. And additionally, we had 1,800 underlying investments in the private equity portfolio.

Similar to the fixed income classes, we also have been playing defense as offense, and for example, we have been adding infrastructure investments with good downside protection. Bottom line, our strategy shift, our disciplined portfolio construction and bottom-up risk analysis has helped us build a portfolio that has delivered strong results. So, we feel very good about our total investment portfolio. It is well diversified across asset class, industry and issuer.

And as the credit cycle extends, we have continued to make proactive shifts to the mix to further diversify and to decrease our exposure to more cyclical sectors. For example, we have increased our portfolio diversification as we have grown our mortgage loan exposure by 5%, and as we mentioned earlier, into loans that are high quality with low LTVs. And within corporates, we have decreased our overall exposure to more cyclical sectors such as energy. On the right, we illustrate for you that we have maintained a high quality mix with an average credit quality of A- and a 4% BIG, below investment grade exposure, that's down more than 100 basis points over the last five years.

I also want to touch on a prominent topic in the credit markets and that is BBBs. There's a healthy debate in the market on BBBs with some that are concerned about BBB ratings downgrade risk heading into the next cycle, especially for issuers that have increased leverage from M&A transactions. Over the last several years, we have been more defensively positioning the portfolio, shifting up in quality within BBBs. Of the 43% of our rated assets that are BBB, 9% are privates that have covenant protection that enable debtholders to enforce remedies if breached by borrowers. Of the 34% of public corporates, here we are showing you the split by BBB+, BBB and BBB-, 6% are BBB-.

And to break this down even further, within the 6%, 5% out of the 6% have positive or stable outlooks. We therefore isolate 1% of our rated assets where we have BBB- holdings with a negative outlook and within that universe one-third mature within the next five years.

Additionally, our risk management framework and stress testing drive our position sizing, and within the total portfolio of the top 100 issuers, none are BBB- or lower rated, and our average public BBB- position size is less than 5 basis points of invested assets.

In summary, as you know, historically, BBB- rated holdings have had a higher probability of downgrade risk to BIG versus BBB+ and BBB, and we have demonstrated that we believe our BBB holdings are not at all at risk from a systemic wave of downgrades. We have been diligent in our portfolio construction as we discussed upfront, managing risk through multiple manager views, regular stress testing, and proactive de-risking.

So, I now want to step back and spend a few minutes talking about our proactive de-risking. We have been proactively de-risking now while maintaining flexibility to capitalize on opportunities in the future when market conditions shift. So, few points worth noting, the first, we have proactively sold close to $4 billion over the last few years, reducing exposures that we believe have a greater risk of deterioration in a credit cycle. With these actions, we have avoided some potential defaults, as well as incremental BIG exposure. In fact, we've lowered our overall BIG exposure by 130 basis points to 4.1%.

Additionally, as we have emphasized the importance of portfolio diversification and position sizing, we've increased our issuer count by 27% and we have lowered our top 50 issuer concentrations. Increasing the number of issuers in the portfolio is increasing diversification and it's lowering overall name-specific risk. Simply put, our portfolio has never been in better shape. And while we are aware that we may be late in the cycle, we haven't managed solely from a defensive position, but also to create opportunity for offers. And so, when you combine these portfolio actions with the initiatives I've discussed to expand our manager platform, we believe we have the flexibility to not only manage to prepare for the next downturn, but also to be positioned to potentially add risk and take advantage of higher yields when that opportunity occurs.

So, in conclusion, investment portfolio remains in great shape. We are achieving strong new money yields, we are playing defense as offense, and we believe we are well positioned to continue to deliver strong results.

And now, I'd like to welcome our Chief Financial Officer, Randy Freitag, back to the stage for a financial overview.

Randal J. Freitag

Executive Vice President, Chief Financial Officer and Head of Individual Life, Lincoln National Corp.

Thank you. Thank you, Ellen. So, we're going to wrap up today's official presentations with a discussion about financial performance, or what I'd like to call the verdict. All day long you have been listening to the evidence, whether that was Dennis talking about management actions and execution, driving the achievement of strategic objectives, whether it was Will talking about how distribution differentiates us and how we continue to add to this high-quality Annuity business, or whether it was Dick talking about how the scale and competitive advantages we now have in the Group business, or myself talking about how we manage the Life business, how we're positioned to grow in that business, Jamie talking about how our retirement model positions us for growth, or Ellen just talking about how we're playing both offense and defense in our investment portfolio. All of that is the evidence and is the input that ultimately creates what I'm going to talk about now and that is financial performance or the verdict, if you will.

I'm going to do that by focusing on three particular areas. First, I'm going to talk about the durability and dependability of our financial results and how those financial results have differentiated in a very positive way from our peers. Second, I'm going to talk about how we have prudently, with a discipline focused on both allocating capital through business to drive growth, while at the same time returning capital to shareholders. And I'll end up by talking about the strength of our balance sheet and how we test that balance sheet to ensure that we are positioned for whatever comes our way, 6.8 and 0.9 for dramatic effect, so let me repeat that, 6.8 and 0.9, that is our valuation as a multiple of earnings and book value. Based on the evidence that you heard today and what I am about to talk to you about, I believe that it's significantly undervalues Lincoln, significantly undervalues Lincoln.

How do you create durable and dependable financial performance? How do you create durable, dependable financial performance? It has to start with the top-line. It has to start with revenue growth. I can tell you over shorter periods of time, a company can grow EPS without revenue growth. But if you want to grow earnings over an extended period of time, both backward and forward, you have to have revenue growth. It is the engine that drives the growing ability to deploy capital. It is the engine that drives opportunity that attracts talent to Lincoln. And that is exactly what we have done, whether over a decade, whether over five years, whether over three years, we have consistently and steadily grown revenue growth.

We have other tools that allow us to take that revenue growth, that 5% to 6% revenue growth, and turn it into something much more beautiful on the bottom line. The first is expense management. Can we continuously and relentlessly drive down the cost of doing business? Yes, we have, and yes, we can. From 10 years ago, with $0.17 of every $1 of revenue that we generated went to the cost of running our business. To today, we have driven that down to under $0.12 of every dollar, a 30% reduction in the cost of doing business, that is a relentless and disciplined focus on expense management and I expect it to continue going forward.

The other big tool we have is capital deployment, share buybacks, and here again, well at the same time investing in growth which, as I said, is important to that top line, you have to have it, while at the same time we have continuously bought back our stock, driven our share count down every single year. When you take mid-single-digit top-line growth, when you layer in expenses that are being driven down to every single year, when you take down your share count like we have, you end up with what you see on this page, you end up with EPS growth of 11% to 12% over an extended period of time. That is durable and dependable financial performance and on its own it looks tremendous. But if everybody else grew 15%, then it wouldn't be so good, would it? Well, how do we look in that regard – it's not moving, there we go. How do we look in that regard? How do we look in a relative basis?

Sometimes I feel like I should just sort of drop the mic and walk up the stage, because this page really tells it all, doesn't it? What do I have to add? EPS, peers were five years, 6%; Lincoln, 11%, nearly two times our peers. The quality of that operating income, Lincoln $0.92 of every dollar, dropping to the bottom line is net income, nearly 20 points ahead of the peer group over that same period. That's the fact about income.

How have we done it? How we created that strong net income profile? It's all the things we talk about all the time, things you heard about today. It's a hedge program that is the best there is. Through whatever economic environment faces us, it has performed. It is tiny annual impacts, I should say microscopic annual impacts from the assumption setting process and it is tremendous performance of the credit portfolio. That's how we've done it. Equally important, when it comes to value in a life insurance company to earnings, I think it's the balance sheet and the return you can earn on that balance sheet.

So, how have we done there? Book value per share growth, once again, 4% for the peers, 8% for Lincoln. Our worst year exceeds the average peer company. Return on equity, 13.5% last year, growth on that return on equity once again outpacing the peer companies. That is tremendous, absolute performance, that is tremendous relative performance, that is performance significantly at odds with that valuation.

So, let's shift our focus and talk about capital deployment. I talked to you about the importance of growing the top-line. You only grow the top-line if you invest in new business. In 2018, we did that to the tune of $1.1 billion, a vitally important investment in our future. But we also believe in returning capital to shareholders. So, in 2018, once again we returned another $1.1 billion, a total of $2.2 billion of deployed capital, split evenly between investing in our business and returning capital to shareholders through buybacks and dividends.

As we look forward, I would expect that capital generation to continue to grow and that will be supportive of growth. But I wanted to show you a sensitivity about how new business growth can impact near-term capital deployment. So, our two most capital-sensitive businesses are Life and Annuity business. And if you elevated their sales instantly 10%, that's about $175 million of capital deployment that we would have to do. Of course, [ph] it's those (02:55:08) exact sales that will drive future capital generation, that will drive future deployment.

So, how have we done in deploying our capital? Have we been appropriately aggressive in buying back our stock? Dennis mentioned it, 42% of our shares over what is about an 8.5 year period, $5.5 billion, 5% per year, each and every year we've been driving the share count of Lincoln down. We also believe in dividends though. So, at the same time, we have grown our dividend at an accelerated rate, 38% over this period, including an increase of 12% as we entered 2019.

I'll remind you that our expectation is that we will deploy between $850 million and $950 million in any given year. So, if you asked me to define our share buyback program, I would define it like this. It is about the continual steady and growing return of capital with the ability to take advantage of opportunities when we see dislocations in the share price and we can marry that with capacity. You saw that most recently last year when we reinsured out a book of business, deployed those proceeds into incremental share buybacks. You saw that in 2016 and 2013 when you saw our share price go down and we elevated share buybacks. You saw that in 2011 when we brought down Life sales, elevated share buybacks. Continual return of capital supported by incremental purchases when we believed it's made sense and it's yielded a tremendous result. You see a lower price at those times that we stepped in. Nobody is perfect on the stuff, but it's an enviable and attractive track record.

We personally – I mean, we don't build the balance sheet. We don't build the financial strength by guessing when the economy is going to turn. That would be kind of a foolish way to think about financial strength? Nobody knows when the economy is going to return or turn. You only know in retrospect. So what do we do? We maintain a balance sheet that is strong enough for whenever that happens. How do you think about strength – financial strength?

Let's start with capital. Two places we hold capital, the holding company and the Life company. The holding company, my opinion, the biggest change coming out of financial crisis, how we operate our holding company. 2008, we ran it with short-term leverage, $600 million. Today, we have nearly $500 million of capital just sitting there. It's like a security blanket, just hanging around up there for a rainy day. The most important change is that $1.1 billion change in the capitalization of Lincoln.

The Life companies, we've grown, our capital has grown. It's nearly doubled to almost $10 billion. And that capital per dollar risk, what we know as the RBC ratio, it's grown also, 445%, above our long-term target. So, that's the capitalization of Lincoln, very strong today. How about some of the key items of potential risk on the balance sheet? Below investment-grade assets, 33% below where they were in 2008.

How about good will? I can't – it looks like a nightmare. How many times I'd ask answer questions about goodwill back in 2009 and 2010. Look, we have one-third the amount of goodwill as a percentage of our equity, as we did back in 2008, one-third.

How about a key assumption embedded in our balance sheet? The long-term interest rate assumption. I don't know what this will ultimately be, but I do know that we're 150 basis points lower than we were in 2008; that's a pretty enviable position.

Leverage, we're below our long-term target with a very favorable maturity profile. I think we have nothing over $300 million for the next few years. And from a – just a business focus standpoint, we are four businesses today highly focused at scale, you've heard it all day, and while I was kind of cool back in 2008 to think of ourselves as media moguls, I could talk about an international conglomerate with our UK business, we have that ever glamorous asset management business. The reality is that none of those businesses maintained what we believe the need to be successful. They were not scaled operations, not like what we have today, four businesses operating at scale. So, that's the strength of the balance sheet. That's the strength of Lincoln.

To make sure about the strength of that balance sheet, we regularly test it. I think this is a best practice coming out of the financial crisis. We have had always tested our balance sheet, but it's much more rigorous and it's much more disciplined to it today. We have three goals that we endeavor when we go about stress testing.

First, we want to be able to maintain our ratings. Second, we want to avoid having to issue equity. Third, we want to be able to preserve our shareholder dividend. As we've studied this over the years, we find that there were two stresses that we primarily need to think about. One is a recession scenario. The other is a stagflation scenario. Deep drop in the equity markets during that recession scenario 40%, a little less than the stagflation scenario, 30%. Interest rates go down 1% in the recession scenario, way up in the stagflation scenario. Significant credit event, one in a 100 sort of credit event.

How do we achieve those objectives during that kind of stress? It's all the things I talked about before. It's our holding company cash, it's the strength of our Life company capitalization, it's the ability of our businesses to continue to generate cash and capital. It's about the risk profile of the investment portfolio, it's about the quality of our hedge program, it's all of those things that come together to create the outcome we seek.

So, you see this chart a number of times today. This is how you bring it altogether. So, this is the sum total of all of the business line growth charts, 8% to 10%. Dennis mentioned it in his presentation how do we get it. Half of it comes organically. I've talked ad nauseam about the importance of organic growth and it's half of our long-term target, more business coming in and going out, very important to drive in long-term growth.

Additionally, we talked about it all day. We expect to continue to drive expense savings into our business as part of the budgeting process, as part of how we think, 17% to 112%. That's how we think. It's a relatively modest component when you add them together from the capital markets and with the ability while spread compression is a little higher today to get additional expense savings from things like the digital investments we've made. And so, consistently returning capital to shareholders and our expectation 2% to 3%, I'll remind you that was about 5% a year over the last 8.5 years, as I discussed a little earlier.

So, we've done better than that. But I believe what we've laid out for you today is how we can grow going forward at an 8% to 10% rate. So, that really wraps it up. I think the evidence is irrefutable. We deserve a valuation in excess of 6.8% and 6.9%. I think the evidence is clear, I hope it showed up in the verdict in this financial performance.

With that, I'm going to bring my colleagues up on stage and we are going to go to the final Q&A.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

Perfect. While we're getting set-up, I just want to thank all the people involved in pulling this conference and Investor Day together, a lot of people involved inside Lincoln, especially I want to thank my Investor Relations team for all the hard work. So with that, we can start maybe over this side with Alex. I mean, Alex, if you give us just one more minute just to make sure we're all teed up.

Unverified Participant

Yeah. We have one more that we need.

Unverified Participant

I think so, yeah.

Unverified Participant

No. Dick is coming in.

Unverified Participant

Oh, Dick is coming in.

Unverified Participant

In case there are few more group questions for you.

Unverified Participant

From us.

Unverified Participant

[indiscernible] (03:06:05).

Unverified Participant

Do you want some help?

QUESTION AND ANSWER SECTION

Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Hi. It's Alex Scott from Goldman Sachs. First question I had was, really I just want to clarify that I understand that some of the disclosures you've provided in Annuities on economic value, I guess in particular the contract cash flows, should I think about that is just the present value of the inflows and outflows, sort of completely separate from the reserves that you set aside for that product. And if I'm interpreting that right, and there is at much economic value when I think about the reserves set aside and all of this cash flows that are coming in, you make a compelling case about evaluation, is there something more you could do to unlock that value in the absence of – of the market just deciding to re-rate this stock higher.

Will H. Fuller
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

A

Yes. So the, the analysis that I showed would not include reserves, it also wouldn't include any of the expectations for new business. It's simply a point in time present value of the cash flow that we would have and the expected claims in the future that we would have. So it's not a, not what you would consider a full economic value. And what was the second part of your question?

Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Strategic side that you could do to unlock that value, I mean I know you've already done some of that in Annuities as there are, are there other avenues where you could – you could look to unlock that – that economic value?

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

We'll continue to look at everything, Alex, that could create value for the shareholders. And this is frustrating obviously for the frustration come from Randy and Will about our low valuation. And so let me just say as a strategic objective, we're looking at every avenue to either improve investors understanding of the facts around and the results around the Annuity business but other ways that we might change the balance of things such that it improves the valuation. So nothing specific other than the objective of continuing to respond to that question.

Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then maybe if I could do one more if you will, I mean, just when you take on the SECURE Act and any implications that'll have for the distribution of product between group and individual, do you think it will shift that over time, how impactful do you think it will actually be?

Jamie Leslie Ohl
Executive Vice President, Lincoln National Corp.

A

Yeah. So I'll start. We've been a proponents of SECURE Act from the beginning, it does a couple of things, it expands the access to retirement plans and in-plan annuities and also makes it easier for employers to set up multiple employer plans, that does two things for Lincoln in terms of opportunity. First, because we're in the

Retirement Plan business we're in the small and mid, large space which is where we expect to see the greatest adoption of retirement plans going forward as a part of the SECURE Act.

And then secondly, I think is to your question specifically, because we're a leader in the annuity business that creates a significant opportunity because it overcomes the biggest hurdle today to offer in-plan annuities and retirement plans and that is providing the safe harbor that employers need to add that into plan. So, it creates a tremendous opportunity both in-plans and out of plans as they move into retirement.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Just down – two down, Andrew.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Andrew Kligerman, Credit Suisse. Two questions. First, just a quick one for Ellen, with this multi-manager strategy, could you tell us what your average fee is overall on your investment portfolio?

Ellen Cooper
Chief Investment Officer & Executive Vice President, Lincoln National Corp.

A

It's not something that we have disclosed publicly. So what I can tell you is that we will give you some indication or two things, both that I reiterated, that I talked about in my presentation. The first is that we've reduced our investment management fees by 50% over the last five years...

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it.

Ellen Cooper
Chief Investment Officer & Executive Vice President, Lincoln National Corp.

A

...and the second is that we're marginally lower than our peers. And that marginally lower is in the tune of relative to average of peers, it's about 40% lower than the average of the peers so you can affectively back into that, you can...

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Do you have any sense of what the average for the peers is?

A

All right.

Ellen Cooper
Chief Investment Officer & Executive Vice President, Lincoln National Corp.

A

If I can find it, you can find it.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.
A

It's embarrassedly – embarrassingly inexpensive for us.

Ellen Cooper
Chief Investment Officer & Executive Vice President, Lincoln National Corp.
A

Yeah.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.
A

And so we just don't want to reveal that because of the asset managers.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC
Q

Got it. Another one that's kind of I'm struggling with a bit, I took a look at the Bank of America Conference Presentation in February and your indications of spread compression for Retirement RPS where 6% to 8% now be only compression of zero to 2% and then I looked at Life Insurance and you were thinking 2% to 4% and now the indication is zero to 2%. And interest rates have come down since February by, I want to guess, 50 basis points. So, I don't know maybe Ellen is working some magic over there or what's changed in the last few months with these different spread outlook?

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

I'll take the Life and just remind you and I mentioned it when I was going through the Life, this was the longer-term view and that in the near-term, spread compression was still a little elevated in the case of the Life business. I thought we had the capacity to achieve additional expense savings through things like the digital investments we've made so it continues to trend down. And so 2% to 4% was just over the next three years. This was more of over the next three to five years.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.
A

Correct. Andrew, what we tried to do within each of the waterfalls is give you a sense of the long-term potential within the businesses and then underneath in the box we talked about some near-term considerations in the businesses that you highlighted are the two that face the most amount of spread compression. So in the near-term, those would be slightly above the long-term numbers that we've provided.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. So it's managing the expenses is one of the key areas in this investment segment that's helping you lower the spread?

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

Look, overall I talked about two big levers, and they're not the only two there's other things we do, we all manage our other things like investment expenses, like fees we can get from our asset management partners, so there are other things we do. But obviously, expenses have been a big component of how we have offset this as a remainder, I mean I probably have already said it a couple of times, $0.17 for every $1 to under $0.12 of every $1. All right. I mean, that's a big contributor to earnings growth and then additionally the ability to allocate capital to buy back stock which in that 8% to 10% chart was a 2% to 3% component versus the 5% we've been doing each and every year for the last over eight years.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. But nothing on yield has changed then in the last few months is other factors that are – I'll take it at another point.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.
A

Yeah. Andrew, just the 8% to 10% that Randy had up and I showed earlier this morning, there is nothing other than the current level of equity markets on our growth assumptions to current yield curve, the existing expense management plans we have in place and take digital, for example, I will tell you there is a name behind every dollar of digital expense reductions, it's in the budget and people are paid to get there. So the 8% to 10% is very consistent for our financial – internal financial forecast and updated to reflect a little better equity market than we had expected when we did the final plans and had it approved by the board and lower yield curve. But everything else is just what we're talking about this morning. We don't have to do, we don't have to create some new program to get to that 8% to 10%.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.
A

I'm trying to hit people that have not asked the question yet. John at the end there and then back to Jay.

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

John Barnidge, Sandler O'Neill. I'm going to ask a question on Group Protection. As you're trying to go more into the voluntary market, what are you doing to make sure that the benefits being offered isn't on page 2, but on page 1 of the forms?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.
A

Page, I don't quite understand the question about page 1 versus page 2.

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

Well, a lot of employees may not value the things that are on page 2 or 3 of the benefits. And page 1 is the predominant form that they would look at.

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.
A

I – well, I really don't understand the pages you're referring too, are you page in some time the benefit summary or?

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP

Q

The benefit summary of products offered, [ph] Aflac (03:15:46) has previously talked about how it's important to get to page 1, because those are the products that an employer most value for their employees?

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp.

A

Right. I'm not sure about, and really, I really don't have a good answer to that. I mean how, how does the employer value, I mean Lisa, can you help me with this about the employer.

Lisa M. Buckingham
Executive Vice President & Chief People, Place and Brand Officer, Lincoln National Corp.

A

Yes. I'm happy to [indiscernible] (03:16:16). So, so interesting question, because as there are few things [indiscernible] (03:16:23) Thank you. We do home mailers, but we haven't tracked from what happens from page 1 to page 2 to page 3. What we do do though we do put in categories what we think is most important and interestingly RPS and Group Protection are the number one and number two when we send out our mailers because we believe that that's what our employees and their families by the way are looking to have access to and understand more. So, hopefully did that help?

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP

Q

It did. Thanks.

Lisa M. Buckingham
Executive Vice President & Chief People, Place and Brand Officer, Lincoln National Corp.

A

Okay. Great.

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP

Q

And then my follow-up question, where yields have gone and with the annual assumption review coming up, how does that change the calculus with which you've processed? Thank you.

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

A

I don't know that it changes. It's just all part of the calculus. So, I'd say this every time we get an annual assumption question, I'm not going to front run the process, there are a lots of people at Lincoln who are doing the work what's will ultimately determine where we end up. A couple of factoids and they're not determinative of any answer.

The 10-year Treasury is actually higher today than it was last time. We lowered the assumptions. On the other hand, rates haven't increased as much as our assumption would have assumed when we last set it. So, I think you have things on both sides of the equation. I'm sure the teams will come back with a fair recommendation in terms of what we should do. And we've already come down 150 basis points, so I don't sit here feeling bad about where we are today. You know who knows what the ultimate 10-year Treasury is going to be. I think at 3.75%, we're somewhere in a reasonable range, but we'll see what the analysis says for this year.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.
A

And Randy, what's the – let's just remind everyone what's the sensitivity to a change.

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

I think we had on the [indiscernible] (03:18:28) specific. It was $160 million for 50 basis points, so to put a decimal point on that or something.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.
A

So [indiscernible] (03:18:36). I mean, it's – you don't want to have to do.

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

No. It's not.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.
A

Not the end of the world.

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

Not too different from the first three times we've lowered to 50 basis points.

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

Thank you.

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

All right.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.
A

Jay Gelb in the back, do you have a question?

Jay Gelb
Analyst, Barclays Capital, Inc.
Q

Thanks. It's Jay Gelb from Barclays. We'll get to Jay Cohen, next. So, first, on the share buyback, Randy, in terms of the range of $850 million to $950 million in a typical year, it seems as if the pace of the buyback was around $200 million quarterly and given the current pace of the dividend or the potential for growth there, I think it would be more or like in the $1.1 billion range annually, which would imply around 55% or 60% of annual operating earnings. So I'm just wondering if you might have some conservatism built into your range.

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

Look, we don't put explicit conservatism in any range we provide to you. I can tell you that over the last eight years, we have regularly outperformed that guidance. But there is not explicit conservatism in the range we provided to you. Jay, and I think I had a chart where – when I showed our deployed capital in 2018, it had total buybacks of – what was it, $810 million, I believe, and $160 million of that was labeled opportunistic, right. That's the net impact of being out of the market to fund the Liberty acquisition and being in the market in an additional way when we reinsured the annuity business. So that left the baseline last year of roughly $650 million.

So, there is not explicit conservatism. We have outperformed in the past as the environment has continued to be very favorable, but yeah, I feel good about the $850 million to $950 million range we've talked to you about.

Jay Gelb
Analyst, Barclays Capital, Inc.
Q

All right. And then last time we had this meeting at Lincoln Financial Field that I believe the Eagles won the Super Bowl that year. I'm just wondering if you feel the foregone conclusion of the Eagles we're going to do it again so you had it here in New York.

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

I love the Eagles personally and I go to most of the games, but I grew up in Minnesota, so I'll go for either the Eagles or the Vikings.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.
A

Jay?

Jay A. Cohen
Analyst, Bank of America Merrill Lynch
Q

Thanks. Jay Cohen, BofA Merrill. A question for Will. Will, you talked about adding wholesalers recently, can you talk about the relationship, when you add the wholesalers what that means for sales? Are you getting the same kind of bank for your bucket you would have historically as you grow that wholesaling force?

Will H. Fuller
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.
A

Yeah. I had a data point on the slide that would show, I think, it was 30% wholesaler productivity increases since 2016. So that would have simply been demonstrative of our wholesalers becoming more productive. We add – how we think about it is we add wholesalers into territories that we believe are underpenetrated where that if someone is covering a territory and you add a wholesaler into it, the two wholesalers will do more business than if you kept one wholesaler there. So that's how we think about it. We do a lot of analysis, a lot of experience to determine that.

The second point I would make is that much of our wholesaler expansion has been to inter-channels where we haven't had a presence in before. So I think 15 people for Allstate, 5 or 10 people for the IMO channel, so that's not going to be taking away, that's clearly going to be incremental productivity because Lincoln didn't have a presence there before we filled the team. Hope that helps.

I'll make one comment that we've also been able to expand our sales force because we've expanded the product portfolio and shelf space, so to make sure that you get the same type of high-quality coverage we needed more wholesalers because we simply have more opportunities to do business. And so I'd say those are the three points that drive our sales force [indiscernible] (03:23:22).

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Perfect. Tom.

Thomas Gallagher
Analyst, Evercore ISI

Q

A question on VA reform. It showed the table, I think, in Will's presentation, showed you had conservatism in both policyholder utilization assumption and lapse assumptions relative to what the new standards are going to be, so what does that practically mean for you? I assume that means it would be positive from a capital or from a cash flow standpoint under the new regime, can you comment on what that will mean?

Will H. Fuller
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

A

It's – the one other assumption would be lower mortality. We've always assumed that those folks that would buy an annuity would have a view of the mortality that would be lower than traditional life insurance for instance. I think a better way to answer this question is simply to say that the upcoming changes are coming more back to where we are, so we're not sharing anything other than – we don't expect any material impacts because the assumption changes are coming more towards where we are. We have confidence in our assumptions. We've done a lot of work with Towers who was the consulting firm that help drive the industry's view of the statutory changes. We have done work with them prior to that on predictive analytics on our assumptions as we were able to get deeper into them to see the differences and whether it's a qualified or non-qualified account, differences in gender and age. So, we feel that this is we believe based upon our analysis that this is simply the standards moving more back in alignment with where we've always been.

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

A

As a reminder, how we capitalize our business is the greater of [indiscernible] (03:25:12) and the minimum percentage of our liabilities. And that's ultimately what drives the amount of capital, the statutory needs can come in under that. So, we expect no impact from VA capital reform. I think it's reflective of how we've managed this business over a long period of time, but regardless of what's come along we've managed there with really no impact.

Thomas Gallagher
Analyst, Evercore ISI

Q

Randy, just to kind of address some of the final point you were making about the valuation and how cheap you view it. When you look at variable annuity peers, sadly your valuation looks actually pretty good. I think one of the main concerns out there is that FASB reform could materially negatively impact both book value and earnings specifically related to the variable annuity business. Is there any work that you guys have done at this point which could shed some light on that whether it's relative, whether it's in absolute terms?

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

A

Well, there are about 20 people that will throw darts at me if I said we haven't done any work, right. So, we've got a lot of people doing a tremendous amount of work, but we don't have an answer yet unfortunately. And we continue to work with both our internal experts, with our auditors, and with the FASB to make sure we understand the exact way that this thing should be implemented. So, I think there's, for instance, a question around benefits like return of premium of death benefit, whether they should be fair valued or whether the immateriality of the benefit, means that they should still be covered under insurance accounting, and those sorts of things can have an impact on ultimately what the answer turns out to be.

So, we don't know all of the details yet. We're rapidly working to get there, but it's a lot of work, and I can't give you a final answer. I understand and I emphasize and I appreciate what you've expressed. I think, although I can go back to what I said before, which is we've managed that business very economically. We have a high-quality hedge program and I feel good about how we've performed to change going backwards. And so, I commended this with a confidence, but I don't know what the answer is yet.

Thomas Gallagher
Analyst, Evercore ISI

Q

And then if I can just sneak one more in, back on life reinsurance. Can you – from my guess what we've heard, it sounded like that was kind of a thing of the past that there's been rate being pushed through by the reinsurers. I know it's a question of do you recapture or do you pay the higher rate. Is that still ongoing, is that been an annual process, and where – kind of where do we stand on whether you're more likely to pay the higher rate or look to recapture?

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

A

Yeah. I think, I said that it feels like we're more than halfway, if I just look at the number of reinsurers that we've reached resolutions. I would indicate that we're more than halfway we're not done. But I think we do have pretty good – we have good insights into who will likely come to us in the future. And like I said, more than halfway and I feel just like we've managed through what we've already experienced, which has been a mixture of recaptures and rate increases, arbitrations; arbitrations what we won, arbitrations what we lost, all sort of outcomes. I think we'll probably have a mixture of outcomes going forward, but I feel comfortable that we can manage through whatever is left.

Thomas Gallagher
Analyst, Evercore ISI

A

[indiscernible] (03:29:09) adjustments to rate, double digits, or is it something less than that more manage...?

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

A

Yeah. I can't get into that. I mean, I noted two things that I had up to $250 million, spread compression and rate increases. I wouldn't have put reinsurance rate increases up there if it wasn't a not insignificant component of that $250 million, so it's been a big item. I just feel like we have successfully managed through it and I feel like we're over halfway and I feel comfortable that we can manage through whatever is left.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

Tom, I'd like to come back to your comment about some of our competitors who have lower multiples and not that you're saying 100% of that has to do with the VA business vis-à-vis Lincoln. So, we get thrown into companies that were subsidiaries that are now standalone public companies. I mean it's a big difference. I mean they've got tons of extra money that has to be spent on branding. They have tons of extra money that has to be spent or costs being taken out and to get to scale.

I would also point out that I think what we've been trying to reinforce all day long is that every one of our businesses is in a very strong position to grow competitively and the balance sheet is so much stronger today than it was back in 2008. So, when you stand back and look at us holistically and compare our multiple to other companies' multiples, I think you got to look at the whole franchise and the significance of all the things that we're talking about today rather than just – and I know you're not doing this, but rather just to say, well, they're in the VA business and they have a lower multiples.

So, help us with that all you sell-side analysts differentiate our franchise. It's not that we don't have any – we don't have to do closed blocks of business that take 5% or 7% of earnings off the top that virtually have to replace in order just to begin to grow the business. That's it. No closed blocks of business, U.S.-based, strong franchises, strong balance sheet and excellent results.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Suneet.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Chris. Suneet Kamath from Citi. I did want to bring it back to VA, for a second if I could. So, Alex had asked a question about the cash flows and the economic value and I think you said that that just reflects kind of the cash flows off the business, but what are the resources that are backing that block in terms of capital and reserves?

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

A

Well, the primary way you capitalize a variable annuity with guaranteed block of business is with a hedge program. So, that hedge program – I know I can't, I mean it's vast, it's deep, there are a tremendous amount of hedge assets sitting in there that we purchased over the years that if things like interest rates drop they will go up in value, if equity markets drop they will go up in value, I mean it's a very economically focused strong hedge program. That is the primary way we capitalize annuity business. Those are the only assets that have the ability to respond to changes in the economic environment, completely separate from that.

So, and if you were 100% effective at it or if you seem to be 100% effective, theoretically you wouldn't need additional capital, but we do hold additional capital. As I mentioned, we hold the greater of CT 98, which is a calculation and we have a minimum floor, which is a percentage of our liability, a percentage which I will not reveal to you, the floor is actually controlling right now as my annuity partners will remind me from time to time. So, that's how we capitalize the business, but the first thing you need to do in this business is to have a very robust hedge program.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc. Q

But in terms of the nominal value of those resources, that's not something you are willing to provide?

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

Yeah. I don't know, you mean by nominal value, I mean...

Suneet Kamath
Analyst, Citigroup Global Markets, Inc. Q

Like the capital...

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

...the actual market value of our hedge assets is relatively low right now, but if rates drop tomorrow or equity markets drop tomorrow, they will balloon in value. I just think from a market value standpoint, it's relatively modest right now, but in terms of the notional amount, I mean there's a tremendous amount of very complex hedge assets that Carey Hobbs and his team trade each and every day to support the variable annuity program.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc. Q

Okay. Then, my second question is, I think last week, Prudential was talking about their wellness initiative and they talked about holding seminars with some of their group insurance clients and their retirement clients to kind of make them aware of all the tools that you guys that they offer that they have available. Is that something that you guys are thinking about doing or thought about doing in the past?

Jamie Leslie Ohl
Executive Vice President, Lincoln National Corp. A

Yeah. So, we – I shared with you the wellness program, which is an entire program that includes face-to-face service seminars we've been doing that on retirement forever. We just launched last year the tool that brings it altogether, that's an incredible program now. We've got a number of clients in retirement business and then Dick and I late last year partnered together and we're piloting and rolling this out to the combined clients that we have and that gives us access long term to do wellness with the potentially 12 million worksite customers.

Richard L. Mucci
Executive Vice President & President, Group Protection, Lincoln National Corp. A

Yeah. I mentioned that one of the avenues to pursue and enhance our employee-paid business is to more effectively market to consumers and we see wellness type tools and concepts helping us do that. So, as Jamie pointed out, given the lessons that she has learned in the RPS business, we're applying it to piloting programs with employers to distribute the wellness tool that they can use with their employee base and observe what happens to the buying behaviors of employees with that type of tool available. So, that – I put that into the category of being more effective in consumer marketing.

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

Very much in its infancy and not any part really of the 8% to 10% growth we've talked about over the next few years.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

But, to – and Randy, you are absolutely correct and we're not talking about the potential impact of us getting into the in-plan protected lifetime income product, that's huge for the industry. So, it can take a little while to develop, and as Jamie pointed out we're a logical entrant into that because – in the business – in the retirement business and we're in the annuity business. So, that's a growth potential that could help. This whole area of worksite marketing, we're exploring it and I think that's another opportunity on top of the ones that are in the 8% to 10% that could mature over time. We wouldn't talk about something like that today because we're not far enough along in our planning for it. But it is on the list of to-do over the course of the near term; of course, we've got to get through SECURE Act through the Senate. I think that will happen. So, yeah, there's a lot of things. Here, we try to tie everything that we say in a meeting like this into the expectation of 8% to 10%. Obviously, there's things that we're thinking about that could make an impact beyond the 8% to 10%, but we're not in a position to add it in if you will at this stage because it's in early stages, but there are opportunities.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Thanks. Ryan, in front of Suneet.

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

Q

Thanks. Ryan Krueger, KBW. Following up on the FASB changes. It's when do you think Lincoln may be in position to disclose the potential impact to the market and then related to that, I guess, what are you hearing in terms of if there could be a potential delay?

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

A

I think it's partly dependent upon if FASB ultimately does defer it a year. What I hear from my peers is most companies probably could get there by the time they laid out, but they wouldn't have a lot – most of them feel uncomfortable that [ph] they'd have it about (03:38:14) appropriate controls in place at that moment in time. So, I think there's a strong effort. A lot of my peers seem to have a lot of confidence that it's going to get deferred a year. I haven't spent too much time focused on that. I think if it does get deferred a year, it would be sometime next year when we could really guide you, start to give you guidance, I think.

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

Q

Thanks. And then, for Ellen I guess, where are you seeing new money raised currently after the drop in interest rates? Is it close to 4% still?

Ellen Cooper
Chief Investment Officer & Executive Vice President, Lincoln National Corp.

A

So, we don't – another question where we don't typically disclose intra-quarter where we're investing. If you take what we showed you which is that on average we're investing at about 180 over, and recognize also that spreads have been a little wider in the last quarter and also the curve has been steeper. So, those things we're definitely benefiting from. It'll give you some indication of where we're investing right now. And we'll – in our next quarterly earnings, we'll make sure that we absolutely disclose to you exactly where we are.

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

Q

Thank you.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

Let me just come back to this question, the FASB question. It's a great question, and everybody in the room ought to be thinking about any changes that happen in the environment that could affect a company's financial statements. I think, Randy, we still think this is predominantly non-economic in its implementation. So, it could optically be a problem. But what I think the things that the industry is booked through already that would have been a big problem that we've overcome. All the state regulations around guaranteed universal life and XXX reserving and captives and the one that we're talking about today is VA captive and stuff. We are working our way through all that stuff.

And there is always seems to be something – I can't remember five or six years ago, Randy, getting queried on [indiscernible] (03:40:21) AXXX [indiscernible] (03:40:24) how much is it going to cost. There's just something's always going on. I come back to what we started with today is that we have the wherewithal, the experience, to deal with these issues and these are sound businesses, sound franchises, and yes, there are going to be risks, regulatory accounting – you know the DOL as an example, I mean that was a pretty franchise iffy issue we came out of – at least it would take – had taken a while to overcome that, the way it came out of the DOL. But you know, now we're in a perfect position. So, yeah, there's always things to worry about. I keep coming back to the soundness of our franchises, the strength of our balance sheet, the fact that we've experience, just all of these kinds of concerns before and we've worked our way through it.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Erik.

Erik Bass
Analyst, Autonomous Research US LP

Q

Thank you. Erik Bass with Autonomous. Will, I was just hoping you could talk a little bit more about the interest rate sensitivity of the Annuities business. I realize on your slide you show almost no impact from spread compression but should be thinking about any impacts in terms of hedging costs, returns on new business or even just sales as kind of rates are lower and maybe the yields are less appealing?

Will H. Fuller
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

A

Yeah. Absolutely. So, we've been experiencing all year rates hedging down. Right. And so, we spend and focus our product pricing on that particular issue. We were able to reflect really at any point in time in our fixed indexed annuity and index variable annuity where interest rates are because we manage crediting rates have the ability to manage crediting rates weekly. So, we've been reflecting for some time, where interest rates have trended. Our sales have remained quite strong from the first quarter to the second quarter. In variable annuities, interest rates have to drive the cost of the guaranteed living benefit. So, we've seen – we began to take actions on variable annuity income levels. We're going – we're planning to take additional actions, as you would expect this too. The way I think about it is modulating, as interest rates improved, we modulated the value of the income, the consumer upward, as interest rates move in the other direction, the door swings both ways, we'll modulate the benefits of the consumer in the other direction. And we have the ability to do that with more frequency today than we were able to do in 2016 and 2012 when interest rates moved lower. And this is the point that I think Dennis and Randy made it that we're smarter, we're stronger, more agile today.

So, I think we've never been in a better position to reflect product pricing given what's happening in the market, again already doing it and fixed in indexed, having plans to take additional actions, I mean I have to take some on variable annuities. But our sales momentum has continued and flows have remained strong even while we've been taking those early actions.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

And again, remember the – to the extent – I think you're driving out, Erik, do you have to increase prices what's going to happen to volume – yeah, get it, the increased prices can affect volume at some level. But we did that with the Life business, dropped our sales by $200 million year-over-year to reprice the products, and we bought our shares back. So, if we have a temporary reduction in volume, we'll take the freed up capital and buy our shares back. Now, again, how that works out is it depends on a lot of different things but even if there is a slowdown there is a lever that we've used in the past to mitigate the effect.

Will H. Fuller
Executive Vice President & President, Annuities, Lincoln Financial Distributors and Lincoln Financial Network, Lincoln National Corp.

A

And another point to add to this is our sales momentum has benefited from greater flexibility in rates, but keep in mind, 57% of our sales in the first quarter was from new products and new distribution. So, I'd say the largest driver of our sales momentum has been participating in more market segments, more so than the benefits of higher interest rates and flexibility that we've been able to pass through and selling the products that we were in.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

A

Josh.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Randy, if I try and – I'm Josh Shanker from Deutsche Bank. Randy, if I try and reengineer this chart to demonstrate the willingness to accelerate buybacks opportunistically on my own and try and figure out instead of the Y-axis being when you bought back more stock what was happening fundamentally? Is it relative P/E, is that absolute P/E, is that relative P/E, absolute P/E? What triggers for you that it is the time to accelerate buybacks opportunistically? And as such right now, given everything you've said today, I mean through [indiscernible] (03:45:51) I think why isn't today that moment given that you're so concerned about your valuation that you should be accelerating the buyback opportunistically?

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

A

There's no one trigger, Josh. It's not something that you leave work on Friday and you show back up on Monday and you suddenly know, it's typically things that persist for an extended period of time. And if you look at that chart, which you've obviously been doing, we've tended to be every couple years on average we've taken a discrete action that's not an indication of when the next one will be. It's something we think about all of the time and it's about marrying opportunity with capacity. So, that's something we think about all the time and we continue that analysis. I can't tell you when it would be or what that magic trigger would be, but it is a very strong focus, and from the results you see in this chart, you can see it's worked over time.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

And to the extent that a limiting factor is the availability of capital. I mean if you have to marry two things together, you have to feel it's opportunistic to do it at that moment and you have to have the capital. The December action should be viewed as one off, I guess, and you wouldn't try and harvest more capital spontaneously.

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

A

Well, the December reinsurance treaty created capacity which we then put to use. We don't endeavor to hold a significant amount of excess capital under our balance sheet. That's never been our goal. So, it's not like we just sit over some huge pool of capital. So, we are always looking for ways to both tweak on the edge or do bigger things like in the case of the fourth quarter reinsurance our book of business. Those are all things that we are thinking about all of the time.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Good luck.

Dennis R. Glass
President, Chief Executive Officer & Director, Lincoln National Corp.

A

And then, I would say we have a pretty consistent – we've done the right thing for the shareholders consistently. We've picked the places to put our money on a consistent basis and have had good success, and that's what's driving this 11% compound earnings per share growth rate. The digital initiative as an example, I mean we decided three years ago to do that. It was predicated on the fact as I've said earlier today that we knew there we're going to lose $150 million from investment spreads based on all the information that you just saw from Ellen. And we came up with a response to it and it's going to help our shareholders dramatically. We did the Athene transaction, that's going to help our shareholders dramatically. We're just constantly paying attention to what opportunity is and looking down the road to see what actions management can take to build on the franchise value that we have in each of the businesses.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Humphrey Lee from Dowling & Partners. My first question is related to kind of the excess management, and at the same time, the investments that you've highlighted. I think a couple years back, you've highlighted that digital initiative and how you spend to drive the efficiency. Do you feel like you have reached a point that your expense save is kind of reached to the point that can pay for any kind of new investments that you're going to put into the business or should we anticipate there still going to be an ongoing drag from digital investments going forward?

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

A

Well, specifically that particular program, this year was about to breakeven year, so the amount of investment about equaled the number of benefits. And then next year, we'll be in net benefit and we'll continue to grow to our ultimate level of $90 million to $150 million of net saving. So, this year was neutral. Are there other things we may think about in future that involve an investment for future benefit, yeah, I'm sure there could be. There's nothing outside of what we have already indicated, which is the digital program, which will continue to grow its benefits looking forward and then any integration savings that Dick and his team are getting from the Liberty acquisition. And then, I think as a number of us mentioned, the very nature of our budgeting process drives expense efficiencies into our bottom line results.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Yeah. I was now referring to the old program which has some of the incremental investments that you're doing, but it sounds like they are self-funded by the some of the expense efficiency that you're getting.

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

A

Humphrey, we're a big company. So, there are investments being made all over the company at different levels outside of just the digital program. I can tell you that every investment of any size that is made is governed by some CBA, right, so are we going to get benefits that justify that investment.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

And then my second question is, so the past of your Investor Days you put up a kind of disclosure on how the low interest rate will affect the sub-reserves for SGUL, should we think about that sensitivity is still relatively unchanged?

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

A

Yeah. I don't think there's any tonal difference from where we've been. The thing we've always had to pay attention to is the sub-test, 8C and 8D. And we've always been relatively close, but passed those tests and that answer has not changed.

Christopher A. Giovanni
Senior Vice President, Corporate Treasurer, Lincoln National Corp.

Additional questions? Okay. We're seeing none. I think we've exhausted it. So, thank you all for attending and for those on the webcast as well, thank you for joining and we're available at any point for follow-up questions and hope many of you will stay for lunch. Thank you, all.