

Fixed indexed annuities

Not all products (or companies) are created equal

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Introduction

In an effort to better protect seniors and other investors, the Securities and Exchange Commission (SEC) has adopted Rule 151A under the Securities Act of 1933 to redefine fixed indexed annuities as a security and require the registration of these products. As of March 2010, Rule 151A is currently not in effect. It is likely that Rule 151A will not be effective until mid-to-late 2012 at the earliest.

The awareness of Rule 151A is prompting the industry to carefully scrutinize the fixed indexed annuity products available and to question whether registration is necessary.

What is a fixed indexed annuity?

A fixed indexed annuity is an insurance product that offers a minimum interest rate guarantee and the potential for additional earnings. A fixed indexed annuity does not participate directly in the stock market; rather, any additional earnings are linked to the performance of an outside index and are based on a particular methodology. Indexes used in determining the indexed account interest and the methodology used in calculating the actual credited earnings vary from product to product.

What do fixed indexed annuities offer?

Fixed indexed annuities provide opportunities for growth combined with protection from market downturns. Many people are choosing conservative insurance products with less risk but are still seeking some type of upside potential.

Target market

Traditional fixed and fixed indexed annuities are designed for people looking for a long-term savings vehicle and who have enough assets to cover living expenses and unexpected emergencies in retirement, such as medical expenses.

How did we get to where we are today?

Industry issue: bad press

Indexed annuities have been around since the mid-1990s. Some initial offerings of fixed indexed annuities were promoted with promises of “market participation with no risk” and “participate in the upside with none of the downside.” Agents and consumers alike were not sure how the product worked, and some thought there was unlimited potential tied directly to the stock market. Furthermore, some early products had 15-year surrender charge schedules that included charges as

high as 25%. These long surrender charge schedules made it difficult for seniors to have a reasonable expectation of getting their money during their lifetimes.

Unsuitable sales, targeting the senior market, garnered a lot of bad press. Managing expectations was unheard of, hence the basis for the SEC proposal.

Industry response: education and revised marketing practices

Over the years, the insurance industry has taken steps to better educate the sales force and help clients understand exactly what they are purchasing. Some state insurance departments incorporated additional fixed indexed annuity education requirements into the licensing process. Likewise, most state insurance departments oversee suitability and replacement issues.

In the promotion of fixed indexed annuities, the term “market participation” was replaced with “this product does not participate directly in the market,” and “participate in the upside” was replaced with “earnings linked to the performance of a market index.”

Is a fixed indexed annuity an insurance product or a security?

Despite these efforts, there remains a great deal of confusion today surrounding fixed indexed annuities. They are sometimes referred to as “equity indexed annuities.” Producers and consumers alike are never quite sure whether a fixed indexed annuity is more like a fixed insurance product, where the investment risk is borne by the insurance company or more like a variable annuity, where the investment risk is passed to the consumer.

It is important to remember that a fixed indexed annuity offers an overall minimum interest rate guarantee backed by the claims-paying ability of the issuing insurance company. Also, as long as the contract is not surrendered early, the initial purchase amount is returned with a guaranteed minimum interest rate.

These features tip the fixed indexed annuity scale more toward looking and acting like a traditional fixed annuity.

Fixed indexed annuity products are currently regulated by state insurance departments. A few companies have actually registered their fixed indexed annuity products with the SEC, even though they do not participate directly in the stock market. Registration subjects these products to additional scrutiny and regulation.

Registering a fixed indexed annuity adds an annual prospectus requirement and other regulatory requirements, which add to the cost, development, and distribution of fixed indexed annuities. These higher costs for the product may be offset by lower rates for the consumer and/or lower commissions paid to the producer.

Registering fixed indexed annuities may also create an expectation of market participation. Registration may also add to the perception that a fixed indexed annuity carries the same degree of risk as variable annuities.

How do registered and nonregistered fixed indexed annuities differ?

This chart provides some of the differences between registered and nonregistered products.

Nonregistered product	Registered product
Issued by an insurance company	Issued by an insurance company
State insurance regulated	State insurance regulated
Not registered with the SEC	Registered with the SEC
Not subject to security regulations	Subject to security regulations
Prospectus not required; most states require and most companies use a disclosure statement	Prospectus required
Can be offered by licensed insurance professionals appointed by the issuing company or by registered representatives of a broker/dealer	Can only be offered by registered representatives of a broker/dealer. Must also be insurance licensed and appointed by the issuing company.
Most states require and most insurance companies perform suitability reviews. If offered by a registered representative, suitability conducted at the firm level.	Suitability reviews required at the firm level
No additional ongoing costs involved for meeting state requirements	Additional ongoing costs involved for meeting registration requirements
Broad universe of companies offering products	Limited to companies that have taken the steps to register their products
Broad universe of product availability/selling partners	Available only through broker/dealers and their registered representatives

Considerations in choosing a company and a product: universe of product offerings

When evaluating which product to offer, are these differences significant? Or, is it more important to consider an insurance company's policies and procedures, and product features?

Fixed indexed annuities are issued by insurance companies and offered by agents, brokers, and financial planners through marketing and general agencies, banks, broker/dealers, and wirehouses.

As of January 2010, approximately 45 insurance companies offer over 250 fixed indexed annuity products.¹ Total sales of fixed annuities topped \$105 billion in 2009, and of that, over \$30 billion were attributed to fixed indexed annuity sales.²

What should one consider when choosing an insurance company and a fixed indexed annuity?

Not all fixed indexed annuities (and/or their issuing insurance companies) are alike. Putting the issue of registration aside, producers and their clients should consider these important items when choosing a company and a fixed indexed annuity product, including:

- Suitability policies and procedures
- Product features
- Crediting rate history
- Product limitations

This information is valuable when evaluating an insurance company and its products. The following sections will provide details on each consideration and explore how The Lincoln National Life Insurance Company (Lincoln) measures up.

¹ Advantage Group Associates, Inc., an independent research company.

² Insured Retirement Institute and Beacon Research, an independent research company.

Suitability

The suitability of annuity sales has received attention from the public, the media, the industry, and insurance regulators. A suitable sale is one that is deemed appropriate for the client. Suitability is determined by evaluating a client's savings objectives, financial situation, and time horizon as they relate to a product's features and limitations.

Example: unsuitable sales

If liquidity is needed, a product that imposes a charge for early withdrawals is probably not the best fit for that client. For example, an 89-year-old client purchasing an annuity product with a 10-year surrender charge schedule may not have purchased the right product for two reasons:

- Is there a reasonable expectation that this client will get back their premium during their lifetime?
- Will the death benefit paid to beneficiaries be something less than the account value?

How does Lincoln measure up?

Lincoln's suitability review process

Lincoln is a consumer-friendly company with policies and procedures in place to help protect clients. These same policies and procedures provide guidelines for producers to help them avoid any misunderstanding with the client. Lincoln has an expanded fixed annuity suitability program that includes:

- *Lincoln's Fixed Annuity Suitability Position Statement*—Lincoln expects each of its producers to determine the appropriateness of every recommended fixed annuity purchase and/or replacement in accordance with Lincoln guidelines prior to submitting an application.
- *Lincoln's Fixed Annuity Suitability Form*—This form is required for all applications in all states.

Some of the key areas covered:

- Client goals and objectives
- Financial objectives
- Source of funds
- Time horizon

Distribution partners can choose to do their own suitability review (the Selling Agreement with Lincoln would be amended to reflect the selling company's responsibility), or Lincoln will conduct its own review. In cases where the selling company is responsible for conducting the suitability review, Lincoln reserves the right to audit their process.

No contract will be issued without a suitability review. This policy helps to protect the consumer from purchasing an inappropriate product and helps insulate the producer from any claims of an unsuitable sale.

- *Pre-issue suitability monitoring system*—Lincoln's Annuity New Business area uses a pre-issue suitability monitoring system based on guidelines that are proprietary to Lincoln. These guidelines were developed by reviewing best practices with industry sources and through discussions regarding product use with Lincoln Product Development areas.
- No single issue is looked at in isolation, but keys to the suitability guidelines include the degree of liquidity in relation to other assets owned by the client, their net worth, and their age.
- *Fixed Annuity Suitability Agent Guide*—Lincoln developed suitability guidelines designed to identify and encourage appropriate sales and replacements of fixed annuity products. The Agent Guide provides the roles and responsibilities involved in an annuity sale, as well as who might be a good candidate for a fixed annuity.

As a company, Lincoln is committed to ethical business practices, including suitability, and continual reviews and revisions of its processes and materials to help ensure success.

Product features

Fixed indexed annuities offer clients the potential for a higher return compared to traditional fixed annuities. Many fixed indexed annuities offer a guaranteed fixed interest account (similar to that of a traditional fixed annuity) as well as one or more indexed interest accounts, where interest earnings are linked to the performance of a market index. The overall return from the fixed indexed annuity will vary more than a traditional fixed annuity and therefore has more risk. Like

a traditional fixed annuity, a fixed indexed annuity will offer a minimum interest rate guarantee, so the risk is substantially less than with a variable annuity.

What should one consider when evaluating fixed indexed annuity product features?

When exploring fixed indexed annuities, several factors should be considered:

- Fixed or Guaranteed Account (may not be available in all products)
- Indexed account choice(s)
- Indexed interest account methodology
- Length and level of surrender charges
- Market Value Adjustment
- Access to account value
- Income benefits

Glossary

Indexed interest—The indexed interest represents the earnings from the indexed accounts. Indexed interest earnings are not guaranteed and will be determined by the methodology and performance of the benchmark used for the indexed account.

Indexed term—The indexed interest account can be offered for different indexed terms, with 1-year and 2-year terms being the norm. Indexed interest is usually credited at the end of an indexed term, so any withdrawals should be carefully monitored as to the timing of the withdrawal. Also, reallocation among the indexed accounts/Fixed Account usually can only take place during a window

immediately following the end of the indexed term.

Participation rates—This rate will determine how much of the market index gain will be credited to the indexed account.

Spread/margin—The spread or margin can be used in addition to, or instead of, a participation rate. This percentage will be subtracted from any gain in the market index before crediting any earnings to the indexed account.

Interest rate caps—A cap rate may be used to limit the return of the market index.

How do Lincoln's products measure up?

Lincoln offers three fixed indexed annuity product suites:

- *Lincoln OptiChoice*SM fixed indexed annuity
- *Lincoln OptiPoint*[®] fixed indexed annuity
- *Lincoln New Directions*[®] fixed indexed annuity

Each product has two or three versions, varying by the length of the surrender charge schedule, designed to accommodate different time horizons.

The following sections will highlight the key considerations when considering Lincoln's products:

- Fixed Account
- Indexed interest account methodology
- Length and level of surrender charge schedules
- Market Value Adjustment
- Access to account value

A. Fixed (Guaranteed) Account— Lincoln products

Each of the fixed indexed annuity products offers a fixed interest rate-guaranteed account in addition to the indexed interest accounts. The Fixed Accounts offered by Lincoln fixed indexed annuities are described in the chart at the bottom.

B. Indexed interest account methodology

Fixed indexed annuities offer indexed interest accounts with earnings linked to the performance of a market index.

Current products available in the industry use a wide variety of market indexes, including the S&P 500[®], NASDAQ, Dow Jones EURO STOXX 50[®], and even the Hang Seng Index. Some companies offer a combination or blend of the different indexes.

Most fixed indexed annuities provide a choice of fixed and indexed interest accounts, with the ability to reallocate account values at the end of the indexed term. This means that clients can move in and out of the fixed and indexed interest accounts at the end of each indexed term within the same contract, based on their individual needs.

When examining the methodology used in determining indexed interest, keep in mind that most annuity contracts allow for the reset of the participation rate, spread, margin, or cap rates periodically. Read the contract carefully to see what the provisions are for these rates and features, and when comparing industry products, understand how these components impact the credited earnings.

The method for determining the change in the market index over the indexed term is key in determining the amount of interest earnings credited to the indexed account.

Product	Fixed Account interest rate guarantee period*
<i>Lincoln OptiChoice</i> SM 5 <i>Lincoln OptiChoice</i> SM 7 <i>Lincoln OptiChoice</i> SM 9	Initial guarantee: One year Annual renewal thereafter
<i>Lincoln OptiPoint</i> [®] 8 <i>Lincoln OptiPoint</i> [®] 10 <i>Lincoln OptiPoint</i> [®] 12	Initial guarantee: One year Annual renewal thereafter
<i>Lincoln New Directions</i> [®] 6 <i>Lincoln New Directions</i> [®] 8	Initial guarantee: 6 years or 8 years Annual renewal thereafter

*Interest in the Fixed Account is credited and compounded daily.

It is important to realize that there isn't any "magic" formula—no one indexed account methodology will perform best under all market conditions.

Lincoln's indexing methods are described in detail on the following pages and include:

- Performance Triggered
- Point-to-Point
- Monthly Cap (sometimes referred to as a Monthly Point-to-Point)
- Monthly Average

Performance Triggered

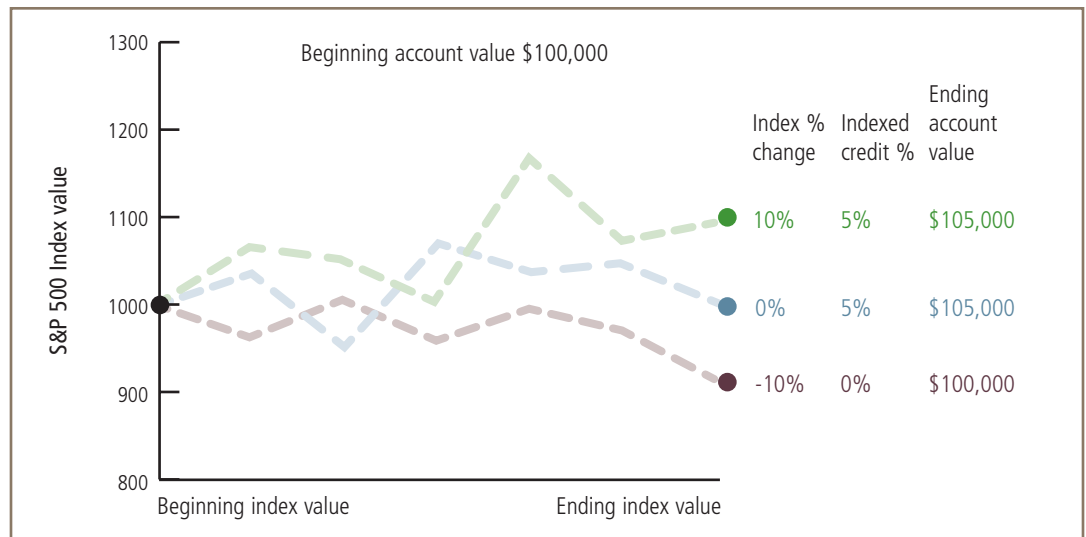
The Performance Triggered method is the easiest to explain and understand. If the ending index value is greater than or equal to the beginning index value, a specified rate of interest (declared in advance) is credited to the account.

- Any gains earned at the end of an indexed term are locked in.
- Declines are ignored. For example, if the ending index value is negative, "0" is credited to the account, protecting against loss of principal.

The specified rate of interest can be reset each year. It is important to manage the client's expectations and for them to understand that the amount of interest that may be credited to the indexed account is limited to the specified rate.

In the hypothetical Performance Triggered account shown here, the declared specified rate for this indexed term is 5%. For this example, regardless of the degree of the gain demonstrated by the underlying index, if the ending index value is greater than or equal to the beginning index value, 5% earnings will be credited to the account.

Performance Triggered example:



Point-to-Point

The Point-to-Point indexed method compares the change in the index from the beginning of the indexed term to the end of the indexed term.

A positive change will result in the crediting of indexed interest earnings, up to the cap.

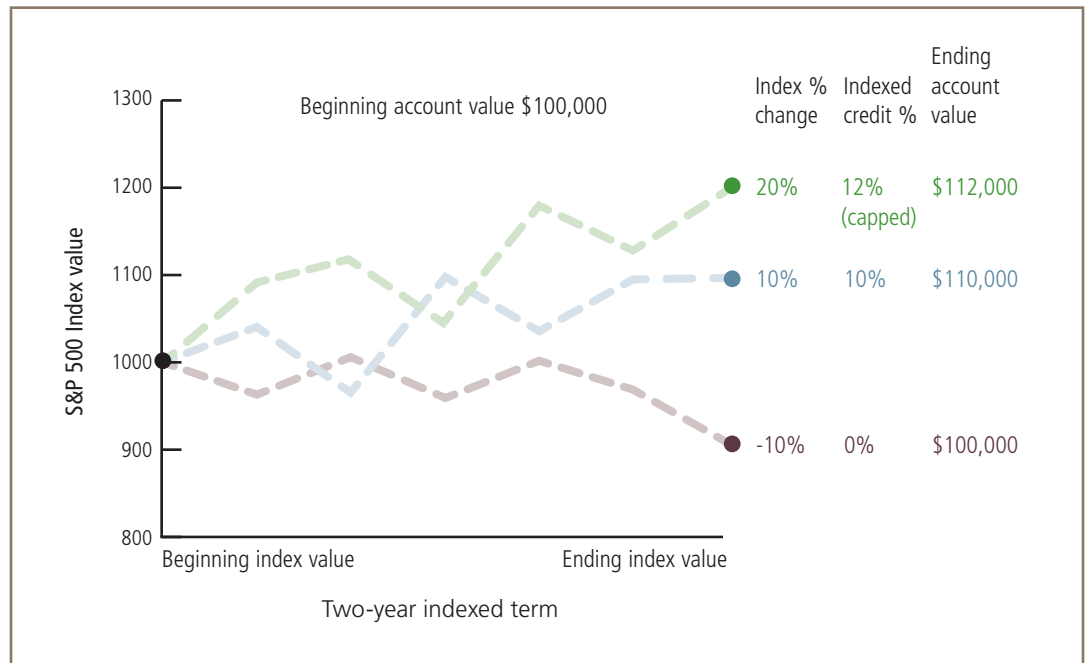
- Any gains earned from the indexed term are locked in.
- Declines are ignored. For example, if the change in the index value is negative, "0" is credited to the account, protecting the principal from loss.

Interest earnings are typically limited by a cap declared in advance. This cap can be reset each indexed term.

It is important to manage the client's expectations and for them to understand the role the cap plays in determining the amount of interest credited to the account at the end of the indexed term

In this hypothetical example of a Point-to-Point method, the cap rate declared at the beginning of the indexed term is 6%. That means that the client can expect to receive a *maximum* of 6% credited earnings for this term—they could receive anywhere from 0% to 6%, but never a negative value.

Point-to-Point example:



Monthly Cap

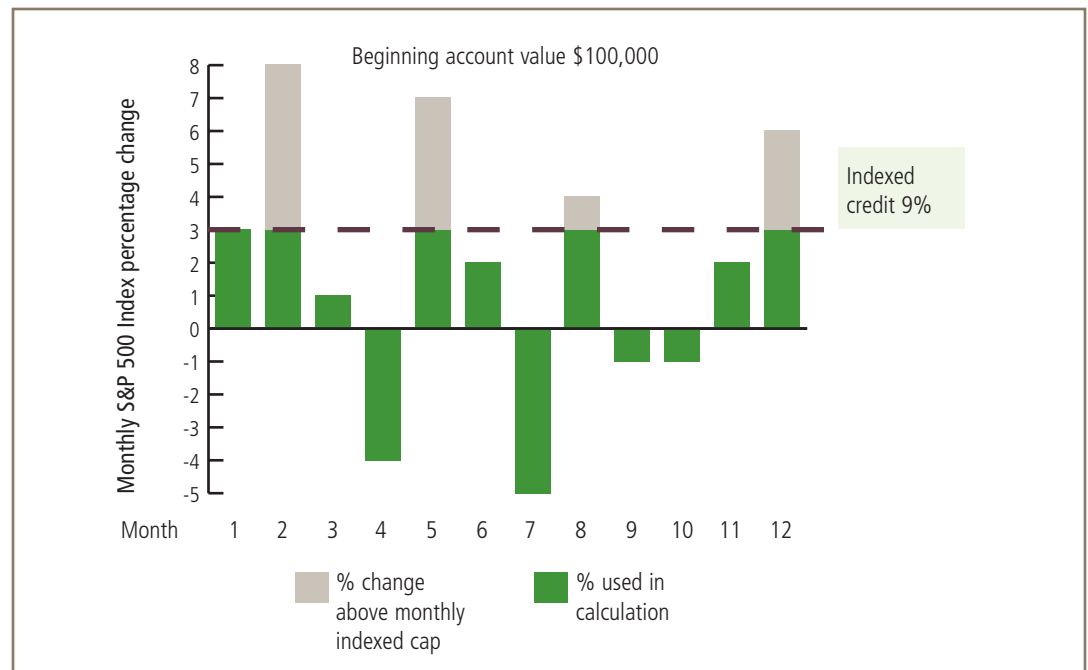
This account tracks the percentage change of the index each month of the indexed term. Each month, the percentage change could be positive or negative. Positive results cannot be higher than the monthly indexed cap that is declared in advance. Negative values are not limited, so any negative results will be included in full when determining the interest earnings for the indexed term. At the end of the indexed term, the percentages are added. If the sum is positive, the customer is credited this percentage of interest to their account. A negative result will have no impact on the account.

- Any gains earned from the indexed term are locked in.
- Overall declines are ignored. For example, if the change in the index values results in a negative value, "0" is credited to the account, protecting the principal from loss.

As discussed above, monthly positive results are limited by a cap declared in advance. This cap can be reset each indexed term. It is important to manage the client's expectations and ensure they understand the role that the cap plays in determining the amount of interest that is credited to the account at the end of the indexed term. The most indexed interest this type of account can earn would be the sum of each month's indexed cap. For example, for a 1-year indexed term, the maximum indexed interest would be the sum of the 12 months of the indexed cap.

In the hypothetical example for a 1-year indexed term, the declared monthly cap is 3%; therefore, the most the client can expect from this account is 36% (12 months at the maximum positive earnings of 3%). However, it should be noted that this scenario of meeting or exceeding the monthly cap for each month of an indexed term has never occurred historically due to market volatility.

Monthly Cap example:



Monthly Average

This account provides interest linked to the percentage change in the average monthly index value from the beginning of the one-year indexed term over the index value at the beginning of that indexed term.

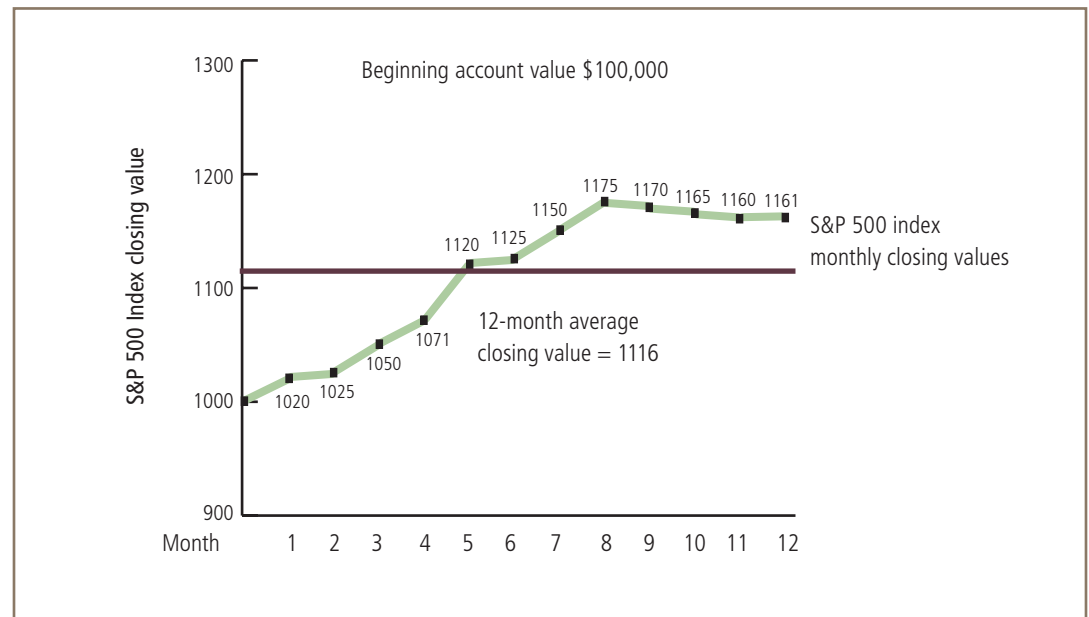
The actual indexed interest is credited to this account by calculating the average monthly percentage change. The percentage change has no minimum or maximum. Once the average monthly percentage change is calculated, the indexed interest spread is deducted.

If the sum is positive, the customer is credited the resulting percentage of interest to their account.

- Any gains earned from the indexed term are locked in.
- Overall declines are ignored. For example, if the average percentage change in the index values results in an overall negative value, "0" is credited to the account, protecting the principal from loss.

In this example, the declared indexed interest spread is 2.5%. In order for the indexed account to be credited with any interest earnings, the average monthly indexed percent change would need to be greater than 2.5%.

Monthly Average example:



What crediting methods does Lincoln use for its products?

The three fixed indexed annuity products offer indexed interest crediting methods as shown here; all are tied to the performance of the S&P 500 Index value.

Product	Point-to-point	Monthly cap	Monthly average	Performance triggered	Comments
<i>Lincoln OptiChoice</i> SM 5 <i>Lincoln OptiChoice</i> SM 7 <i>Lincoln OptiChoice</i> SM 9	1-year term (cap reset annually)	1-year term (cap reset annually)	1-year term (spread reset annually)	Not offered	Includes 1-year Fixed Account
<i>Lincoln OptiPoint</i> [®] 8 <i>Lincoln OptiPoint</i> [®] 10 <i>Lincoln OptiPoint</i> [®] 12	2-year term (cap reset every 2 years)	2-year term (cap reset every 2 years)	Not offered	1-year term (specified rate reset annually)	Includes 1-year Fixed Account
<i>Lincoln New Directions</i> [®] 6 <i>Lincoln New Directions</i> [®] 8	2-year term (cap reset every 2 years)	Not offered	Not offered	1-year term (specified rate reset annually)	Includes initial guaranteed Fixed Account of either 6 or 8 years

Any indexed interest earnings are credited at the end of the indexed term.

C. Length and level of surrender charge schedules

Producers need to determine if the surrender charge period is of reasonable length for a client's time horizon and age. Products should not impose a surrender charge schedule that continues for an excessive length of time. Also, producers need to be aware of the amount of the surrender charge and deem it reasonable for clients. A client never knows if their life circumstances will change, so it is important to know what the fees will be if there is a need to access income before the end of the surrender charge period.

There are several products in the market that will waive surrender charges in the event of terminal illness, nursing home confinement, or annuitization.

Some companies offering a premium bonus impose additional surrender charges when withdrawing account value attributed to the bonus amount.

What are the surrender charge schedules for Lincoln products?

In the event of an early surrender or an excess withdrawal (over 10% of the account value), the following surrender charges may be imposed:

Product	Surrender charge schedule	Comments
<i>Lincoln OptiChoice</i> SM 5 <i>Lincoln OptiChoice</i> SM 7 <i>Lincoln OptiChoice</i> SM 9	9, 8, 7, 6, 5, 0% thereafter 9, 8, 7, 6, 5, 4, 3, 0% thereafter 9, 8, 7, 6, 5, 4, 3, 2, 1, 0% thereafter	
Premium bonus products <i>Lincoln OptiPoint</i> [®] 8 <i>Lincoln OptiPoint</i> [®] 10 <i>Lincoln OptiPoint</i> [®] 12	9, 8, 7, 6, 5, 4, 3, 2, 0% thereafter 10, 9, 8, 7, 6, 5, 4, 3, 2, 1, 0% thereafter 12, 11, 10, 9, 8, 7, 6, 5, 4, 3, 2, 1, 0% thereafter	No additional bonus recapture charge
<i>Lincoln New Directions</i> [®] 6 <i>Lincoln New Directions</i> [®] 8	9, 8, 7, 6, 4.75, 3.5, 0% thereafter 9, 8, 7, 6, 4.75, 3.5, 2, 0.75, 0% thereafter	Length of surrender charge schedule matches initial interest rate guarantee period

Lincoln's current practice is to waive surrender charges if the excess withdrawal is due to a Required Minimum Distribution attributed to the Lincoln contract.

D. Market Value Adjustment

In the event of an early withdrawal (partial or full surrender), many contracts also impose a Market Value Adjustment (MVA). The MVA is designed to offset the cost associated with selling the assets backing the contract prior to the end of the surrender charge period. Charging this cost only to owners who terminate early protects credited rates from the impact of possibly having to sell assets to cover an early surrender.

An MVA is an adjustment (positive or negative) that may be applied to the contract value in the event of a full surrender or partial withdrawal from the contract if the withdrawal is taken before the end of the surrender charge period.

What do the Lincoln contract provisions specify?

- The MVA cannot reduce the cash surrender value below the guaranteed minimum cash surrender value.
- The MVA cannot increase the cash surrender value by more than the maximum amount that the MVA can decrease the cash surrender value.

E. Access to Account Value

Producers should determine if a product allows for penalty-free withdrawals (free of surrender charges and Market Value Adjustment). Penalty-free withdrawals are beneficial in the event a client needs money before the end of the surrender charge period.

How does Lincoln offer access to the Account Value?

Lincoln's fixed indexed annuity products offer:

- Penalty-free withdrawals
- Nursing Home and Terminal Illness waivers
- GLWB rider (available with *Lincoln New Directions*[®] and *Lincoln OptiChoice*SM fixed indexed annuities)

- Penalty-free annuitization (per contract provisions)
- Penalty-free death benefit

Penalty-free withdrawals

All the Lincoln fixed indexed annuity products offer penalty-free withdrawals of 10% of the account value each contract year during the surrender charge schedule. Once the surrender charge schedule expires, the account value can be withdrawn (partially or fully) without any contract penalties.

Nursing Home/Terminal Illness waiver

All the Lincoln fixed indexed annuity products allow for penalty-free withdrawals in the event of nursing home confinement or terminal illness, subject to contract provisions and state availability.

Guaranteed Lifetime Withdrawal Benefit (GLWB) rider

Lincoln New Directions[®] and *Lincoln OptiChoice*SM fixed indexed annuities offer *Lincoln Living Income*SM Advantage, Lincoln's GLWB rider. This rider is available for an additional cost and provides a powerful tool for retirement income planning by offering:

- A lifetime income guarantee without giving up total control of the asset
- Flexibility to start and stop withdrawals
- A death benefit (the beneficiary will receive any remaining account value)

*Lincoln Living Income*SM Advantage guarantees that a specific amount can be withdrawn from the contract's account value each contract year after the waiting period (currently 12 months). Subject to the terms of the rider, the withdrawal amount is guaranteed for life, even if the contract's account value is reduced to zero.

The specific withdrawal amount can be determined in a number of ways. Some companies offer a "roll-up" feature, which guarantees a minimum step-up to the

income base. At the time income is desired, a factor is applied to that base. The result would be the guaranteed lifetime income amount.

*Lincoln Living Income*SM Advantage offers higher income factors at older ages and rewards clients who plan ahead. An additional one or two percent is added to the factor, depending on the number of complete years the rider has been in effect before the first withdrawal is taken. This step-up rate is implemented as follows:

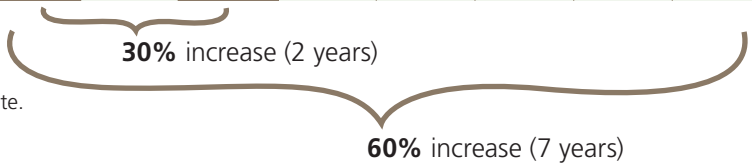
- After 5 years but less than 10 years, 1.00% will be added to the Lifetime Benefit Factor; or
- After 10 years, 2.00% will be added to the Lifetime Benefit Factor.

When comparing income benefit riders, consider the actual income a client might receive. Which is more beneficial: a higher income base with a 5% factor or a slightly lower income base with a 7% factor? Be sure to make an “apples to apples” comparison, and look at what the client will actually have to spend each month.

Another way to see the benefit of planning ahead with the innovative *Lincoln Living Income*SM Advantage rider is to use the Estimated Payment Calculator available on Lincoln producer Web sites. This client-approved estimated payment calculator helps clients plan for their retirement income goals by illustrating potential future income amounts under several scenarios.

Estimated Payment

Number of complete years before income begins*										
Year	1 yr	2 yr	3yr	4yr	5yr	6yr	7yr	8yr	9yr	10yr
0%	5,000.00	5,000.00	5,000.00	5,000.00	6,500.00	6,500.00	6,500.00	6,500.00	6,500.00	8000.00



*Measured from rider effective date.

It is easy to see from this example how waiting just a few years to begin withdrawals with *Lincoln Living Income*SM Advantage can substantially increase the level of income.

Penalty-free annuitization (per contract provisions)

There are several annuitization options available with Lincoln fixed indexed annuities. Annuitization elected per the contract terms will utilize the contract's full account value.

Annuitization is generally available:

- After the fifth contract year for *Lincoln OptiChoice*SM and *Lincoln OptiPoint*[®] fixed indexed annuities
- After the second contract year for *Lincoln New Directions*[®] fixed indexed annuity

Traditional annuitization options are available, as well as the innovative *Lincoln SmartIncome*SM fixed annuity payout option, which offers inflation-adjusted payments based on changes in the Consumer Price Index.

Penalty-free death benefit

Should death occur prior to annuitization, the contract's full account value may be paid to the beneficiary.

Crediting rate history

Once a producer compares product features, the next critical consideration in choosing a fixed indexed annuity is the crediting rate history. Examine a company's crediting rate history to get an understanding of how in-force clients are treated. A company's crediting rate history for a specific product should show the following:

- The index values used in the calculation
- Declared rates (caps, spreads, rates, fixed interest rates)
- Actual credited rates (initial and renewal)

Industry Issue: "Bait and switch" rates

Some companies credit a high first-year rate that is followed by below-market renewal rates.

How does Lincoln measure up? Readily available crediting rate histories

Lincoln has a history of conservative, consistent rate-setting policies. While the current indexed annuity products issued by The Lincoln National Life Insurance Company were launched in 2007, the predecessor products, issued by Jefferson-Pilot Life Insurance Company, have existed since 2003.

Lincoln's experience in this market is demonstrated in the rate-setting policies and the crediting rate history. The crediting rate histories for each of the Lincoln fixed and fixed indexed annuity products are made available to our selling partners via producer Web sites. These crediting rate histories demonstrate the equitable treatment of both new and in-force clients. It is not Lincoln's policy to offer high first-year rates followed by below-market renewal rates.

Product limitations

The last important consideration is product limitations. The old adage, "If it seems too good to be true, it probably is" can also be applied to fixed indexed annuities.

Industry issue: confusion surrounding product features and limitations

Fixed indexed annuities generally are not sold by prospectus, so how are product details communicated to the client?

How does Lincoln measure up? Disclosure Statements

To address this communication issue, Lincoln has developed a comprehensive Disclosure Statement for each of its products. It is written in layman's terms and explains the product features and specifications.

The Disclosure Statement includes details regarding these topics and others:

- Contract features
- Surrender charges
- Contract limitations
- Additional expenses (if any)
- Interest crediting methods

The applicant must sign the Disclosure Statement, attesting that they have received the Disclosure Statement, read it, and understand it. This provides a safeguard during the sales process, helping to ensure that the client is fully aware of what they are purchasing.

Industry issue: understanding contract features and limitations

Fixed indexed annuities may be viewed as complex, and the tools to help educate the consumer and the producer may not be readily available. Look for information regarding:

- **Penalties and limitations**—Producers need to be aware of the limitations or penalties, including bonuses that can be recaptured if the client withdraws funds prior to a certain date.
- **Product thresholds**—Producers should be knowledgeable of the product premium thresholds and consider if there is a premium amount above which the client may receive an enhanced rate. Producers need to know what happens if the client withdraws money, taking the value below the set threshold.

- **Contract provisions**—Producers (and clients) should be thoroughly familiar with the contract provisions and how they are applied to specific situations.

How does Lincoln measure up?

Making the information accessible

The annuity contract contains details of product features, the contract's limitations, and its provisions. Lincoln specimen contracts are available on producer Web sites. Lincoln also repeats this information, in easy-to-understand terms, in the product Disclosure Statements to help ensure that producers and clients understand how a product works. Lincoln also provides "Facts At-A-Glance" for each fixed indexed annuity product. The Facts At-A Glance provides a detailed summary of product features and benefits and can be used by clients as a quick reference tool for specific product information, including surrender charge schedules.

Not all products (or companies) are created equal

When choosing a fixed indexed annuity, consider the issuing insurance company's policy and procedures, crediting rate history, and specific product features. The issue of product registration may then become a secondary consideration in the product selection process.

Use the chart on the next page as a tool to help you decide which fixed indexed annuity to offer.

Side-by-side comparison

Issue/product feature	Lincoln	How do other companies measure up?
Suitability	<ul style="list-style-type: none"> • Position Statement • Fixed Annuity Suitability form • Proprietary pre-issue suitability monitoring system • Fixed Annuity Suitability agent guide 	?
Product features		
Fixed (Guaranteed) Account	<ul style="list-style-type: none"> • One-year guarantee in Lincoln <i>OptiPoint</i>[®] and Lincoln <i>OptiChoice</i>[®] fixed indexed annuities • Six- or eight-year guarantee in Lincoln <i>New Directions</i>[®] fixed indexed annuity • Interest credited daily 	?
Indexed interest accounts	<ul style="list-style-type: none"> • One- or two-year indexed terms • Choice of: <ul style="list-style-type: none"> – Performance triggered – Point-to-point – Monthly cap – Monthly average • Can reallocate at the end of the indexed term • Any interest credited at the end of the indexed term 	?
Surrender charge schedule	<ul style="list-style-type: none"> • Multiple timeframes available • For Lincoln <i>New Directions</i>[®] fixed indexed annuity, matches Fixed Account initial interest rate guarantee period 	?
Market Value Adjustment	Lincoln's contract provisions specify a Guaranteed Minimum Interest Rate (GMIR), which is used to determine the Guaranteed Minimum Cash Surrender Value. The MVA cannot reduce the surrender value below the Guaranteed Minimum Cash Surrender Value.	?
Access to account value	<ul style="list-style-type: none"> • 10% of account value penalty-free • No charges upon death or annuitization • Nursing Home/Terminal Illness waiver • Lincoln <i>Living Income</i>SM Advantage rider available on Lincoln <i>OptiChoice</i>SM and Lincoln <i>New Directions</i>[®] fixed indexed annuities 	?
Crediting rate history	Available upon request at the Lincoln producer's Web sites	?
Product education	<ul style="list-style-type: none"> • Disclosure Statement • Facts At-A-Glance • Specimen contracts 	?

Why Lincoln? Why fixed indexed annuities?

Wealth preservation—A way to preserve and protect 100% of the money already accumulated.

Growth potential—A way to grow existing wealth with crediting rates that take advantage of index upswings and also receive tax deferred growth.

Guarantees—Guaranteed minimum interest rates; guaranteed access to money for unexpected events, such as nursing home confinement or terminal illness; and a guaranteed death benefit. Guarantees backed by the claims-paying ability of The Lincoln National Life Insurance Company.

Income—Payment options to meet short- and long-term retirement income needs, including an income stream for a lifetime.

A strong and reputable company—The confidence of knowing the money is backed by the strength and stability of Lincoln, an industry-leading insurance company.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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Lincoln OptiChoice™ flexible premium deferred annuity (contract form 05-606, or state variation), *Lincoln OptiPoint*® flexible premium deferred annuity (contract form 06-610, or state variation), and *Lincoln New Directions*® single premium deferred annuity (contract form 94-523, or state variation) are issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, and distributed by Lincoln Financial Distributors, Inc., a broker/dealer. **The Lincoln National Life Insurance Company does not solicit business in the state of New York, nor is it authorized to do so. Contractual obligations are backed by the claims-paying ability of The Lincoln National Life Insurance Company.**

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Products may not be available in all states (fixed indexed annuities may be referred to as "equity indexed annuities" in certain states). These products are not available in New York.

There is no additional tax-deferral benefit for an annuity contract purchased in an IRA or other tax-qualified plan.

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