Sauder David R
Form 4
November 04, 2011

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Sauder David R

(Last) (First) (Middle)

415 HOLIDAY DRIVE

(Street)

PITTSBURGH, PA 15220

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FOSTER L B CO [FSTR]

3. Date of Earliest Transaction (Month/Day/Year)
11/03/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President-Business Dev

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/03/2011		F		987	D	$ 30.18	6,991 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Sauder David R 415 HOLIDAY DRIVE PITTSBURGH, PA 15220			Vice President-Business Dev	

Signatures

/s/ Joseph S. Cancilla, attorney in fact	11/04/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This number includes restricted shares which were previously awarded to the reporting person by the Issuer under the Issuer's 2006 Omnibus Incentive Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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ABS

117

2

143

14

260

16

U.S. government bonds

70

1

23

Explanation of Responses:

1

93

2

RMBS

472

10

863

60

1,335

Explanation of Responses:

70

CMBS

470

11

82

5

552

16

CLOs

1,124

21

103

3

1,227

24

State and municipal bonds

404

8

96

10

500

18

Hybrid and redeemable

preferred securities

96

6

133

28

229

34

Total fixed maturity AFS securities

$

35,246

$

1,589

$

8,671

$

856

$

43,917

$

2,445

Explanation of Responses:

Total number of fixed maturity AFS securities in an unrealized loss position

3,414

The fair value, gross unrealized losses, the portion of OTTI recognized in OCI (in millions) and number of fixed maturity AFS securities where the fair value had declined and remained below amortized cost by greater than 20% were as follows:

As of March 31, 2019

	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 23	$ 8	$ 1	7
Six months or greater, but less than nine months	20	6	-	4
Nine months or greater, but less than twelve months	98	42	-	10
Twelve months or greater	152	52	22	32
Total	$ 293	$ 108	$ 23	53

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	As of December 31, 2018			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 395	$ 124	$ 1	45
Six months or greater, but less than nine months	96	49	-	11
Nine months or greater, but less than twelve months	11	8	-	2
Twelve months or greater	143	74	8	32
Total	$ 645	$ 255	$ 9	90

(1) We may reflect a security in more than one aging category based on various purchase dates.

We regularly review our investment holdings for OTTI. Our gross unrealized losses, including the portion of OTTI recognized in OCI, on fixed maturity AFS securities decreased by $1.5 billion for the three months ended March 31, 2019. As discussed further below, we believe the unrealized loss position as of March 31, 2019, did not represent OTTI as (i) we did not intend to sell these fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities.

Based upon this evaluation as of March 31, 2019, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of March 31, 2019, the unrealized losses associated with our corporate bond securities were attributable primarily to widening credit spreads and rising interest rates since purchase. We performed a detailed analysis of the financial performance of the underlying issuers and determined that we expected to recover the entire amortized cost of each temporarily-impaired security.

As of March 31, 2019, the unrealized losses associated with our mortgage-backed securities (“MBS”) and ABS were attributable primarily to widening credit spreads and rising interest rates since purchase. We assessed for credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost of each temporarily-impaired security.

As of March 31, 2019, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of underlying issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the underlying issuers based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each temporarily-impaired security.

Changes in the amount of credit loss of OTTI recognized in net income (loss) where the portion related to other factors was recognized in OCI (in millions) on fixed maturity AFS securities were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Balance as of beginning-of-year	$ 355	$ 378
Increases attributable to:		
Credit losses on securities for which an OTTI was not previously recognized	6	2
Credit losses on securities for which an OTTI was previously recognized	2	-
Decreases attributable to:		
Securities sold, paid down or matured	(4)	(2)
Balance as of end-of-period	$ 359	$ 378

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During the three months ended March 31, 2019 and 2018, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
- Deterioration of creditworthiness of the issuer;
- Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates; and
- Deterioration of the rating of the security by a rating agency.

We recognize the OTTI attributed to the noncredit portion as a separate component in OCI referred to as unrealized OTTI on fixed maturity AFS securities.

Determination of Credit Losses on Corporate Bonds

As of March 31, 2019, and December 31, 2018, we reviewed our corporate bond portfolio for potential shortfalls in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near-term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of March 31, 2019, and December 31, 2018, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of March 31, 2019, and December 31, 2018, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.3 billion and $3.2 billion, respectively, and a fair value of $3.2 billion and $3.0 billion, respectively. Based upon the analysis discussed above, we believe as of March 31, 2019, and December 31, 2018, that we would recover the amortized cost of each corporate bond.

Determination of Credit Losses on MBS and ABS

As of March 31, 2019, and December 31, 2018, default rates were projected by considering underlying MBS and ABS loan performance and collateral type. Projected default rates on existing delinquencies vary depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans

that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity, if defaulted. For first lien loans, we assume a minimum of 30% severity with higher severity assumed for investor properties and further adjusted by housing price assumptions. With the default rate timing curve and loan-level loss severity, we derive the future expected credit losses.

Mortgage Loans on Real Estate

The following provides the current and past due composition of our mortgage loans on real estate (in millions):

	As of March 31, 2019			As of December 31, 2018		
	Commercial	Residential	Total	Commercial	Residential	Total
Current	$ 13,598	$ 401	$ 13,999	$ 13,029	$ 239	$ 13,268
60 to 90 days past due	-	1	1	-	1	1
Greater than 90 days past due	-	1	1	-	-	-
Valuation allowance	-	(1)	(1)	-	-	-
Unamortized premium (discount)	(16)	13	(3)	(17)	8	(9)
Total carrying value	$ 13,582	$ 415	$ 13,997	$ 13,012	$ 248	$ 13,260

We establish a valuation allowance to provide for the risk of credit losses inherent in our portfolio. The valuation allowance includes specific valuation allowances for loans that are deemed to be impaired as well as general valuation allowances for pools of loans with similar risk characteristics where a property risk or market specific risk has not been identified but for which we anticipate a loss has occurred.

For our commercial mortgage loans, no specifically identified loans were impaired as of March 31, 2019, or December 31, 2018.

For our residential mortgage loans, no specifically identified loans were impaired as of March 31, 2019, or December 31, 2018. The general allowance established on residential mortgage loans as of March 31, 2019 was $1 million. As of December 31, 2018, the general allowance established on residential mortgage loans was less than $1 million.

The changes in the valuation allowance associated with impaired commercial mortgage loans on real estate (in millions) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Balance as of beginning-of-year	$ -	$ 3
Additions	-	-
Charge-offs, net of recoveries	-	-
Balance as of end-of-period	$ -	$ 3

Additional information related to impaired commercial mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended March 31,	
	2019	2018
Average carrying value for impaired commercial mortgage loans on real estate	$ -	$ 8
Interest income recognized on impaired commercial mortgage loans on real estate	-	-
Interest income collected on impaired commercial mortgage loans on real estate	-	-

We use the loan-to-value and debt-service coverage ratios as credit quality indicators for our commercial mortgage loans on real estate (dollars in millions) as follows:

Loan-to-Value Ratio	As of March 31, 2019 Carrying Value	% of Total	Debt-Service Coverage Ratio	As of December 31, 2018 Carrying Value	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 12,368	91.1%	2.27	$ 11,716	90.1%	2.30
65% to 74%	1,175	8.6%	1.74	1,238	9.5%	1.76
75% to 100%	39	0.3%	1.20	58	0.4%	0.95
Total	$ 13,582	100.0%		$ 13,012	100.0%	

We use loan performance status as the primary credit quality indicator for our residential mortgage loans on real estate (dollars in millions) as follows:

Performance Indicator	As of March 31, 2019 Carrying Value	% of Total	As of December 31, 2018 Carrying Value	% of Total
Performing	$ 414	99.5%	$ 247	99.6%
Nonperforming	2	0.5%	1	0.4%
Total	$ 416	100.0%	$ 248	100.0%

Our commercial mortgage loan portfolio is geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 23% of commercial mortgage loans on real estate as of March 31, 2019, and December 31, 2018, and Texas, which accounted for 12% of commercial mortgage loans on real estate as of March 31, 2019, and December 31, 2018.

Our residential mortgage loan portfolio is geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 30% and 34% of residential mortgage loans on real estate as of March 31, 2019, and December 31, 2018, respectively, and Florida, which accounted for 19% of residential mortgage loans on real estate as of March 31, 2019, and December 31, 2018.

Alternative Investments

As of March 31, 2019, and December 31, 2018, alternative investments included investments in 246 and 237 different partnerships, respectively, and the portfolio represented approximately 2% and 1% of our overall invested assets, respectively.

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Explanation of Responses:

Realized Gain (Loss)

Details underlying realized gain (loss) (in millions) reported on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Fixed maturity AFS securities:		
Gross gains	$ 12	$ 14
Gross losses	(27)	(30)
Gross OTTI	(8)	(2)
Gain (loss) on other investments (1)	5	2
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(2)	(5)
Total realized gain (loss) related to certain investments	(20)	(21)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(121)	1
Indexed annuity and IUL contracts net derivatives results: (3)		
Gross gain (loss)	(35)	(1)
Associated amortization of DAC, VOBA, DSI and DFEL	1	-
Variable annuity net derivatives results: (4)		
Gross gain (loss)	(215)	33
Associated amortization of DAC, VOBA, DSI and DFEL	28	-
Total realized gain (loss)	$ (362)	$ 12

(1) Includes market adjustments on equity securities still held of $6 million and less than $1 million for the three months ended March 31, 2019 and 2018, respectively.

(2) Represents changes in the fair values of certain derivative investments (not including those associated with our variable and indexed annuity and IUL contracts net derivative results), reinsurance related embedded derivatives and trading securities. See Note 8 for information regarding modified coinsurance.

(3) Represents the net difference between the change in the fair value of the S&P 500 Index® (“S&P 500”) call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity and IUL contracts along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.

(4) Includes the net difference in the change in embedded derivative reserves of our guaranteed living benefit (“GLB”) riders and the change in the fair value of the derivative instruments we own to hedge the change in embedded derivative reserves on our GLB riders and the benefit ratio unlocking on our GLB and GDB riders, including the cost of purchasing the hedging instruments.

Details underlying write-downs taken as a result of OTTI that were recognized in net income (loss) and included in realized gain (loss) on fixed maturity AFS securities above and the portion of OTTI recognized in OCI (in millions) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
OTTI Recognized in Net Income (Loss)		
Fixed maturity AFS securities:		
Corporate bonds	$ (6)	$ (2)
ABS	(1)	-
RMBS	(1)	-
Gross OTTI recognized in net income (loss)	(8)	(2)
Associated amortization of DAC, VOBA, DSI and DFEL	-	-
Net OTTI recognized in net income (loss)	$ (8)	$ (2)
Portion of OTTI Recognized in OCI		
Gross OTTI recognized in OCI	$ 16	$ -
Change in DAC, VOBA, DSI and DFEL	(1)	-
Net portion of OTTI recognized in OCI	$ 15	$ -

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Payables for Collateral on Investments

The carrying value of the payables for collateral on investments included on our Consolidated Balance Sheets and the fair value of the related investments or collateral (in millions) consisted of the following:

	As of March 31, 2019		As of December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable for derivative investments (1)	$ 695	$ 695	$ 637	$ 637
Securities pledged under securities lending agreements (2)	136	131	88	85
Securities pledged under repurchase agreements (3)	151	187	150	185
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (4)	4,380	6,570	3,930	5,923
Total payables for collateral on investments	$ 5,362	$ 7,583	$ 4,805	$ 6,830

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for additional information.

(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.

(3) Our pledged securities under repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. The collateral requirements are generally 80% to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our repurchase program is typically invested in fixed maturity AFS securities.

(4) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

Increase (decrease) in payables for collateral on investments (in millions) consisted of the following:

	For the Three Months Ended March 31,	
	2019	2018
Collateral payable for derivative investments	$ 58	$ (83)
Securities pledged under securities lending agreements	48	(68)
Securities pledged under repurchase agreements	1	(1)
Investments pledged for FHLBI	450	-
Total increase (decrease) in payables for collateral on investments	$ 557	$ (152)

We have elected not to offset our repurchase agreements and securities lending transactions in our financial statements. The remaining contractual maturities of repurchase agreements and securities lending transactions accounted for as secured borrowings (in millions) were as follows:

	As of March 31, 2019				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
Corporate bonds	$ -	$ -	$ -	$ 151	$ 151
Securities Lending					
Corporate bonds	136	-	-	-	136
Total gross secured borrowings	$ 136	$ -	$ -	$ 151	$ 287

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	As of December 31, 2018				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater Than 90 Days	Total
Repurchase Agreements					
Corporate bonds	$ -	$ -	$ -	$ 150	$ 150
Securities Lending					
Corporate bonds	88	-	-	-	88
Total gross secured borrowings	$ 88	$ -	$ -	$ 150	$ 238

We accept collateral in the form of securities in connection with repurchase agreements. In instances where we are permitted to sell or re-pledge the securities received, we report the fair value of the collateral received and a related obligation to return the collateral in the financial statements. In addition, we receive securities in connection with securities borrowing agreements which we are permitted to sell or re-pledge. As of March 31, 2019, the fair value of all collateral received that we are permitted to sell or re-pledge was $548 million. As of March 31, 2019, we have re-pledged $536 million of this collateral to cover initial margin and over-the-counter collateral requirements on certain derivative investments.

Investment Commitments

As of March 31, 2019, our investment commitments were $2.0 billion, which included $823 million of LPs, $669 million of mortgage loans on real estate and $528 million of private placement securities.

Concentrations of Financial Instruments

As of March 31, 2019, and December 31, 2018, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $1.4 billion or 1% of our invested assets portfolio, and our investments in securities issued by the Federal National Mortgage Association with a fair value of $1.3 billion or 1% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

As of March 31, 2019, our most significant investments in one industry were our investments in securities in the financial services industry and the consumer non-cyclical industry with a fair value of $15.3 billion and $15.1 billion, respectively, or 13% and 12%, respectively, of our invested assets portfolio. As of December 31, 2018, our most significant investments in one industry were our investments in securities in the consumer non-cyclical industry and

the financial services industry with a fair value of $14.5 billion and $14.2 billion, respectively, or 13% and 12% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

6. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, basis risk and credit risk. We assess these risks by continually identifying and monitoring changes in our exposures that may adversely affect expected future cash flows and by evaluating hedging opportunities.

Derivative activities are monitored by various management committees. The committees are responsible for overseeing the implementation of various hedging strategies that are developed through the analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are incorporated into our overall risk management strategies.

See Note 13 for additional disclosures related to the fair value of our derivative instruments and Note 4 for derivative instruments related to our consolidated VIEs.

We adopted ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, in 2019. See Note 2 for additional information.

Interest Rate Contracts

We use derivative instruments as part of our interest rate risk management strategy. These instruments are economic hedges unless otherwise noted and include:

Forward-Starting Interest Rate Swaps

We use forward-starting interest rate swaps designated and qualifying as cash flow hedges to hedge our exposure to interest rate fluctuations related to the forecasted purchases of certain assets and anticipated issuances of fixed-rate securities.

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We also use forward-starting interest rate swaps to hedge the interest rate exposure within our life products related to the forecasted purchases of certain assets.

Interest Rate Cap Corridors

We use interest rate cap corridors to provide a level of protection from the effect of rising interest rates for certain life insurance products and annuity contracts. Interest rate cap corridors involve purchasing an interest rate cap at a specific cap rate and selling an interest rate cap with a higher cap rate. For each corridor, the amount of quarterly payments, if any, is determined by the rate at which the underlying index rate resets above the original capped rate. The corridor limits the benefit the purchaser can receive as the related interest rate index rises above the higher capped rate. There is no additional liability to us other than the purchase price associated with the interest rate cap corridor.

Interest Rate Futures

We use interest rate futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts require payment between our counterparty and us on a daily basis for changes in the futures index price.

Interest Rate Swap Agreements

We use interest rate swap agreements to hedge the liability exposure on certain options in variable annuity products.

We also use interest rate swap agreements designated and qualifying as cash flow hedges to hedge the interest rate risk of floating-rate bond coupon payments by replicating a fixed-rate bond.

Finally, we use interest rate swap agreements designated and qualifying as fair value hedges to hedge against changes in the fair value of certain fixed-rate long-term debt and fixed maturity securities due to interest rate risks.

Treasury and Reverse Treasury Locks

We use treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to our issuance of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. In addition, we use reverse treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to the anticipated purchase of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. These derivatives are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

Foreign Currency Contracts

We use derivative instruments as part of our foreign currency risk management strategy. These instruments are economic hedges unless otherwise noted and include:

Currency Futures

We use currency futures to hedge foreign exchange risk associated with certain options in variable annuity products. Currency futures exchange one currency for another at a specified date in the future at a specified exchange rate.

Foreign Currency Swaps

We use foreign currency swaps designated and qualifying as cash flow hedges, to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency swap is a contractual agreement to exchange one currency for another at specified dates in the future at a specified exchange rate.

Equity Market Contracts

We use derivative instruments as part of our equity market risk management strategy that are economic hedges and include:

Call Options Based on the S&P 500

We use call options to hedge the liability exposure on certain options in variable annuity products.

Our indexed annuity and IUL contracts permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to rebalance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. We purchase call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period.

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Consumer Price Index Swaps

We use consumer price index swaps to hedge the liability exposure on certain options in fixed annuity products. Consumer price index swaps are contracts entered into at no cost and whose payoff is the difference between the consumer price index inflation rate and the fixed-rate determined as of inception.

Equity Futures

We use equity futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts

require payment between our counterparty and us on a daily basis for changes in the futures index price.

Put Options

We use put options to hedge the liability exposure on certain options in variable annuity products. Put options are contracts that require counterparties to pay us at a specified future date the amount, if any, by which a specified equity index is less than the strike rate stated in the agreement, applied to a notional amount.

Total Return Swaps

We use total return swaps to hedge the liability exposure on certain options in variable annuity products.

In addition, we use total return swaps to hedge a portion of the liability related to our deferred compensation plans. We receive the total return on a portfolio of indexes and pay a floating-rate of interest.

Variance Swaps

We use variance swaps to hedge the liability exposure on certain options in variable annuity products. Variance swaps are contracts entered into at no cost whose payoff is the difference between the realized variance rate of an underlying

index and the fixed variance rate determined as of inception of the contract.

Credit Contracts

We use derivative instruments as part of our credit risk management strategy that are economic hedges and include:

Credit Default Swaps – Buying Protection

We use credit default swaps to hedge the liability exposure on certain options in variable annuity products.

We buy credit default swaps to hedge against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows us to put the bond back to the counterparty at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

Credit Default Swaps – Selling Protection

We use credit default swaps to hedge the liability exposure on certain options in variable annuity products.

We sell credit default swaps to offer credit protection to contract holders and investors. The credit default swaps hedge the contract holders and investors against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows the investor to put the bond back to us at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

Embedded Derivatives

We have embedded derivatives that include:

GLB Reserves Embedded Derivatives

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with GLBs offered in our variable annuity products, including products with GWB and GIB features. Changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities hedge the income statement effect of changes in embedded derivative GLB reserves caused by those same factors. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these hedge positions may not be totally effective in offsetting changes in the embedded derivative reserve due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets and interest rates, market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices,

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divergence between the actual and expected performance of the hedge instruments and our ability to purchase hedging instruments at prices consistent with our desired risk and return trade-off.

Certain features of these guarantees have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the benefit reserves and the embedded derivative reserves based on the specific characteristics of each GLB feature.

Indexed Annuity and IUL Contracts Embedded Derivatives

Our indexed annuity and IUL contracts permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to rebalance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. We purchase S&P 500 call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period.

Reinsurance Related Embedded Derivatives

We have certain modified coinsurance arrangements and coinsurance with funds withheld reinsurance arrangements with embedded derivatives related to the withheld assets of the related funds. These derivatives are considered total return swaps with contractual returns that are attributable to various assets and liabilities associated with these reinsurance arrangements.

We have derivative instruments with off-balance-sheet risks whose notional or contract amounts exceed the related credit exposure. Outstanding derivative instruments with off-balance-sheet risks (in millions) were as follows:

	As of March 31, 2019			As of December 31, 2018		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						

Cash flow hedges:						
Interest rate contracts (1)	$ 2,567	$ 64	$ 51	$ 2,741	$ 70	$ 9
Foreign currency contracts (1)	2,442	153	36	2,326	167	39
Total cash flow hedges	5,009	217	87	5,067	237	48
Fair value hedges:						
Interest rate contracts (1)	1,261	80	163	1,268	55	137
Non-Qualifying Hedges						
Interest rate contracts (1)	95,308	588	105	100,628	464	138
Foreign currency contracts (1)	11	-	-	47	-	-
Equity market contracts (1)	32,795	613	404	30,487	676	162
Credit contracts (1)	60	-	-	-	-	-
Embedded derivatives:						
GLB direct (2)	-	439	-	-	123	-
GLB ceded (2) (3)	-	50	8	-	72	-
Reinsurance related (4)	-	-	177	-	-	3
Indexed annuity and IUL contracts (2) (5)	-	872	1,730	-	902	1,305
Total derivative instruments	$ 134,444	$ 2,859	$ 2,674	$ 137,497	$ 2,529	$ 1,793

(1) Reported in derivative investments and other liabilities on our Consolidated Balance Sheets.
(2) Reported in other assets on our Consolidated Balance Sheets.
(3) Reported in other liabilities on our Consolidated Balance Sheets.
(4) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.
(5) Reported in future contract benefits on our Consolidated Balance Sheets.

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The maturity of the notional amounts of derivative instruments (in millions) was as follows:

	Remaining Life as of March 31, 2019					
	Less Than 1 Year	1 - 5 Years	6 - 10 Years	11 - 30 Years	Over 30 Years	Total
Interest rate contracts (1)	$ 11,465	$ 9,727	$ 51,648	$ 24,583	$ 1,713	$ 99,136
Foreign currency contracts (2)	66	264	764	1,278	81	2,453
Equity market contracts	22,440	5,198	1,996	13	3,148	32,795
Credit contracts	-	-	60	-	-	60
Total derivative instruments with notional amounts	$ 33,971	$ 15,189	$ 54,468	$ 25,874	$ 4,942	$ 134,444

(1) As of March 31, 2019, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.

(2) As of March 31, 2019, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was September 2049.

The following amounts (in millions) were recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

	As of March 31, 2019	
	Amortized Cost of the Hedged Assets (Liabilities)	Cumulative Fair Value Hedging Adjustment Included in the Amortized Cost of the Hedged Assets (Liabilities)
Line Items in which the Hedged Items are Recorded		
Fixed maturity AFS securities, at fair value	$ 457	$ 161
Long-term debt (1)	(976)	(101)

(1) The balance includes $(122) million of unamortized adjustments from discontinued hedges as of March 31, 2019.

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The change in our unrealized gain (loss) on derivative instruments within accumulated other comprehensive income (loss) (“AOCI”) (in millions) was as follows:

	For the Three Months Ended March 31,	
	2019	2018
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 139	$ (29)
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cumulative effect from adoption of new accounting standard	-	(6)
Cash flow hedges:		
Interest rate contracts	(47)	53
Foreign currency contracts	11	(37)
Change in foreign currency exchange rate adjustment	(14)	(50)
Change in DAC, VOBA, DSI and DFEL	6	4
Income tax benefit (expense)	10	7
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	1	1
Interest rate contracts (2)	(1)	(3)
Foreign currency contracts (1)	7	5
Foreign currency contracts (3)	1	-
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	(1)
Income tax benefit (expense)	(1)	-
Balance as of end-of-period	$ 99	$ (60)

(1) The OCI offset is reported within net investment income on our Consolidated Statements of Comprehensive Income (Loss).

(2) The OCI offset is reported within interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).

(3) The OCI offset is reported within realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

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The effects of qualifying and non-qualifying hedges on the Consolidated Statements of Comprehensive Income (Loss) were as follows:

	Gain (Loss) Recognized in Income For the Three Months Ended March 31, 2019			
	Realized Gain (Loss)	Net Investment Income	Commissions and Other Expenses	Interest and Debt Expense
Total Line Items in which the Effects of Fair Value or Cash Flow Hedges are Recorded	$ (362)	$ 1,251	$ 1,176	$ 71
Qualifying Hedges				
Gain or (loss) on fair value hedging relationships:				
Interest rate contracts:				
Hedged items	-	24	-	(34)
Derivatives designated as hedging instruments	-	(24)	-	34
Gain or (loss) on cash flow hedging relationships:				
Interest rate contracts:				
Amount of gain or (loss) reclassified from AOCI into income	-	1	-	(1)
Foreign currency contracts				
Amount of gain or (loss) reclassified from AOCI into income	1	7	-	-
Non-Qualifying Hedges				
Interest rate contracts	357	-	-	-
Equity market contracts	(458)	-	-	-
Embedded derivatives:				
GLB	286	-	-	-
Reinsurance related	(174)	-	-	-
Indexed annuity and IUL contracts	(239)	-	-	-

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The gains (losses) on derivative instruments (in millions) recorded within income (loss) from continuing operations on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended March 31, 2018
Qualifying Hedges	
Cash flow hedges:	
Interest rate contracts (1)	$ 1
Interest rate contracts (2)	(3)
Foreign currency contracts (1)	5
Total cash flow hedges	3
Fair value hedges:	
Interest rate contracts (1)	(4)
Interest rate contracts (2)	6
Interest rate contracts (3)	33
Total fair value hedges	35
Non-Qualifying Hedges	
Interest rate contracts (3)	(314)
Foreign currency contracts (3)	2
Equity market contracts (3)	7
Equity market contracts (4)	(2)
Embedded derivatives:	
GLB (3)	157
Reinsurance related (3)	23
Indexed annuity and IUL contracts (3)	52
Total derivative instruments	$ (37)

(1) Reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss).
(2) Reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
(3) Reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
(4) Reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

Gains (losses) recognized as a component of OCI (in millions) on derivative instruments designated and qualifying as cash flow hedges were as follows:

	For the Three Months Ended March 31, 2018
Offset to net investment income	$ 6
Offset to interest and debt expense	(3)

As of March 31, 2019, $35 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the three months ended March 31, 2019 and 2018, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

As of March 31, 2019, and December 31, 2018, we did not have any exposure related to credit default swaps for which we are the seller.

Credit Risk

We are exposed to credit losses in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk ("NPR"). The NPR is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of March 31, 2019, the NPR adjustment was zero. The credit risk associated with such agreements is minimized by entering into agreements with financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of March 31, 2019, and December 31, 2018, our exposure was zero.

The amounts recognized (in millions) by S&P credit rating of counterparty, for which we had the right to reclaim cash collateral or were obligated to return cash collateral, were as follows:

	As of March 31, 2019		As of December 31, 2018	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA-	$ 56	$ (3)	$ 33	$ (3)
A+	389	(281)	296	(96)
A	5	-	106	(56)
A-	244	(1)	4	-
BBB+	-	-	197	-
	$ 694	$ (285)	$ 636	$ (155)

Balance Sheet Offsetting

Information related to the effects of offsetting (in millions) was as follows:

	As of March 31, 2019		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 1,350	$ 1,361	$ 2,711
Gross amounts offset	(369)	-	(369)
Net amount of assets	981	1,361	2,342
Gross amounts not offset:			
Cash collateral	(694)	-	(694)
Non-cash collateral	(116)	-	(116)
Net amount	$ 171	$ 1,361	$ 1,532
Financial Liabilities			
Gross amount of recognized liabilities	$ 910	$ 1,915	$ 2,825
Gross amounts offset	(148)	-	(148)
Net amount of liabilities	762	1,915	2,677
Gross amounts not offset:			
Cash collateral	(285)	-	(285)
Non-cash collateral	(346)	-	(346)
Net amount	$ 131	$ 1,915	$ 2,046

	As of December 31, 2018		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	$ 1,330	$ 1,097	$ 2,427
Gross amounts offset	(223)	-	(223)
Net amount of assets	1,107	1,097	2,204
Gross amounts not offset:			
Cash collateral	(636)	-	(636)
Non-cash collateral	(58)	-	(58)
Net amount	$ 413	$ 1,097	$ 1,510
Financial Liabilities			
Gross amount of recognized liabilities	$ 784	$ 1,308	$ 2,092
Gross amounts offset	(103)	-	(103)
Net amount of liabilities	681	1,308	1,989
Gross amounts not offset:			
Cash collateral	(155)	-	(155)
Non-cash collateral	(190)	-	(190)
Net amount	$ 336	$ 1,308	$ 1,644

7. Federal Income Taxes

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The effective tax rate was 6% and 16% for the three months ended March 31, 2019 and 2018, respectively. The effective tax rate on pre-tax income was lower than the prevailing corporate federal income tax rate of 21%. Differences between the effective rates and the corporate federal income tax rate were primarily the result of the separate account dividends-received deduction, certain tax preferred investment income, foreign tax credits and other tax preference items. The current quarter's effective tax rate is lower than the comparable quarter in the prior year primarily as a result of an increased level of realized losses and the associated tax benefit resulting from the application of the corporate federal income tax rate of 21%.

8. Reinsurance

Modified Coinsurance Reinsurance Transaction

Some portions of our annuity business have been reinsured on a modified coinsurance ("Modco") basis with other companies. In a Modco program, we as the ceding company retain the reserves, as well as the assets backing those reserves, and the reinsurer shares proportionally in all financial terms of the reinsured policies based on their respective percentage of the risk. Effective October 1, 2018, we entered into one such Modco agreement with Athene Holding Ltd. ("Athene") to reinsure fixed and fixed indexed annuity products. We hold assets in support of reserves associated with the transaction in a Modco investment portfolio that included fixed maturity AFS securities, trading securities, equity securities, commercial mortgage loans, derivative investments, other investments and cash that had carrying values of $5.1 billion, $1.9 billion, $49 million, $186 million, $120 million, $85 million and $78 million, respectively, as of March 31, 2019. In addition, the portfolio was supported by $237 million of over-collateralization and a $219 million letter of credit as of March 31, 2019.

In repositioning the Modco investment portfolio, purchases of securities classified as trading during the first quarter of 2019 primarily resulted in negative cash flows from operating activities that were largely offset by sales of securities classified as AFS within investing activities in our Consolidated Statements of Cash Flows.

See "Realized Gain (Loss)" in Note 5 for information on reinsurance related embedded derivatives.

9. Guaranteed Benefit Features

Information on the guaranteed death benefit ("GDB") features outstanding (dollars in millions) was as follows:

	As of March 31, 2019 (1)	As of December 31, 2018 (1)
Return of Net Deposits		
Total account value	$ 95,670	$ 89,783
Net amount at risk (2)	209	1,002
Average attained age of contract holders	65 years	65 years
Minimum Return		
Total account value	$ 95	$ 88
Net amount at risk (2)	16	18
Average attained age of contract holders	77 years	77 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 25,031	$ 23,365
Net amount at risk (2)	596	2,007
Average attained age of contract holders	71 years	71 years

(1) Our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.

(2) Represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

The determination of GDB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following summarizes the balances of and changes in the liabilities for GDBs (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Three Months Ended March 31,	
	2019	2018
Balance as of beginning-of-year	$ 161	$ 100
Changes in reserves	(36)	11

Benefits paid	(6)	(3)
Balance as of end-of-period	$ 119	$ 108

Variable Annuity Contracts

Account balances of variable annuity contracts, including those with guarantees, (in millions) were invested in separate account investment options as follows:

	As of March 31, 2019	As of December 31, 2018
Asset Type		
Domestic equity	$ 59,205	$ 54,060
International equity	19,865	18,359
Fixed income	39,351	37,942
Total	$ 118,421	$ 110,361
Percent of total variable annuity separate account values	98%	99%

Secondary Guarantee Products

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. Reserves on UL and VUL products with secondary guarantees represented 37% and 35% of total life insurance in-force reserves as of March 31, 2019, and December 31, 2018, respectively. UL and VUL products with secondary guarantees represented 29% and 35% of total life insurance sales for the three months ended March 31, 2019 and 2018, respectively.

10. Liability for Unpaid Claims

The liability for unpaid claims consists primarily of long-term disability claims and are reported in future contract benefits on our Consolidated Balance Sheets. Changes in the liability for unpaid claims (in millions) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Balance as of beginning-of-year	$ 5,335	$ 2,222
Reinsurance recoverable	143	57
Net balance as of beginning-of-year	5,192	2,165
Incurred related to:		
Current year	803	364
Prior years:		
Interest	41	19
All other incurred (1)	(85)	(58)
Total incurred	759	325
Paid related to:		
Current year	(215)	(126)
Prior years	(482)	(213)
Total paid	(697)	(339)
Net balance as of end-of-period	5,254	2,151
Reinsurance recoverable	143	56
Balance as of end-of-period	$ 5,397	$ 2,207

(1) All other incurred is primarily impacted by the level of claim resolutions in the period compared to that which is expected by the reserve assumption. A negative number implies a favorable result where claim resolutions were more favorable than assumed. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the long-term life of the block of claims. It will vary from actual experience in any one period, both favorably and unfavorably.

The interest rate assumption used for discounting long-term claim reserves is an important part of the reserving process due to the long benefit period for these claims. Interest accrued on prior years' reserves has been calculated on the opening reserve balance less one-half of the prior years' incurred claim payments at our average reserve discount rate.

Long-term disability benefits may extend for many years, and claim development schedules do not reflect these longer benefit periods. As a result, we use longer term retrospective runoff studies, experience studies and prospective studies to develop our liability estimates.

11. Contingencies and Commitments

Contingencies

Regulatory and Litigation Matters

Regulatory bodies, such as state insurance departments, the SEC, Financial Industry Regulatory Authority and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, laws governing the activities of broker-dealers, registered investment advisers and unclaimed property laws.

LNC is involved in various pending or threatened legal or regulatory proceedings, including purported class actions, arising from the conduct of business both in the ordinary course and otherwise. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding verdicts obtained in the jurisdiction for similar matters. This variability in pleadings, together with the actual experiences of LNC in litigating or resolving through settlement numerous claims over an extended period of time, demonstrates to management that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value.

Due to the unpredictable nature of litigation, the outcome of a litigation matter and the amount or range of potential loss at particular points in time is normally difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law in the context of the pleadings or evidence presented, whether by motion practice, or at trial or on appeal. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the relevant evidence and applicable law.

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of March 31, 2019. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial condition.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of March 31, 2019, we estimate the aggregate range of reasonably possible losses to be up to approximately $50 million.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts and the progress of settlement negotiations. On a quarterly and annual basis, we review relevant information with respect to litigation contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

Certain reinsurers have sought rate increases on certain yearly renewable term treaties. We are disputing the requested rate increases under these treaties. We have initiated and will initiate arbitration proceedings, as necessary, under these treaties in order to protect our contractual rights. Additionally, reinsurers may initiate arbitration proceedings against us. We believe it is unlikely the outcome of these disputes will have a material adverse effect on our financial condition.

Cost of Insurance Litigation

Glover v. Connecticut General Life Insurance Company and The Lincoln National Life Insurance Company, filed in the U.S. District Court for the District of Connecticut, No. 3:16-cv-00827, is a putative class action that was served on LNL on June 8, 2016. Plaintiff is the owner of a universal life insurance policy who alleges that LNL charged more for non-guaranteed cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who owned policies containing non-guaranteed cost of insurance provisions that

are similar to those of Plaintiff's policy and seeks damages on behalf of all such policyholders. On January 11, 2019, the court dismissed Plaintiff's complaint in its entirety. In response, Plaintiff filed a motion for leave to amend the complaint, which we have opposed.

Hanks v. The Lincoln Life and Annuity Company of New York ("LLANY") and Voya Retirement Insurance and Annuity Company ("Voya"), filed in the U.S. District Court for the Southern District of New York, No. 1:16-cv-6399, is a putative class action that was served on LLANY on August 12, 2016. Plaintiff owns a universal life policy originally issued by Aetna (now Voya) and alleges that (i) Voya breached the terms of the policy when it increased non-guaranteed cost of insurance rates on Plaintiff's policy; and (ii) LLANY, as reinsurer and administrator of Plaintiff's policy, engaged in wrongful conduct related to the cost of insurance increase and was unjustly enriched as a result. Plaintiff seeks to represent all owners of Aetna life insurance policies that were subject to non-guaranteed cost of insurance rate increases in 2016 and seeks damages on their behalf. We are vigorously defending this matter.

EFG Bank AG, Cayman Branch, et al. v. The Lincoln National Life Insurance Company, pending in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:17-cv-02592, is a civil action filed on February 1, 2017. Plaintiffs own Legend Series universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL breached the terms of policyholders' contracts when it increased cost of insurance rates beginning in 2016. We are vigorously defending this matter.

In re: Lincoln National COI Litigation, pending in the U.S. District Court for the Eastern District of Pennsylvania, Master File No. 2:16-cv-06605-GJP, is a consolidated litigation matter related to multiple putative class action filings that were consolidated by an order dated March 20, 2017. In addition to consolidating a number of existing matters, the order also covers any future cases filed in the same district related to the same subject matter. Plaintiffs own universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL and LNC breached the terms of policyholders' contracts by increasing non-guaranteed cost of insurance rates beginning in 2016. Plaintiffs seek to represent classes of policyowners and seek damages on their behalf. We are vigorously defending this matter.

In re: Lincoln National 2017 COI Rate Litigation, Master File No. 2:17-cv-04150 is a consolidated litigation matter related to multiple putative class action filings that were consolidated by an order of the court in March 2018. Plaintiffs own universal life insurance policies originally issued by former Jefferson-Pilot (now LNL). Plaintiffs allege that LNL and LNC breached the terms of policyholders' contracts by increasing non-guaranteed cost of insurance rates beginning in 2017. Plaintiffs seek to represent classes of policyholders and seek damages on their behalf. We are vigorously defending this matter.

Iwanski v. First Penn-Pacific Life Insurance Company ("FPP"), No. 2:18-cv-01573 filed in the U.S. District Court for the District Court, Eastern District of Pennsylvania is a putative class action that was filed on April 13, 2018. Plaintiff alleges that defendant FPP breached the terms of his life insurance policy by deducting non-guaranteed cost of insurance charges in excess of what is permitted by the policies. Plaintiff seeks to represent all owners of universal life insurance policies issued by FPP containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on their behalf. Breach of contract is the only cause of action asserted. We are vigorously defending this matter.

TVPX ARS INC., as Securities Intermediary for Consolidated Wealth Management, LTD. v. The Lincoln National Life Insurance Company, filed in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:18-cv-02989, is a putative class action that was filed on July 17, 2018. Plaintiff alleges that LNL charged more for non-guaranteed cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who own policies issued by LNL or its predecessors containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on behalf of all such policyholders. We are vigorously defending this matter.

LSH Co. and Wells Fargo Bank, National Association, as securities intermediary for LSH Co. v. Lincoln National Corporation and The Lincoln National Life Insurance Company, pending in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:18-cv-05529, is a civil action filed on December 21, 2018. Plaintiffs own universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL breached the terms of policyholders' contracts when it increased non-guaranteed cost of insurance rates in 2016 and 2017. Because the majority of policies at issue experienced a rate change in 2016, we expect the case will be consolidated with the In re: Lincoln National COI Litigation and EFG Bank cases, discussed above. We are vigorously defending this matter.

Commitments

Leases

Effective January 1, 2019, we adopted ASU 2016-02, which resulted in a new measurement and recognition of our long-term operating leases on our Consolidated Balance Sheets. See Note 2 for additional information.

We lease office space and certain equipment under various long-term lease agreements, and we also enter into sale-leaseback transactions. We determine if an arrangement is a lease at inception. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Our leases do not provide an implicit rate; therefore, we use our incremental borrowing rate at the commencement date in determining the present value of future payments. The ROU asset is calculated using the initial lease liability amount, plus any lease payments made at or before the commencement date,

minus any lease incentives received, plus any initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. Our lease agreements may contain both lease and non-lease components, which are accounted for separately. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We recognized operating lease ROU assets of $197 million and associated lease liabilities of $204 million as of March 31, 2019. We classified the operating lease ROU assets within other assets and the lease liabilities within other liabilities on our Consolidated Balance Sheets. The weighted-average discount rate and remaining lease term on our operating leases was 3.4% and 7 years, respectively, as of March 31, 2019. Operating lease expense for the three months ended March 31, 2019, was $13 million and reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

As of March 31, 2019, the net book value of assets recorded as finance leases under sale-leaseback transactions was $177 million, and the associated accumulated amortization was $300 million. These transactions have been classified as other assets on our Consolidated Balance Sheets. These assets will continue to be amortized on a straight-line basis over the assets' remaining lives. The weighted-average discount rate and remaining lease term on our sale-leaseback transactions was 2.5% and 3 years, respectively, as of March 31, 2019.

Finance lease expense (in millions) was as follows:

	For the Three Months Ended March 31, 2019
Amortization of ROU assets (1)	$ 18
Interest on lease liabilities (2)	3
Total	$ 21

(1) Amortization of ROU assets is reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).
(2) Interest on lease liabilities is reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).

The table below presents cash flow information (in millions) related to leases:

	For the Three Months Ended March 31, 2019
Supplemental Cash Flow Information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 14
Financing cash flows from finance leases	3
Supplemental Non-cash Information	
ROU assets obtained in exchange for new lease obligations:	
Operating leases	$ 10

Our future minimum lease payments (in millions) under non-cancellable leases as of March 31, 2019, were as follows:

	Operating Leases	Finance Leases
2019	$ 32	$ 93
2020	37	57
2021	36	67
2022	32	67
2023	29	91
Thereafter	67	28
Total future minimum lease payments	233	403
Less: Amount representing interest	29	39
Present value of minimum lease payments	$ 204	$ 364

As of March 31, 2019, we had additional office space leases that had not yet commenced totaling $37 million. These leases will commence between the second and fourth quarters of 2019 and have lease terms of 4 to 11 years.

12. Shares and Stockholders' Equity

Common Shares

The changes in our common stock (number of shares) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Common Stock		
Balance as of beginning-of-year	205,862,760	218,090,114
Stock issued for exercise of warrants	203,530	20,040
Stock compensation/issued for benefit plans	809,670	585,322
Retirement/cancellation of shares	(3,888,731)	-
Balance as of end-of-period	202,987,229	218,695,476
Common Stock as of End-of-Period		
Basic basis	202,987,229	218,695,476
Diluted basis	204,200,031	222,379,443

Our common stock is without par value.

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Average Shares

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted earnings (loss) per common share was as follows:

	For the Three Months Ended March 31,	
	2019	2018
Weighted-average shares, as used in basic calculation	204,290,759	218,368,994
Shares to cover exercise of outstanding warrants	173,837	642,787
Shares to cover non-vested stock	1,049,556	1,592,959
Average stock options outstanding during the period	1,519,184	1,969,591
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(29,176)	(81,088)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(1,041,630)	(1,103,154)
Shares repurchasable from measured but unrecognized stock option expense	(867)	(24,578)
Average deferred compensation shares	-	922,061
Weighted-average shares, as used in diluted calculation	205,961,663	222,287,572

In the event the average market price of LNC common stock exceeds the issue price of stock options and the options have a dilutive effect to our earnings per share (“EPS”), such options will be shown in the table above.

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to all or a portion of their deferral amounts. For the three months ended March 31, 2018, the effect of settling this obligation in LNC stock (“equity classification”) was more dilutive than the scenario of settling in cash (“liability classification”). Therefore, for our EPS calculation for this period, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was $2 million for the three months ended March 31, 2018.

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AOCI

The following summarizes the components and changes in AOCI (in millions):

	For the Three Months Ended March 31,	
	2019	2018
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 557	$ 3,486
Cumulative effect from adoption of new accounting standards	-	674
Unrealized holding gains (losses) arising during the period	3,556	(3,063)
Change in foreign currency exchange rate adjustment	14	52
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	(928)	958
Income tax benefit (expense)	(563)	432
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(15)	(18)
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	(4)
Income tax benefit (expense)	3	5
Balance as of end-of-period	$ 2,649	$ 2,556
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ 33	$ 44
(Increases) attributable to:		
Cumulative effect from adoption of new accounting standards	-	9
Gross OTTI recognized in OCI during the period	(16)	-
Change in DAC, VOBA, DSI and DFEL	1	-
Income tax benefit (expense)	4	-
Decreases attributable to:		
Changes in fair value, sales, maturities or other settlements of AFS securities	6	(9)
Change in DAC, VOBA, DSI and DFEL	(2)	(10)
Income tax benefit (expense)	(1)	4
Balance as of end-of-period	$ 25	$ 38
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 139	$ (29)
Cumulative effect from adoption of new accounting standard	-	(6)
Unrealized holding gains (losses) arising during the period	(36)	16
Change in foreign currency exchange rate adjustment	(14)	(50)
Change in DAC, VOBA, DSI and DFEL	6	4
Income tax benefit (expense)	10	7
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	8	3

Associated amortization of DAC, VOBA, DSI and DFEL	(1)	(1)
Income tax benefit (expense)	(1)	-
Balance as of end-of-period	$ 99	$ (60)
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ (23)	$ (14)
Foreign currency translation adjustment arising during the period	3	5
Balance as of end-of-period	$ (20)	$ (9)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (299)	$ (257)
Cumulative effect from adoption of new accounting standard	-	(35)
Adjustment arising during the period	(1)	-
Balance as of end-of-period	$ (300)	$ (292)

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The following summarizes the reclassifications out of AOCI (in millions) and the associated line item in the Consolidated Statements of Comprehensive Income (Loss):

	For the Three Months Ended March 31,		
	2019	2018	
Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$ (15)	$ (18)	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	(4)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(16)	(22)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	3	5	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (13)	$ (17)	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$ -	$ -	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	-	-	Total realized gain (loss)
Reclassification before income tax benefit (expense)	-	-	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	-	-	Federal income tax expense (benefit)
Reclassification, net of income tax	$ -	$ -	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$ 1	$ 1	Net investment income
Interest rate contracts	(1)	(3)	Interest and debt expense
Foreign currency contracts	7	5	Net investment income
Foreign currency contracts	1	-	Total realized gain (loss)
Total gross reclassifications	8	3	
Associated amortization of DAC, VOBA, DSI and DFEL	(1)	(1)	Commissions and other expenses
Reclassifications before income tax benefit (expense)	7	2	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(1)	-	Federal income tax expense (benefit)
Reclassifications, net of income tax	$ 6	$ 2	Net income (loss)

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13. Fair Value of Financial Instruments

The carrying values and estimated fair values of our financial instruments (in millions) were as follows:

	As of March 31, 2019		As of December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Fixed maturity AFS securities	$ 98,050	$ 98,050	$ 94,024	$ 94,024
Trading securities	3,314	3,314	1,950	1,950
Equity securities	153	153	99	99
Mortgage loans on real estate	13,997	13,964	13,260	13,092
Derivative investments (1)	981	981	1,107	1,107
Other investments	2,740	2,740	2,255	2,255
Cash and invested cash	1,593	1,593	2,345	2,345
Other assets:				
GLB direct embedded derivatives	439	439	123	123
GLB ceded embedded derivatives	50	50	72	72
Indexed annuity ceded embedded derivatives	872	872	902	902
Separate account assets	143,369	143,369	132,833	132,833
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(1,730)	(1,730)	(1,305)	(1,305)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(1,948)	(1,948)	(542)	(542)
Account values of certain investment contracts	(35,772)	(38,790)	(34,535)	(36,358)
Short-term debt	(300)	(309)	-	-
Long-term debt	(5,572)	(5,534)	(5,839)	(5,604)
Reinsurance related embedded derivatives	(177)	(177)	(3)	(3)
Other liabilities:				
Derivative liabilities (1)	(242)	(242)	(160)	(160)
GLB ceded embedded derivatives	(8)	(8)	-	-

(1) We have master netting agreements with each of our derivative counterparties, which allow for the netting of our derivative asset and liability positions by counterparty.

Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value on our Consolidated Balance Sheets. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price or the fair value of the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 2 within the fair value hierarchy.

Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. Other investments also includes Federal Home Loan Bank ("FHLB") stock carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The inputs used to measure the fair value of our LPs, other privately held investments and FHLB stock are classified as Level 3 within the fair value hierarchy. The remaining assets in other investments include cash collateral receivables and securities that are not LPs or other privately held investments. The inputs used to measure the fair value of these assets are classified as Level 1 within the fair value hierarchy.

Separate Account Assets

Separate account assets are primarily carried at fair value. A portion of our separate account assets includes LPs, which are accounted for using the equity method of accounting. The carrying value is based on our proportional share of the net assets of the LPs and approximates fair value. The inputs used to measure the fair value of the separate account asset LPs are classified as Level 3 within the fair value hierarchy.

Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of March 31, 2019, and December 31, 2018, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

The fair value of short-term and long-term debt is based on quoted market prices. The inputs used to measure the fair value of our short-term and long-term debt are classified as Level 2 within the fair value hierarchy.

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of March 31, 2019, or December 31, 2018, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels:

	As of March 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ -	$ 79,687	$ 3,521	$ 83,208
ABS	-	966	81	1,047
U.S. government bonds	405	18	-	423
Foreign government bonds	-	343	110	453
RMBS	-	3,414	-	3,414
CMBS	-	883	2	885
CLOs	-	2,340	97	2,437
State and municipal bonds	-	5,569	-	5,569
Hybrid and redeemable preferred securities	71	465	78	614
Trading securities	45	3,033	236	3,314
Equity securities	67	61	25	153
Derivative investments (1)	-	826	672	1,498
Other investments	151	-	-	151
Cash and invested cash	-	1,593	-	1,593
Other assets:				
GLB direct embedded derivatives	-	-	439	439
GLB ceded embedded derivatives	-	-	50	50
Indexed annuity ceded embedded derivatives	-	-	872	872
Separate account assets	696	142,657	-	143,353
Total assets	$ 1,435	$ 241,855	$ 6,183	$ 249,473
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,730)	$ (1,730)
Reinsurance related embedded derivatives	-	(177)	-	(177)
Other liabilities:				

Derivative liabilities (1)	-	(354)	(405)	(759)
GLB ceded embedded derivatives	-	-	(8)	(8)
Total liabilities	$ -	$ (531)	$ (2,143)	$ (2,674)

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	As of December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ -	$ 77,079	$ 3,269	$ 80,348
ABS	-	937	29	966
U.S. government bonds	399	18	-	417
Foreign government bonds	-	339	109	448
RMBS	-	3,366	7	3,373
CMBS	-	802	2	804
CLOs	-	1,625	105	1,730
State and municipal bonds	-	5,345	-	5,345
Hybrid and redeemable preferred securities	67	451	75	593
Trading securities	43	1,840	67	1,950
Equity securities	16	58	25	99
Derivative investments (1)	-	727	705	1,432
Other investments	150	-	-	150
Cash and invested cash	-	2,345	-	2,345
Other assets:				
GLB direct embedded derivatives	-	-	123	123
GLB ceded embedded derivatives	-	-	72	72
Indexed annuity ceded embedded derivatives	-	-	902	902
Separate account assets	665	132,135	-	132,800
Total assets	$ 1,340	$ 227,067	$ 5,490	$ 233,897
Liabilities				
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	$ -	$ -	$ (1,305)	$ (1,305)
Reinsurance related embedded derivatives	-	(3)	-	(3)
Other liabilities:				
Derivative liabilities (1)	-	(314)	(171)	(485)
Total liabilities	$ -	$ (317)	$ (1,476)	$ (1,793)

(1) Derivative investment assets and liabilities are presented within the fair value hierarchy on a gross basis by derivative type and not on a master netting basis by counterparty.

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The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any effect of amortization of DAC, value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL"). The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	For the Three Months Ended March 31, 2019					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers Into or Out of Level 3, Net (2)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 3,269	$ (1)	$ 70	$ 200	$ (17)	$ 3,521
ABS	29	-	-	52	-	81
Foreign government bonds	109	-	1	-	-	110
RMBS	7	-	-	-	(7)	-
CMBS	2	-	-	-	-	2
CLOs	105	-	-	97	(105)	97
Hybrid and redeemable preferred securities	75	-	3	-	-	78
Trading securities	67	-	-	206	(37)	236
Equity securities	25	-	-	-	-	25
Derivative investments	534	(383)	46	70	-	267
Other assets: (5)						
GLB direct embedded derivatives	123	316	-	-	-	439
GLB ceded embedded derivatives	72	(22)	-	-	-	50
Indexed annuity ceded embedded derivatives	902	77	-	(107)	-	872
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5)	(1,305)	(316)	-	(109)	-	(1,730)
Other liabilities – GLB ceded embedded derivatives (5)	-	(8)	-	-	-	(8)
Total, net	$ 4,014	$ (337)	$ 120	$ 409	$ (166)	$ 4,040

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Explanation of Responses:

	For the Three Months Ended March 31, 2018					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales Maturities, Settlements, Calls, Net	Transfers Into or Out of Level 3, Net (2)(3)	Ending Fair Value
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	$ 3,091	$ 3	$ 17	$ 74	$ 7	$ 3,192
ABS	27	-	(1)	-	-	26
U.S. government bonds	5	-	-	-	-	5
Foreign government bonds	110	-	(2)	-	-	108
RMBS	12	-	-	-	(12)	-
CMBS	6	1	-	20	-	27
CLOs	91	-	-	2	(91)	2
Hybrid and redeemable preferred securities	76	-	1	-	-	77
Equity AFS securities	162	-	-	-	(162)	-
Trading securities	49	(2)	-	-	-	47
Equity securities	-	-	-	1	26	27
Derivative investments	30	329	(19)	(61)	-	279
Other assets: (5)						
GLB direct embedded derivatives	903	207	-	-	-	1,110
GLB ceded embedded derivatives	51	(6)	-	-	-	45
Indexed annuity ceded embedded derivatives	11	-	-	6	-	17
Future contract benefits – indexed annuity and IUL contracts embedded derivatives (5)	(1,418)	52	-	20	-	(1,346)
Other liabilities – GLB ceded embedded derivatives (5)	(67)	(44)	-	-	-	(111)
Total, net	$ 3,139	$ 540	$ (4)	$ 62	$ (232)	$ 3,505

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 6).

(2) Transfers into or out of Level 3 for AFS and trading securities are reported at amortized cost as of the beginning-of-year. For AFS and trading securities, the difference between beginning-of-year amortized cost and beginning-of-year fair value was included in OCI and earnings, respectively, in the prior period.

(3)

Transfers into or out of Level 3 for FHLB stock between equity securities and other investments are reported at cost on our Consolidated Balance Sheets.

(4) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(5) Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The following provides the components of the items included in issuances, sales, maturities, settlements and calls, net, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, (in millions) as reported above:

	For the Three Months Ended March 31, 2019					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 267	$ (2)	$ (7)	$ (51)	$ (7)	$ 200
ABS	52	-	-	-	-	52
CLOs	97	-	-	-	-	97
Trading securities	207	-	-	(1)	-	206
Derivative investments	131	(15)	(46)	-	-	70
Other assets – indexed annuity ceded embedded derivatives	19	-	-	(126)	-	(107)
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(148)	-	-	39	-	(109)
Total, net	$ 625	$ (17)	$ (53)	$ (139)	$ (7)	$ 409

	For the Three Months Ended March 31, 2018					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 223	$ (53)	$ (2)	$ (94)	$ -	$ 74
CMBS	21	-	-	(1)	-	20
CLOs	2	-	-	-	-	2
Equity securities	1	-	-	-	-	1
Derivative investments	68	(6)	(123)	-	-	(61)
Other assets – indexed annuity ceded embedded derivatives	6	-	-	-	-	6
Future contract benefits – indexed annuity and IUL contracts embedded derivatives	(27)	-	-	47	-	20

Total, net	$ 294	$ (59)	$ (125)	$ (48)	$ -	$ 62

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The following summarizes changes in unrealized gains (losses) included in net income, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, related to financial instruments carried at fair value classified within Level 3 that we still held (in millions):

	For the Three Months Ended March 31, 2019	2018
Derivative investments	$ (287)	$ 281
Embedded derivatives:		
Indexed annuity and IUL contracts	(32)	(4)
GLB	481	376
Total, net (1)	$ 162	$ 653

(1) Included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The following provides the components of the transfers into and out of Level 3 (in millions) as reported above:

	For the Three Months Ended March 31, 2019			For the Three Months Ended March 31, 2018		
	Transfers Into Level 3	Transfers Out of Level 3	Total	Transfers Into Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 83	$ (100)	$ (17)	$ 40	$ (33)	$ 7
RMBS	-	(7)	(7)	-	(12)	(12)
CLOs	-	(105)	(105)	-	(91)	(91)
Equity AFS securities	-	-	-	-	(162)	(162)
Trading securities	-	(37)	(37)	-	-	-
Equity securities	-	-	-	26	-	26
Total, net	$ 83	$ (249)	$ (166)	$ 66	$ (298)	$ (232)

Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the three months ended March 31, 2019 and 2018, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available. In 2018, transfers into or out of Level 3 also included FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets. Transfers into and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the three months ended March 31, 2019 and 2018, the transfers between Levels 1 and 2 of the fair value hierarchy were less than $1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of March 31, 2019:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges				
Assets								
Investments:								
Fixed maturity AFS and trading securities:								
Corporate bonds	$ 2,604	Discounted cash flow	Liquidity/duration adjustment (1)	0.6	%	-	30.0	%
ABS	23	Discounted cash flow	Liquidity/duration adjustment (1)	3.0	%	-	3.0	%
Foreign government bonds	77	Discounted cash flow	Liquidity/duration adjustment (1)	1.4	%	-	3.1	%
Hybrid and redeemable preferred securities	4	Discounted cash flow	Liquidity/duration adjustment (1)	1.6	%	-	1.6	%
Equity securities	21	Discounted cash flow	Liquidity/duration adjustment (1)	4.5	%	-	5.2	%
Other assets:								
GLB direct and ceded embedded derivatives	489	Discounted cash flow	Long-term lapse rate (2)	1	%	-	30	%
			Utilization of guaranteed withdrawals (3)	85	%	-	100	%
			Claims utilization factor (4)	60	%	-	100	%
			Premiums utilization factor (4)	80	%	-	115	%
			NPR (5)	0.02	%	-	0.32	%
			Mortality rate (6)				(8)	
			Volatility (7)	1	%	-	29	%
Indexed annuity ceded embedded derivatives	872	Discounted cash flow	Lapse rate (2)	1	%	-	9	%
			Mortality rate (6)				(8)	
Liabilities								
Future contract benefits – indexed annuity and IUL contracts								

embedded derivatives	$ (1,730)	Discounted cash flow	Lapse rate (2)	1 %	- 9 %
			Mortality rate (6)		(8)
Other liabilities – GLB ceded					
embedded derivatives	(8)	Discounted cash flow	Long-term lapse rate (2)	1 %	- 30 %
			Utilization of guaranteed withdrawals (3)	85 %	- 100 %
			Claims utilization factor (4)	60 %	- 100 %
			Premiums utilization factor (4)	80 %	- 115 %
			NPR (5)	0.02%	- 0.32%
			Mortality rate (6)		(8)
			Volatility (7)	1 %	- 29 %

(1) The liquidity/duration adjustment input represents an estimated market participant composite of adjustments attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.

(2) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits. The range for indexed annuity and IUL contracts represents the lapse rates during the surrender charge period.

(3) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.

(4) The utilization factors are applied to the present value of claims or premiums, as appropriate, in the GLB reserve calculation to estimate the impact of inefficient withdrawal behavior, including taking less than or more than the maximum guaranteed withdrawal.

(5) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.

(6) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as gender, will die.

(7) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed-income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.

(8) The mortality rate is based on a combination of company and industry experience, adjusted for improvement factors.

From the table above, we have excluded Level 3 fair value measurements obtained from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability. Significant increases or decreases in any of the quotes received from a third-party broker-dealer may result in a significantly higher or lower fair value measurement.

Changes in any of the significant inputs presented in the table above may result in a significant change in the fair value measurement of the asset or liability as follows:

- Investments – An increase in the liquidity/duration adjustment input would result in a decrease in the fair value measurement.
- Indexed annuity and IUL contracts embedded derivatives – For direct embedded derivatives, an increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.
- GLB embedded derivatives – Assuming our GLB direct embedded derivatives are in a liability position: an increase in our lapse rate, NPR or mortality rate inputs would result in a decrease in the fair value measurement; and an increase in the utilization of guaranteed withdrawal or volatility inputs would result in an increase in the fair value measurement.

For each category discussed above, the unobservable inputs are not inter-related; therefore, a directional change in one input will not affect the other inputs.

As part of our ongoing valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary.

14. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. As discussed in Note 3, we completed the acquisition of Liberty Life during the second quarter of 2018. Related results are included within the Group Protection segment. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. A discussion of these segments and Other Operations is found in Note 21 of our 2018 Form 10-K.

Segment operating revenues and income (loss) from operations are internal measures used by our management and Board of Directors to evaluate and assess the results of our segments. Income (loss) from operations is GAAP net income excluding the after-tax effects of the following items, as applicable:

· Realized gains and losses associated with the following ("excluded realized gain (loss)"):
§ Sales or disposals and impairments of securities;
§ Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities ("gain (loss) on the mark-to-market on certain instruments");
§ Changes in the fair value of the derivatives we own to hedge our GDB riders reflected within our variable annuities;
§ Changes in the fair value of the embedded derivatives of our GLB riders reflected within variable annuity net derivative results accounted for at fair value;
§ Changes in the fair value of the derivatives we own to hedge our GLB riders reflected within variable annuity net derivative results;
§ Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value ("indexed annuity forward-starting option"); and
§ Changes in the fair value of equity securities;
· Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders ("benefit ratio unlocking");
· Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
· Gains (losses) on early extinguishment of debt;
· Losses from the impairment of intangible assets;
· Income (loss) from discontinued operations;
· Acquisition and integration costs related to mergers and acquisitions; and
· Income (loss) from the initial adoption of new accounting standards, regulations, and policy changes including the net impact from the Tax Cuts and Jobs Act.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable:

· Excluded realized gain (loss);
· Revenue adjustments from the initial adoption of new accounting standards;

- Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking; and
- Amortization of deferred gains arising from reserve changes on business sold through reinsurance.

The tables below reconcile our segment measures of performance to the GAAP measures presented in our Consolidated Statements of Comprehensive Income (Loss) (in millions):

	For the Three Months Ended March 31,	
	2019	2018
Revenues		
Operating revenues:		
Annuities	$ 1,174	$ 1,073
Retirement Plan Services	293	292
Life Insurance	1,700	1,660
Group Protection	1,138	553
Other Operations	57	67
Excluded realized gain (loss), pre-tax	(400)	(35)
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	3	(1)
Total revenues	$ 3,965	$ 3,609

	For the Three Months Ended March 31,	
	2019	2018
Net Income (Loss)		
Income (loss) from operations:		
Annuities	$ 250	$ 267
Retirement Plan Services	39	43
Life Insurance	157	144
Group Protection	55	29
Other Operations	(60)	(42)
Excluded realized gain (loss), after-tax	(316)	(28)
Gain (loss) on early extinguishment of		

debt, after-tax	-	(19)
Benefit ratio unlocking, after-tax	142	(10)
Net impact from the Tax Cuts and Jobs Act	-	(13)
Acquisition and integration costs related to		
mergers and acquisitions, after-tax	(15)	(4)
Net income (loss)	$ 252	$ 367

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of March 31, 2019, compared with December 31, 2018, and the results of operations for the three months ended March 31, 2019, compared with the corresponding period in 2018 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. On May 1, 2018, we completed our acquisition of Liberty Life Assurance Company of Boston ("Liberty Life" or "LLACB"). Beginning on May 1, 2018, the results of operations and financial condition of Liberty Life were consolidated with LNC. Accordingly, all financial information presented herein for the three months ended March 31, 2019, includes the accounts of LNC and the accounts of Liberty Life.

The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; and our current reports on Form 8-K filed in 2019. For more detailed information on the risks and uncertainties associated with the Company's business activities, see the risks described in "Part I – Item 1A. Risk Factors" in our 2018 Form 10-K.

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

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 14. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by us or on our behalf are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: "believe," "anticipate," "expect," "estimate," "project," "will," "shall" and other words or phrases with similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those expressed in or implied by such forward-looking statements due to a variety of factors, including:

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect: the cost of, or demand for, our subsidiaries' products; the required amount of reserves and/or surplus; our ability to conduct business and our captive reinsurance arrangements as well as restrictions on the payment of revenue sharing and 12b-1 distribution fees; the impact of U.S. federal tax reform legislation on our business, earnings and capital; and the impact of any "best interest" standards of care adopted by the Securities and Exchange Commission ("SEC") or other regulations adopted by federal or state regulators or self-regulatory organizations relating to the standard of care owed by investment advisers and/or broker-dealers;
- Actions taken by reinsurers to raise rates on in-force business;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;

- Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;
- Uncertainty about the effect of continuing promulgation and implementation of rules and regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us, the economy and the financial services sector in particular;
- The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
- A decline in the equity markets causing a reduction in the sales of our subsidiaries' products; a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products; an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL"); and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in accounting principles that may affect our financial statements;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
- Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems from cyberattacks or other breaches of our data security systems;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including the successful implementation of integration strategies or the achievement of anticipated synergies and operational efficiencies related to an acquisition;
- The adequacy and collectability of reinsurance that we have purchased;
- Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;
- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;
- The unknown effect on our subsidiaries' businesses resulting from evolving market preferences and the changing demographics of our client base; and
- The unanticipated loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Our annual report on Form 10-K, current reports on Form 8-K and other documents filed with the SEC include additional factors that could affect our businesses and financial

performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

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

INTRODUCTION

Executive Summary

We are a holding company that operates multiple insurance and retirement businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products primarily include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed universal life insurance ("IUL"), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in "Part I – Item 1. Business" of our 2018 Form 10-K. We provide information about our segments' and Other Operations' operating revenue and expense line items and realized gain (loss), key drivers of changes and historical details underlying the line items below. As discussed in Note 3, on May 1, 2018, we completed our acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business (the

“Liberty Group Business”) and individual life and individual and group annuity business, in a transaction accounted for under the acquisition method of accounting. We ceded insurance policies relating to the individual life and individual and group annuity business to third-party reinsurers. The operating results of the Liberty Group Business are included in our Group Protection segment beginning on May 1, 2018. The acquisition expanded the scale and capabilities of the Group Protection business while further diversifying the Company’s sources of earnings. For factors that could cause actual results to differ materially from those set forth, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2018 Form 10-K.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary” of our 2018 Form 10-K.

Critical Accounting Policies and Estimates

The MD&A included in our 2018 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the “Critical Accounting Policies and Estimates” provided in our 2018 Form 10-K, and therefore, should be read in conjunction with that disclosure.

DAC, VOBA, DSI and DFEL

Reversion to the Mean

As variable fund returns do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean (“RTM”) process, as discussed in our 2018 Form 10-K.

If we had unlocked our RTM assumption as of March 31, 2019, we would have recorded a favorable unlocking of approximately $105 million, pre-tax, for Annuities and approximately $20 million, pre-tax, for both Retirement Plan Services and Life Insurance.

Investments

Investment Valuation

The following summarizes investments on our Consolidated Balance Sheets carried at fair value by pricing source and fair value hierarchy level (in millions) as of March 31, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Priced by third-party pricing services	$ 739	$ 84,419	$ -	$ 85,158
Priced by independent broker quotations	-	-	1,688	1,688
Priced by matrices	-	12,832	-	12,832
Priced by other methods (1)	-	-	2,729	2,729
Total	$ 739	$ 97,251	$ 4,417	$ 102,407
Percent of total	1%	95%	4%	100%

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

For more information about the valuation of our financial instruments carried at fair value, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation" in our 2018 Form 10-K and Note 13 herein.

Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 6 of this report and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2018 Form 10-K.

Guaranteed Living Benefits

Within our individual annuity business, 64% and 65% of our variable annuity account values contained guaranteed living benefits ("GLB") features as of March 31, 2019 and 2018, respectively. Underperforming equity markets increase our exposure to potential benefits with the GLB features. A contract with a GLB feature is "in the money" if the contract holder's account balance falls below the

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present value of guaranteed withdrawal or income benefits, assuming no lapses. As of March 31, 2019 and 2018, 14% and 6%, respectively, of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of March 31, 2019 and 2018, was $758 million and $413 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will continue to receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account value.

For information on our variable annuity hedge program performance, see our discussion in "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" below.

For information on our estimates of the potential instantaneous effect to net income (loss) that could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities, see our discussion in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Derivatives – GLB" in our 2018 Form 10-K.

Acquisitions and Dispositions

For information about acquisitions and divestitures, see Note 3 in our 2018 Form 10-K and Note 3 herein.

RESULTS OF CONSOLIDATED OPERATIONS

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

	For the Three Months Ended March 31,	
	2019	2018
Net Income (Loss)		
Income (loss) from operations:		

Annuities	$ 250	$ 267
Retirement Plan Services	39	43
Life Insurance	157	144
Group Protection	55	29
Other Operations	(60)	(42)
Excluded realized gain (loss), after-tax	(316)	(28)
Gain (loss) on early extinguishment of debt, after-tax	-	(19)
Benefit ratio unlocking, after-tax	142	(10)
Net impact from the Tax Cuts and Jobs Act	-	(13)
Acquisition and integration costs related to mergers and acquisitions, after-tax	(15)	(4)
Net income (loss)	$ 252	$ 367

	For the Three Months Ended March 31,	
	2019	2018
Deposits		
Annuities	$ 3,508	$ 2,526
Retirement Plan Services	2,496	2,360
Life Insurance	1,537	1,534
Total deposits	$ 7,541	$ 6,420
Net Flows		
Annuities	$ 492	$ (606)
Retirement Plan Services	(381)	463
Life Insurance	1,020	1,076
Total net flows	$ 1,131	$ 933

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	As of March 31,	
	2019	2018
Account Values		
Annuities	$ 130,458	$ 135,629
Retirement Plan Services	71,799	67,710
Life Insurance	51,120	49,281
Total account values	$ 253,377	$ 252,620

Comparison of the Three Months Ended March 31, 2019 to 2018

Net income decreased due primarily to the following:

- Realized losses as compared to realized gains in 2018.
- Less favorable investment income on alternative investments.
- Higher acquisition and integration costs incurred as part of our acquisition.
- The effect of the modified coinsurance (“Modco”) reinsurance transaction in the Annuities segment.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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

- The inclusion of the results of the Liberty Group Business.
- Growth in business in force and group earned premiums.
- Loss on early extinguishment of debt during 2018.
- Lower federal income tax expense.

Explanation of Responses:

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Explanation of Responses:

RESULTS OF ANNUITIES

Income (Loss) from Operations

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

	For the Three Months Ended March 31,	
	2019	2018
Operating Revenues		
Insurance premiums (1)	$ 208	$ 70
Fee income	568	586
Net investment income	257	249
Operating realized gain (loss) (2)	41	48
Amortization of deferred gain on business sold through reinsurance	8	-
Other revenues (3)	92	120
Total operating revenues	1,174	1,073
Operating Expenses		
Interest credited	162	148
Benefits (1)	284	145
Commissions and other expenses	441	467
Total operating expenses	887	760
Income (loss) from operations before taxes	287	313
Federal income tax expense (benefit)	37	46
Income (loss) from operations	$ 250	$ 267

(1) Insurance premiums include primarily our income annuities that have a corresponding offset in benefits. Benefits include changes in income annuity reserves driven by premiums.
(2) See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.
(3) Consists primarily of revenues attributable to broker-dealer services that are subject to market volatility and the net settlement related to the Modco reinsurance transaction.

Comparison of the Three Months Ended March 31, 2019 to 2018

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

- Lower other revenues attributable to the Modco reinsurance transaction.
- Lower fee income driven by lower average daily variable account values.
- Lower net investment income, net of interest credited, driven by less favorable investment income on alternative investments within our surplus portfolio.

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

- Lower commissions and other expenses due to a decrease in amortization expense as a result of lower actual gross profits and lower average variable account values.
- Amortization of deferred gain on business sold through reinsurance as a result of the Modco reinsurance transaction.

See "Additional Information" below for more information about the Modco reinsurance transaction.

Additional Information

Effective October 1, 2018, we entered into an agreement with Athene Holding Ltd. to reinsure approximately $7.7 billion of in-force fixed and fixed indexed annuity products on a Modco basis. The capital generated from this transaction was primarily used to fund the December 2018 accelerated share repurchase program of $450 million. We expect an ongoing reduction in income from operations in future periods as a result of this Modco reinsurance transaction. We continue to remain focused on the continued growth of both our fixed and variable annuity business. For additional information on our annuity reinsurance agreement and this accelerated share repurchase program, see Note 8 herein and "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – (c) Issuer Purchases of Equity Securities," respectively, in our 2018 Form 10-K.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations.

The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused by full surrenders, deaths and other contract benefits. These outflows as a percentage of average account values were 8% and 9% for the three months ended March 31, 2019 and 2018, respectively.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2018 Form 10-K.

Fee Income

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

	For the Three Months Ended March 31,	
	2019	2018
Fee Income		
Mortality, expense and other assessments	$ 562	$ 579
Surrender charges	7	8
DFEL:		
Deferrals	(10)	(10)
Amortization, net of interest	9	9

Total fee income	$ 568	$ 586

	As of or For the Three Months Ended March 31,	
	2019	2018
Variable Account Value Information		
Variable annuity deposits (1)	$ 982	$ 1,285
Increases (decreases) in variable annuity account values:		
Net flows (1)	(1,363)	(1,233)
Change in market value (1)	8,931	(174)
Contract holder assessments (1)	(600)	(618)
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	577	746
Variable annuity account values (1)	112,284	113,063
Average daily variable annuity account values (1)	109,778	115,672
Average daily S&P 500 (2)	2,719	2,733

(1) Excludes the fixed portion of variable.

(2) We generally use the Standard & Poor's ("S&P") 500 index as a benchmark for the performance of our variable account values. The account values of our variable annuity contracts are invested by our policyholders in a variety of investment options including, but not limited to, domestic and international equity securities and fixed income, which do not necessarily align with S&P 500 index performance. See Note 9 for additional information.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily variable account values are driven by net flows and variable fund returns. Charges on GLB riders are assessed based on a

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Explanation of Responses:

contractual rate that is applied either to the account value or the guaranteed amount. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period to protect us from premature withdrawals. Fee income includes charges on both our variable and fixed annuity products, but excludes the attributed fees on our GLB riders; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2018 Form 10-K for discussion of these attributed fees.

Net Investment Income and Interest Credited

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

	For the Three Months Ended March 31,	
	2019	2018
Net Investment Income		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 228	$ 205
Commercial mortgage loan prepayment and bond make-whole premiums (1)	3	5
Surplus investments (2)	26	39
Total net investment income	$ 257	$ 249
Interest Credited		
Amount provided to contract holders	$ 164	$ 150
DSI deferrals	(9)	(11)
Interest credited before DSI amortization	155	139
DSI amortization	7	9
Total interest credited	$ 162	$ 148

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

(2) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities. See "Consolidated Investments – Alternative Investments" below for more information on alternative investments.

	For the Three Months Ended March 31,	
	2019	2018
Interest Rate Spread		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	3.97%	3.87%
Commercial mortgage loan prepayment and bond make-whole premiums	0.05%	0.08%
Net investment income yield on reserves	4.02%	3.95%
Interest rate credited to contract holders	2.41%	2.32%
Interest rate spread	1.61%	1.63%

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	As of or For the Three Months Ended March 31,	
	2019	2018
Fixed Account Value Information		
Fixed annuity deposits (1)	$ 2,526	$ 1,240
Increases (decreases) in fixed annuity account values:		
Net flows (1)	1,855	627
Contract holder assessments (1)	(9)	(8)
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(577)	(746)
Reinvested interest credited (1)	428	98
Fixed annuity account values (1)	18,174	22,568
Average fixed account values (1)	17,407	22,617
Average invested assets on reserves	20,447	18,470

(1) Includes the fixed portion of variable.

A portion of our investment income earned is credited to the contract holders of our deferred fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. Changes in commercial mortgage loan prepayments and bond make-whole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Benefits for this segment include changes in income annuity reserves driven by premiums, changes in benefit reserves and costs associated with the hedging of our benefit ratio unlocking on benefit reserves associated with our variable annuity guaranteed death benefit and GLB riders. For a corresponding offset of changes in income annuity reserves, see footnote 1 of "Income (Loss) from Operations" above.

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Explanation of Responses:

Commissions and Other Expenses

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

	For the Three Months Ended March 31,	
	2019	2018
Commissions and Other Expenses		
Commissions:		
Deferrable	$ 132	$ 105
Non-deferrable	136	139
General and administrative expenses	104	103
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	1	1
Taxes, licenses and fees	12	11
Total expenses incurred, excluding broker-dealer	385	359
DAC deferrals	(147)	(120)
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	238	239
DAC and VOBA amortization, net of interest	90	111
Broker-dealer expenses incurred	113	117
Total commissions and other expenses	$ 441	$ 467
DAC Deferrals		
As a percentage of sales/deposits	4.2%	4.8%

(1) Includes reimbursements to Annuities from the Life Insurance segment for reserve financing, net of expenses incurred by Annuities for its use of letters of credit (“LOCs”). The inter-segment amounts are not reported on our Consolidated Statements of Comprehensive Income (Loss).

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain types of commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. Broker-dealer expenses that vary with and are related to sales are

expensed as incurred and not deferred and amortized. Fluctuations in these expenses correspond with fluctuations in other revenues.

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RESULTS OF RETIREMENT PLAN SERVICES

Income (Loss) from Operations

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

	For the Three Months Ended March 31,	
	2019	2018
Operating Revenues		
Fee income	$ 61	$ 64
Net investment income	226	222
Other revenues (1)	6	6
Total operating revenues	293	292
Operating Expenses		
Interest credited	145	137
Commissions and other expenses	105	107
Total operating expenses	250	244
Income (loss) from operations before taxes	43	48
Federal income tax expense (benefit)	4	5
Income (loss) from operations	$ 39	$ 43

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

Comparison of the Three Months Ended March 31, 2019 to 2018

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

- Lower net investment income, net of interest credited, driven by less favorable investment income on alternative investments and spread compression due to average new money rates trailing our current portfolio yields.
- Lower fee income driven by lower average daily variable account values.

Additional Information

Net flows in this business fluctuate based on the timing of larger plans being implemented on our platform and terminating over the course of the year.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations. The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused primarily by plan sponsor terminations and participant withdrawals. These outflows as a percentage of average account values were 16% and 11% for the three months ended March 31, 2019 and 2018, respectively.

Our net flows are negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Net Flows By Market table below as “Multi-Fund® and other”), which are among our higher margin product lines in this segment, due to the fact that they are mature blocks with low distribution and servicing costs. The proportion of these products to our total account values was 23% and 25% as of March 31, 2019 and 2018, respectively. Due to this expected overall shift in business mix toward products with lower returns, new deposit production continues to be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on either a quarterly or semi-annual basis. Our ability to retain quarterly or semi-annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2018 Form 10-K.

Fee Income

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

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	For the Three Months Ended March 31,	
	2019	2018
Fee Income		
Annuity expense assessments	$ 45	$ 48
Mutual fund fees	16	16
Total fee income	$ 61	$ 64

	For the Three Months Ended March 31,	
	2019	2018
Net Flows By Market		
Small market	$ 189	$ (79)
Mid – large market	(283)	834
Multi-Fund® and other	(287)	(292)
Total net flows	$ (381)	$ 463

	As of or For the Three Months Ended March 31,	
	2019	2018
Variable Account Value Information		
Variable annuity deposits (1)	$ 458	$ 463
Increases (decreases) in variable annuity account values:		
Net flows (1)	(130)	(178)
Change in market value (1)	1,640	(48)
Contract holder assessments (1)	(37)	(41)
Variable annuity account values (1)	15,820	15,808
Average daily variable annuity account values (1)	15,393	16,282
Average daily S&P 500	2,719	2,733

(1) Excludes the fixed portion of variable.

	As of or For the Three Months Ended March 31,	
	2019	2018
Mutual Fund Account Value Information		
Mutual fund deposits	$ 1,580	$ 1,438
Mutual fund net flows	(189)	702
Mutual fund account values (1)	36,065	33,046

(1) Mutual funds are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

We charge expense assessments to cover insurance and administrative expenses. Expense assessments are generally equal to a percentage of the daily variable account values. Average daily account values are driven by net flows and the equity markets. Our expense assessments include fees we earn for the services that we provide to our mutual fund programs. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period to protect us from premature withdrawals.

Net Investment Income and Interest Credited

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

	For the Three Months Ended March 31,	
	2019	2018
Net Investment Income		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 207	$ 201
Commercial mortgage loan prepayment and bond make-whole premiums (1)	3	4
Surplus investments (2)	16	17
Total net investment income	$ 226	$ 222
Interest Credited	$ 145	$ 137

[1] See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.

[2] Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities. See "Consolidated Investments – Alternative Investments" below for more information on alternative investments.

	For the Three Months Ended March 31,	
	2019	2018
Interest Rate Spread		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.18%	4.28%
Commercial mortgage loan prepayment and bond make-whole premiums	0.05%	0.09%
Net investment income yield on reserves	4.23%	4.37%
Interest rate credited to contract holders	2.92%	2.90%

Interest rate spread	1.31%	1.47%

	As of or For the Three Months Ended March 31,	
	2019	2018
Fixed Account Value Information		
Fixed annuity deposits (1)	$ 458	$ 459
Increases (decreases) in fixed annuity account values:		
Net flows (1)	(61)	(61)
Reinvested interest credited (1)	142	135
Contract holder assessments (1)	(3)	(3)
Fixed annuity account values (1)	19,914	18,856
Average fixed account values (1)	19,841	18,789
Average invested assets on reserves	19,886	18,696

(1) Includes the fixed portion of variable.

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed

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annuity contract holders' accounts, including the fixed portion of variable annuity contracts. Commercial mortgage loan prepayments and bond make-whole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Commissions and Other Expenses

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

	For the Three Months Ended March 31,	
	2019	2018
Commissions and Other Expenses		
Commissions:		
Deferrable	$ 2	$ 1
Non-deferrable	17	18
General and administrative expenses	78	78
Taxes, licenses and fees	7	7
Total expenses incurred	104	104
DAC deferrals	(5)	(4)
Total expenses recognized before amortization	99	100
DAC and VOBA amortization, net of interest	6	7
Total commissions and other expenses	$ 105	$ 107
DAC Deferrals		
As a percentage of annuity sales/deposits	0.5%	0.4%

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain types of commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. Distribution expenses associated with the sale of mutual fund products are expensed as incurred.

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RESULTS OF LIFE INSURANCE

Income (Loss) from Operations

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

	For the Three Months Ended March 31,	
	2019	2018
Operating Revenues		
Insurance premiums (1)	$ 213	$ 196
Fee income	844	805
Net investment income	643	658
Operating realized gain (loss) (2)	(3)	(1)
Other revenues	3	2
Total operating revenues	1,700	1,660
Operating Expenses		
Interest credited	354	354
Benefits	902	849
Commissions and other expenses	249	285
Total operating expenses	1,505	1,488
Income (loss) from operations before taxes	195	172
Federal income tax expense (benefit)	38	28
Income (loss) from operations	$ 157	$ 144

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

Comparison of the Three Months Ended March 31, 2019 to 2018

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

- Higher fee income due to growth in business in force.
- Lower commissions and other expenses driven by lower margins and amortization rates.

The increase in income from operations was partially offset by:

- Higher benefits due to growth in business in force, partially offset by more favorable mortality.
- Lower net investment income, net of interest credited, driven by less favorable investment income on alternative investments and spread compression due to average new money rates trailing our current portfolio yields.

Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and risk-based capital ("RBC") levels above current regulatory required levels. Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation ("XXX") and Actuarial Guideline 38 ("AG38"). For information on strategies we use to reduce the statutory reserve strain caused by XXX and AG38, see "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Insurance Subsidiaries' Statutory Capital and Surplus" below.

Additional Information

During the first quarter of 2019, we experienced favorable mortality relative to our expectations for claims seasonality.

For information on interest rate spreads and interest rate risk, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2018 Form 10-K.

Insurance Premiums

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

Fee Income

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

	For the Three Months Ended March 31,	
	2019	2018
Fee Income		
Cost of insurance assessments	$ 565	$ 516
Expense assessments	376	375
Surrender charges	13	9
DFEL:		
Deferrals	(214)	(194)
Amortization, net of interest	104	99
Total fee income	$ 844	$ 805

	For the Three Months Ended March 31,	
	2019	2018
Sales by Product		
UL	$ 11	$ 10
MoneyGuard®	51	56
IUL	16	14
VUL	52	58
Term	30	25
Total individual life sales	160	163
Executive Benefits	31	10
Total sales	$ 191	$ 173
Net Flows		
Deposits	$ 1,537	$ 1,534
Withdrawals and deaths	(517)	(458)

Net flows	$ 1,020	$ 1,076
Contract Holder Assessments	$ 1,236	$ 1,198

	As of March 31,	
	2019	2018
Account Values		
General account	$ 36,606	$ 36,155
Separate account	14,514	13,126
Total account values	$ 51,120	$ 49,281
In-Force Face Amount		
UL and other	$ 346,292	$ 340,862
Term insurance	416,789	384,154
Total in-force face amount	$ 763,081	$ 725,016

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

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

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

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

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

Net Investment Income and Interest Credited

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

	For the Three Months Ended March 31,	
	2019	2018
Net Investment Income		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 601	$ 587
Commercial mortgage loan prepayment and bond make-whole premiums (1)	6	7
Alternative investments (2)	1	23
Surplus investments (3)	35	41
Total net investment income	$ 643	$ 658
Interest Credited	$ 354	$ 354

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.
(2) See “Consolidated Investments – Alternative Investments” below for additional information.
(3)

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

	For the Three Months Ended March 31,	
	2019	2018
Interest Rate Yields and Spread		
Attributable to interest-sensitive products:		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.85%	4.98%
Commercial mortgage loan prepayment and bond make-whole premiums	0.05%	0.06%
Alternative investments	0.01%	0.21%
Net investment income yield on reserves	4.91%	5.25%
Interest rate credited to contract holders (1)	3.69%	3.76%
Interest rate spread (1)	1.22%	1.49%

(1) Prior year interest rate spreads have been restated to conform to the current year presentation.

	For the Three Months Ended March 31,	
	2019	2018
Averages		
Attributable to interest-sensitive products:		
Invested assets on reserves	$ 45,482	$ 43,210
General account values	37,003	36,547
Attributable to traditional products:		
Invested assets on reserves	4,150	4,088

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

Benefits

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

	For the Three Months Ended March 31,	
	2019	2018
Benefits		
Death claims direct and assumed	$ 1,166	$ 1,115
Death claims ceded	(427)	(406)
Reserves released on death	(166)	(167)
Net death benefits	573	542
Change in secondary guarantee life insurance product reserves:	139	165

Change in MoneyGuard® reserves:	105	89
Other benefits (1)	85	53
Total benefits	$ 902	$ 849
Death claims per $1,000 of in-force	3.04	3.00

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

Benefits for this segment include claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits include the change in secondary guarantee and linked-benefit life insurance product reserves. These reserves are affected by changes in expected future trends of assessments and benefits causing unlocking adjustments to these liabilities similar to DAC, VOBA and DFEL. Generally, we have higher mortality in the first quarter of the year due to the seasonality of claims. See "Future Contract Benefits and Other Contract Holder Funds" in Note 1 of our 2018 Form 10-K for additional information.

Commissions and Other Expenses

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

	For the Three Months Ended March 31,	
	2019	2018
Commissions and Other Expenses		
Commissions	$ 186	$ 180
General and administrative expenses	141	133
Expenses associated with reserve financing	23	22
Taxes, licenses and fees	48	45
Total expenses incurred	398	380
DAC and VOBA deferrals	(220)	(204)
Total expenses recognized before amortization	178	176
DAC and VOBA amortization, net of interest	70	108
Other intangible amortization	1	1
Total commissions and other expenses	$ 249	$ 285
DAC and VOBA Deferrals		
As a percentage of sales	115.2%	117.9%

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the life of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related

contracts, depending on the block of business. When comparing DAC and VOBA deferrals as a percentage of sales for the three months ended March 31, 2019, to the corresponding period in 2018, the decrease was primarily a result of changes in sales mix to products with lower commission rates.

RESULTS OF GROUP PROTECTION

Income (Loss) from Operations

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

	For the Three Months Ended March 31,	
	2019	2018
Operating Revenues		
Insurance premiums	$ 1,023	$ 508
Net investment income	74	40
Other revenues (1)	41	5
Total operating revenues	1,138	553
Operating Expenses		
Interest credited	1	1
Benefits	753	326
Commissions and other expenses	314	189
Total operating expenses	1,068	516
Income (loss) from operations before taxes	70	37
Federal income tax expense (benefit)	15	8
Income (loss) from operations	$ 55	$ 29

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

	For the Three Months Ended March 31,	
	2019	2018
Income (Loss) from Operations by Product Line		
Life	$ 2	$ 10
Disability	54	22
Dental	(1)	(3)
Income (loss) from operations	$ 55	$ 29

Comparison of the Three Months Ended March 31, 2019 to 2018

Income from operations for this segment increased due primarily to the inclusion of the results of the Liberty Group Business (see "Additional Information" below for more information).

Additional Information

Income from operations for the three months ended March 31, 2019, includes activity from the Liberty Group Business acquired on May 1, 2018. The acquisition resulted in increases in all pre-tax line items presented in the Income (Loss) from Operations table above. For more information about our acquisition, see Note 3 in our 2018 Form 10-K and Note 3 herein.

For information about the effect of the loss ratio sensitivity on our income (loss) from operations, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Group Protection – Additional Information" in our 2018 Form 10-K.

For information on the effects of current interest rates on our long-term disability claim reserves, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Effect of Interest Rate Sensitivity" in our 2018 Form 10-K.

Insurance Premiums

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

	For the Three Months Ended March 31,	
	2019	2018
Insurance Premiums by Product Line		
Life	$ 371	$ 202
Disability	577	233
Dental	75	73
Total insurance premiums	$ 1,023	$ 508
Sales by Product Line		
Life	$ 64	$ 23
Disability	42	21
Dental	13	11
Total sales	$ 119	$ 55

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

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

Net Investment Income

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

Explanation of Responses:

Benefits and Interest Credited

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

	For the Three Months Ended March 31,	
	2019	2018
Benefits and Interest Credited by Product Line		
Life	$ 265	$ 128
Disability	435	145
Dental	54	54
Total benefits and interest credited	$ 754	$ 327
Loss Ratios by Product Line		
Life	71.4%	63.2%
Disability	75.4%	61.9%
Dental	72.2%	74.7%
Total	73.7%	64.3%

Generally, we experience higher mortality in the first quarter of the year and higher disability claims in the fourth quarter of the year due to the seasonality of claims. When comparing our life and disability loss ratios for the three months ended March 31, 2019 and 2018, the increase in 2019 was driven primarily by the inclusion of the Liberty Group Business as we combined two blocks of business with different loss characteristics.

Commissions and Other Expenses

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

	For the Three Months Ended March 31,	
	2019	2018
Commissions and Other Expenses		
Commissions	$ 92	$ 66
General and administrative expenses	173	89
Taxes, licenses and fees	30	16
Total expenses incurred	295	171
DAC deferrals	(23)	(13)
Total expenses recognized before amortization	272	158
DAC and VOBA amortization, net of interest (1)	36	31
Other intangible amortization (1)	6	-
Total commissions and other expenses	$ 314	$ 189
DAC Deferrals		
As a percentage of insurance premiums	2.2%	2.6%

(1) See Note 3 in our 2018 Form 10-K for information regarding intangible assets acquired as part of the Liberty Life acquisition.

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized as a level percent of insurance premiums of the related contracts, depending on the block of business. Certain broker commissions that vary with and are related to paid premiums are expensed as incurred rather than deferred and amortized. Generally, we have higher amortization in the first quarter of the year due to a significant number of policies renewing in the quarter. When comparing DAC deferrals as a percentage of insurance premiums for the three months ended March 31, 2019 and 2018, the decrease was driven by a change in our sales mix to products with lower commission rates as a result of the inclusion of the Liberty Group Business acquired on May 1, 2018.

RESULTS OF OTHER OPERATIONS

Income (Loss) from Operations

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

	For the Three Months Ended March 31,	
	2019	2018
Operating Revenues		
Insurance premiums (1)	$ 2	$ 3
Net investment income	51	64
Other revenues	4	-
Total operating revenues	57	67
Operating Expenses		
Interest credited	15	15
Benefits	20	19
Other expenses	24	8
Interest and debt expense	71	68
Strategic digitization expense	15	15
Total operating expenses	145	125
Income (loss) from operations before taxes	(88)	(58)
Federal income tax expense (benefit)	(28)	(16)
Income (loss) from operations	$ (60)	$ (42)

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

Comparison of the Three Months Ended March 31, 2019 to 2018

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

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Higher other expenses due to the effect of changes in our stock price on our deferred compensation plans, as our stock price significantly increased during the first quarter of 2019 compared to a decrease during the first quarter of 2018.

- Lower net investment income, net of interest credited, related to lower average invested assets driven by a decline in excess capital retained by Other Operations.

The increase in loss from operations was partially offset by more favorable federal income tax benefits driven by excess tax benefits associated with stock-based compensation.

Additional Information

For information on our strategic digitization initiative, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Significant Operational Matters – Strategic Digitization Initiative" in our 2018 Form 10-K.

Net Investment Income and Interest Credited

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

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

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

earned on the blocks that continue to be reinsured is passed through to Swiss Re in the form of interest credited.

Benefits

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

Other Expenses

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

	For the Three Months Ended March 31,	
	2019	2018
General and administrative expenses:		
Legal	$ -	$ 1
Branding	9	8
Other (1)	16	4
Total general and administrative expenses	25	13
Taxes, licenses and fees (2)	2	(2)
Inter-segment reimbursement associated with reserve financing and LOC expenses (3)	(3)	(3)
Total other expenses	$ 24	$ 8

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

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

some states.

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

Interest and Debt Expense

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

REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

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

	For the Three Months Ended March 31,	
	2019	2018
Components of Realized Gain (Loss), Pre-Tax		
Total operating realized gain (loss)	$ 38	$ 47
Total excluded realized gain (loss)	(400)	(35)
Total realized gain (loss), pre-tax	$ (362)	$ 12
Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax		
Total excluded realized gain (loss)	$ (316)	$ (28)
Benefit ratio unlocking	142	(10)
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (174)	$ (38)
Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax		
Realized gain (loss) related to certain investments	$ (16)	$ (17)
Gain (loss) on the mark-to-market on certain instruments (2)	(94)	2
Variable annuity net derivatives results:		
Hedge program performance, including unlocking for GLB reserves hedged	(15)	(25)
GLB NPR component	(27)	5
Total variable annuity net derivatives results	(42)	(20)
Indexed annuity forward-starting option	(22)	(3)
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (174)	$ (38)

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

(2) As of March 31, 2019, the Modco investment portfolio consisted primarily of fixed maturity securities classified as AFS with changes in fair value recorded in OCI. Since the corresponding and offsetting changes in fair value of the embedded derivatives related to the Modco investment portfolio are recorded in realized gain (loss), volatility can occur within net income (loss). We expect the Modco investments classified as AFS will be sold and replaced with securities classified as trading securities, with changes in fair value recorded in realized gain (loss), consistent with

the recorded fair value changes in the Modco embedded derivatives. See Note 8 for more information.

Comparison of the Three Months Ended March 31, 2019 to 2018

We had higher realized losses due primarily to the following:

- Losses due primarily to unfavorable changes in the fair value of embedded derivatives related to certain Modco arrangements.
- Unfavorable variable annuity net derivatives results attributable to unfavorable GLB non-performance risk ("NPR") component due to a narrowing of our credit spread and a decrease in our associated reserves, partially offset by favorable hedge program performance due to less volatile capital markets.

Operating Realized Gain (Loss)

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2018 Form 10-K for a discussion of our operating realized gain (loss).

Realized Gain (Loss) Related to Certain Investments

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

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

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Gain (Loss) on the Mark-to-Market on Certain Instruments" in our 2018 Form 10-K for a discussion of the mark-to-market on certain instruments and Note 4 for information about consolidated variable interest entities ("VIEs").

Variable Annuity Net Derivatives Results

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" in our 2018 Form 10-K for a discussion of our variable annuity net derivatives results and how our NPR adjustment is determined.

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

	As of March 31, 2019	As of December 31, 2018	As of September 30, 2018	As of June 30, 2018	As of March 31, 2018
Variable annuity hedge program assets (liabilities)	$ 1,967	$ 2,357	$ 770	$ 1,094	$ 1,194
Variable annuity reserves – asset (liability):					
Embedded derivative reserves, pre-NPR (1)	$ 578	$ 252	$ 1,630	$ 1,288	$ 1,179
NPR	(98)	(57)	(140)	(131)	(135)
Embedded derivative reserves	480	195	1,490	1,157	1,044
Insurance benefit reserves	(916)	(1,060)	(757)	(781)	(734)
Total variable annuity reserves – asset (liability)	$ (436)	$ (865)	$ 733	$ 376	$ 310
10-year credit default swap ("CDS") spread	1.43%	1.67%	1.35%	1.24%	1.19%
NPR factor related to 10-year CDS spread	0.18%	0.25%	0.18%	0.18%	0.18%

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

For information about the effect of changes in the NPR factor on our net income (loss), see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" in our 2018 Form 10-K.

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

Indexed Annuity Forward-Starting Option

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Indexed Annuity Forward-Starting Option" in our 2018 Form 10-K for a discussion of our indexed annuity forward-starting option.

CONSOLIDATED INVESTMENTS

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

			Percentage of Total Investments	
	As of March 31, 2019	As of December 31, 2018	As of March 31, 2019	As of December 31, 2018
Investments				
Fixed maturity AFS securities	$ 98,050	$ 94,024	80.5%	81.6%
Trading securities	3,314	1,950	2.7%	1.7%
Equity securities	153	99	0.1%	0.1%
Mortgage loans on real estate	13,997	13,260	11.5%	11.5%
Real estate	12	12	0.0%	0.0%
Policy loans	2,498	2,509	2.1%	2.2%
Derivative investments	981	1,107	0.8%	1.0%
Alternative investments	1,858	1,725	1.6%	1.4%
Other investments	882	530	0.7%	0.5%
Total investments	$ 121,745	$ 115,216	100.0%	100.0%

Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion of our risk management process, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2018 Form 10-K.

Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either

wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

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

Fixed Maturity and Equity Securities Portfolios

Fixed maturity securities consist of portfolios classified as available-for-sale (“AFS”) and trading. Details underlying our fixed maturity AFS securities by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of fixed maturity AFS securities in Note 5; however, the categories below represent a more detailed breakout of the fixed maturity AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

	As of March 31, 2019				
		Gross Unrealized			%
	Amortized Cost	Gains	Losses and OTTI (1)	Fair Value	Fair Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 14,107	$ 794	$ 118	$ 14,783	15.1%
Basic industry	4,562	248	59	4,751	4.8%
Capital goods	6,446	379	70	6,755	6.9%
Communications	4,598	339	48	4,889	5.0%
Consumer cyclical	5,349	266	64	5,551	5.6%
Consumer non-cyclical	14,198	825	227	14,796	15.1%
Energy	6,238	378	76	6,540	6.7%
Technology	3,750	166	15	3,901	4.0%
Transportation	3,242	147	37	3,352	3.4%
Industrial other	1,310	44	13	1,341	1.4%
Utilities	13,345	1,038	87	14,296	14.6%
Government related entities	2,098	189	34	2,253	2.3%
Collateralized mortgage and other obligations ("CMOs"):					
Agency backed	1,794	68	38	1,824	1.9%
Non-agency backed	717	49	(17)	783	0.8%
Mortgage pass through securities ("MPTS"):					
Agency backed	785	25	3	807	0.8%
Commercial mortgage-backed securities ("CMBS"):					
Agency backed	20	-	-	20	0.0%
Non-agency backed	848	16	(1)	865	0.9%
Asset-backed securities ("ABS"):					
Collateralized loan obligations ("CLOs")	2,431	4	11	2,424	2.5%
Commercial real estate ("CRE") collateralized debt obligations ("CDOs")	8	-	(5)	13	0.0%
Credit card	78	18	1	95	0.1%
Equipment receivables	34	1	-	35	0.0%

Home equity	492	17	(13)	522	0.5%
Manufactured housing	10	-	-	10	0.0%
Student loans	37	-	-	37	0.0%
Other	339	10	1	348	0.4%
Municipals:					
Taxable	4,585	879	8	5,456	5.6%
Tax-exempt	102	11	-	113	0.1%
Government:					
United States	387	37	1	423	0.4%
Foreign	403	50	-	453	0.5%
Hybrid and redeemable preferred securities	581	57	24	614	0.6%
Total fixed maturity AFS securities	92,894	6,055	899	98,050	100.0%
Trading Securities (2)	3,115	205	6	3,314	
Equity Securities	164	1	12	153	
Total fixed maturity AFS, trading and equity securities	$ 96,173	$ 6,261	$ 917	$ 101,517	

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	As of December 31, 2018				
		Gross Unrealized			%
	Amortized		Losses and OTTI	Fair	Fair
	Cost	Gains	(1)	Value	Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 13,762	$ 465	$ 352	$ 13,875	14.8%
Basic industry	4,542	137	152	4,527	4.8%
Capital goods	6,531	236	182	6,585	7.0%
Communications	4,686	210	133	4,763	5.1%
Consumer cyclical	5,475	160	180	5,455	5.8%
Consumer non-cyclical	14,307	543	507	14,343	15.3%
Energy	6,383	217	227	6,373	6.8%
Technology	3,698	64	81	3,681	3.9%
Transportation	3,289	91	99	3,281	3.5%
Industrial other	1,328	24	30	1,322	1.4%
Utilities	13,330	692	249	13,773	14.6%
Government related entities	2,292	141	63	2,370	2.5%
CMOs:					
Agency backed	1,747	52	56	1,743	1.9%
Non-agency backed	732	48	(13)	793	0.8%
MPTS:					
Agency backed	829	18	10	837	0.9%
CMBS:					
Agency backed	20	-	-	20	0.0%
Non-agency backed	791	6	13	784	0.8%
ABS:					
CLOs	1,738	3	24	1,717	1.8%
CRE CDOs	8	-	(5)	13	0.0%
Credit card	78	16	-	94	0.1%
Equipment receivables	37	1	-	38	0.0%
Home equity	508	17	(9)	534	0.6%
Manufactured housing	15	1	-	16	0.0%
Student loans	38	-	-	38	0.0%
Other	240	7	1	246	0.3%
Municipals:					
Taxable	4,551	711	18	5,244	5.6%
Tax-exempt	96	5	-	101	0.1%
Government:					
United States	390	29	2	417	0.5%
Foreign	406	42	-	448	0.5%
Hybrid and redeemable preferred securities	582	45	34	593	0.6%
Total fixed maturity AFS securities	92,429	3,981	2,386	94,024	100.0%

Trading Securities (2)	1,823	137	10	1,950
Equity Securities	116	1	18	99
Total fixed maturity AFS, trading and equity securities	$ 94,368	$ 4,119	$ 2,414	$ 96,073

(1) Includes unrealized (gains) and losses on credit-impaired securities related to changes in the fair value of such securities subsequent to the impairment measurement date.

(2) Certain of our trading securities support our Modco reinsurance agreements and the investment results are passed directly to the reinsurers. Refer to "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Fixed Maturity and Equity Securities Portfolios – Trading Securities" in our 2018 Form 10-K for further details.

Fixed Maturity AFS Securities

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

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

	Rating Agency	As of March 31, 2019			As of December 31, 2018		
NAIC Designation (1)	Equivalent Designation (1)	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Investment Grade Securities							
1	AAA / AA / A	$ 49,876	$ 53,751	54.8%	$ 49,086	$ 51,118	54.4%
2	BBB	39,425	40,793	41.6%	39,872	39,641	42.1%
Total investment grade securities		89,301	94,544	96.4%	88,958	90,759	96.5%
Below Investment Grade Securities							
3	BB	2,602	2,581	2.6%	2,565	2,448	2.6%
4	B	761	722	0.7%	803	741	0.8%
5	CCC and lower	174	152	0.2%	95	63	0.1%
6	In or near default	56	51	0.1%	8	13	0.0%
Total below investment grade securities		3,593	3,506	3.6%	3,471	3,265	3.5%
Total fixed maturity AFS securities		$ 92,894	$ 98,050	100.0%	$ 92,429	$ 94,024	100.0%
Total securities below investment grade as a percentage of total fixed maturity AFS securities		3.9%	3.6%		3.8%	3.5%	

(1) Based upon the rating designations determined and provided by the National Association of Insurance Commissioners ("NAIC") or the major credit rating agencies (Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P). For securities where the ratings assigned by the major credit rating agencies are not

equivalent, the second lowest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings. The average credit quality was A- as of March 31, 2019.

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

As of March 31, 2019, and December 31, 2018, 92% and 95%, respectively, of the total fixed maturity AFS securities in an unrealized loss position were investment grade. Our gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) (“OCI”), on fixed maturity AFS securities as of March 31, 2019, decreased by $1.5 billion since December 31, 2018. As more fully described in Note 1 in our 2018 Form 10-K, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of March 31, 2019, does not represent OTTI as: (i) we do not intend to sell the debt securities; (ii) it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. For further information on our unrealized losses on fixed maturity AFS securities, see “Composition by Industry Categories of our Unrealized Losses on Fixed Maturity AFS Securities” below.

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

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

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

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

As reported on our Consolidated Balance Sheets, we had $123.3 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled $110.3 billion as of March 31, 2019. If it were necessary to liquidate fixed maturity AFS securities prior to maturity or call to meet cash flow needs, we would first look to those fixed maturity AFS securities that are in an unrealized gain position, which had a fair value of $75.6 billion as of March 31, 2019, rather than selling fixed maturity AFS securities in an unrealized loss position. The amount of cash that we have on hand at any point in time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the ongoing cash flows from new and existing business.

See “Fixed Maturity AFS Securities – Evaluation for Recovery of Amortized Cost” in Note 1 in our 2018 Form 10-K and Note 5 herein for additional discussion.

As of March 31, 2019, and December 31, 2018, the estimated fair value for all private placement securities was $16.0 billion and $15.3 billion, respectively, representing 13% of total invested assets.

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

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Mortgage-Backed Securities" in our 2018 Form 10-K for a discussion of our mortgage-backed securities ("MBS").

Our ABS home equity and RMBS had a market value of $4.1 billion and a net unrealized gain of $151 million as of March 31, 2019.

The market value of fixed maturity AFS and trading securities backed by subprime loans was $441 million and represented less than 1% of our total investment portfolio as of March 31, 2019. Fixed maturity AFS securities represented $425 million, or 96%, and trading securities represented $16 million, or 4%, of the subprime exposure as of March 31, 2019. The table below summarizes our investments in fixed maturity AFS securities backed by pools of residential mortgages (in millions) as of March 31, 2019:

	Agency		Prime		Alt-A		Subprime/ Option ARM (1)		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type										
RMBS	$ 2,632	$ 2,579	$ 260	$ 243	$ 225	$ 207	$ 297	$ 267	$ 3,414	$ 3,296
ABS home equity	1	1	54	53	90	85	377	353	522	492
Total by type (2)(3)	$ 2,633	$ 2,580	$ 314	$ 296	$ 315	$ 292	$ 674	$ 620	$ 3,936	$ 3,788
Rating										
AAA	$ 2,310	$ 2,266	$ -	$ -	$ -	$ -	$ 8	$ 8	$ 2,318	$ 2,274
AA	323	314	8	8	14	13	18	17	363	352
A	-	-	39	39	8	8	64	63	111	110
BBB	-	-	4	4	17	16	18	18	39	38
BB and below	-	-	263	245	276	255	566	514	1,105	1,014
Total by rating (2)(3)(4)	$ 2,633	$ 2,580	$ 314	$ 296	$ 315	$ 292	$ 674	$ 620	$ 3,936	$ 3,788
Origination Year										
2009 and prior	$ 655	$ 604	$ 298	$ 280	$ 314	$ 291	$ 674	$ 620	$ 1,941	$ 1,795
2010	252	239	-	-	-	-	-	-	252	239
2011	149	145	-	-	-	-	-	-	149	145
2012	45	46	-	-	-	-	-	-	45	46
2013	226	224	-	-	-	-	-	-	226	224
2014	71	68	1	1	-	-	-	-	72	69
2015	153	153	15	15	-	-	-	-	168	168
2016	529	561	-	-	1	1	-	-	530	562
2017	298	296	-	-	-	-	-	-	298	296
2018	239	228	-	-	-	-	-	-	239	228
2019	16	16	-	-	-	-	-	-	16	16
Total by origination year (2)(3)	$ 2,633	$ 2,580	$ 314	$ 296	$ 315	$ 292	$ 674	$ 620	$ 3,936	$ 3,788
Total fixed maturity AFS securities backed by pools of residential mortgages as a percentage of total fixed maturity AFS securities									4.0%	4.1%
									1.3%	1.3%

Total prime, Alt-A and subprime/option ARM as a percentage of total fixed maturity AFS securities

(1) Includes the fair value and amortized cost of option adjustable rate mortgages ("ARM") within RMBS, totaling $249 million and $220 million, respectively.

(2) Does not include the fair value of trading securities totaling $150 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $150 million in trading securities consisted of $131 million prime, $3 million Alt-A and $16 million subprime.

(3) Does not include the amortized cost of trading securities totaling $147 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $147 million in trading securities consisted of $128 million prime, $3 million Alt-A and $16 million subprime.

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

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

The following summarizes our investments in fixed maturity AFS securities backed by pools of commercial mortgages (in millions) as of March 31, 2019:

	Multiple Property		Single Property		CRE CDOs		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type								
CMBS	$ 873	$ 857	$ 12	$ 11	$ -	$ -	$ 885	$ 868
CRE CDOs	-	-	-	-	13	8	13	8
Total by type (1)(2)	$ 873	$ 857	$ 12	$ 11	$ 13	$ 8	$ 898	$ 876
Rating								
AAA	$ 858	$ 846	$ -	$ -	$ -	$ -	$ 858	$ 846
AA	6	6	7	6	-	-	13	12
A	3	3	5	5	-	-	8	8
BB and below	6	2	-	-	13	8	19	10
Total by rating (1)(2)(3)	$ 873	$ 857	$ 12	$ 11	$ 13	$ 8	$ 898	$ 876
Origination Year								
2009 and prior	$ 22	$ 17	$ 12	$ 11	$ 13	$ 8	$ 47	$ 36
2010	3	3	-	-	-	-	3	3
2011	10	10	-	-	-	-	10	10
2012	28	27	-	-	-	-	28	27
2013	157	156	-	-	-	-	157	156
2015	10	10	-	-	-	-	10	10
2016	85	87	-	-	-	-	85	87
2017	325	323	-	-	-	-	325	323
2018	171	164	-	-	-	-	171	164
2019	62	60	-	-	-	-	62	60
Total by origination year (1)(2)	$ 873	$ 857	$ 12	$ 11	$ 13	$ 8	$ 898	$ 876
Total fixed maturity AFS securities backed by pools of commercial mortgages as a percentage of total fixed maturity AFS securities							0.9%	0.9%

(1) Does not include the fair value of trading securities totaling $39 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. These trading securities consisted entirely of CMBS.

(2) Does not include the amortized cost of trading securities totaling less than $38 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. These trading securities consisted entirely of CMBS.

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

ratings disclosed upon internal ratings.

As of March 31, 2019, the fair value and amortized cost of our fixed maturity AFS exposure to monoline insurers was $417 million and $384 million, respectively.

Composition by Industry Categories of our Unrealized Losses on Fixed Maturity AFS Securities

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

The composition by industry categories of all securities in an unrealized loss position (in millions) as of March 31, 2019, was as follows:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Gross Unrealized Losses and OTTI	% Gross Unrealized Losses and OTTI
Food and beverage	$ 1,532	6.8%	$ 1,617	6.9%	$ 85	8.9%
Banking	1,266	5.6%	1,337	5.7%	71	7.4%
Pharmaceuticals	1,121	5.0%	1,185	5.1%	64	6.7%
Electric	1,652	7.4%	1,706	7.3%	54	5.6%
Chemicals	936	4.2%	988	4.2%	52	5.4%
Diversified manufacturing	858	3.8%	896	3.8%	38	4.0%
Healthcare	1,001	4.5%	1,037	4.4%	36	3.8%
Oil field services	166	0.7%	197	0.8%	31	3.2%
Independent	610	2.7%	632	2.7%	22	2.3%
Media – entertainment	409	1.8%	431	1.9%	22	2.3%
Transportation services	784	3.5%	805	3.5%	21	2.2%
Automotive	488	2.2%	508	2.2%	20	2.1%
Government owned, no guarantee	239	1.1%	258	1.1%	19	2.0%
Property and casualty	379	1.7%	397	1.7%	18	1.9%
Technology	766	3.4%	781	3.3%	15	1.5%
Railroads	353	1.6%	368	1.6%	15	1.5%
Aerospace	447	2.0%	462	2.0%	15	1.5%
Retailers	397	1.8%	412	1.8%	15	1.5%
Midstream	511	2.3%	524	2.2%	13	1.4%
Life	312	1.4%	324	1.4%	12	1.3%
Industries with unrealized losses less than $25 million	8,189	36.5%	8,511	36.4%	322	33.5%
Total by industry	$ 22,416	100.0%	$ 23,376	100.0%	$ 960	100.0%
Total by industry as a percentage of total fixed maturity AFS securities	22.9%		25.2%		100.0%	

As of March 31, 2019, the fair value and amortized cost of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss position was $171 million and $202 million, respectively.

Mortgage Loans on Real Estate

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

	As of March 31, 2019			
	Commercial	Residential	Total	%
Credit Quality Indicator				
Current	$ 13,582	$ 414	$ 13,996	100.0%
Delinquent (1)	-	1	1	0.0%
Foreclosure (2)	-	1	1	0.0%
General valuation allowance	-	(1)	(1)	0.0%
Total mortgage loans on real estate	$ 13,582	$ 415	$ 13,997	100.0%

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

(1) As of March 31, 2019, five commercial loans and ten residential loans were delinquent. As of December 31, 2018, nine commercial loans and two residential loans were delinquent.

(2) As of March 31, 2019, two residential loans were in foreclosure. As of December 31, 2018, there were no mortgage loans that were in foreclosure.

As of March 31, 2019, and December 31, 2018, there were no specifically identified impaired commercial or residential mortgage loans on real estate. The total outstanding principal and interest on the mortgage loans on real estate that were two or more payments delinquent as of March 31, 2019, and December 31, 2018, was $2 million and $1 million, respectively. See Note 1 in our 2018 Form 10-K for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

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

	As of March 31, 2019	As of December 31, 2018
By Segment		
Annuities	$ 4,163	$ 3,962
Retirement Plan Services	3,683	3,599
Life Insurance	4,062	3,829
Group Protection	1,141	1,089
Other Operations	948	781
Total mortgage loans on real estate	$ 13,997	$ 13,260

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

	As of March 31, 2019 Carrying Value	%		As of March 31, 2019 Carrying Value	%
Property Type			State Exposure		
Apartment	$ 4,383	32.3%	CA	$ 3,128	23.0%
Office building	3,331	24.5%	TX	1,635	12.0%
Retail	2,470	18.2%	MD	689	5.1%
Industrial	2,537	18.7%	GA	604	4.4%
Other commercial	582	4.3%	NY	596	4.4%
Mixed use	201	1.5%	FL	569	4.2%
Hotel/motel	78	0.5%	OH	534	3.9%
Total	$ 13,582	100.0%	PA	499	3.7%
Geographic Region			VA	477	3.5%
Pacific	$ 3,884	28.6%	WA	468	3.4%
South Atlantic	3,128	23.0%	TN	443	3.3%
West South Central	1,745	12.9%	NC	397	2.9%
East North Central	1,411	10.4%	WI	334	2.5%
Middle Atlantic	1,236	9.1%	IL	327	2.4%
Mountain	720	5.3%	OR	288	2.1%
East South Central	585	4.3%	AZ	283	2.1%
West North Central	491	3.6%	MA	280	2.1%
New England	382	2.8%	Other states under 2%	2,031	15.0%
Total	$ 13,582	100.0%	Total	$ 13,582	100.0%

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

	As of March 31, 2019			
	Commercial	Residential	Total	%
Origination Year				
2014 and prior	$ 4,207	$ -	$ 4,207	30.1%
2015	1,824	-	1,824	13.0%
2016	2,035	-	2,035	14.5%
2017	2,052	-	2,052	14.7%
2018	2,680	286	2,966	21.2%
2019	800	117	917	6.5%
Total	$ 13,598	$ 403	$ 14,001	100.0%

	As of March 31, 2019			
	Commercial	Residential	Total	%
Principal Repayment Year				
2019	$ 379	$ 3	$ 382	2.7%
2020	499	4	503	3.6%
2021	924	5	929	6.6%
2022	859	5	864	6.2%
2023	850	5	855	6.1%
2024 and thereafter	10,087	381	10,468	74.8%
Total	$ 13,598	$ 403	$ 14,001	100.0%

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

Alternative Investments

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

For the
Three
Months
Ended

	March 31,	
	2019	2018
Annuities	$ 1	$ 6
Retirement Plan Services	-	3
Life Insurance	1	28
Group Protection	-	2
Other Operations	1	2
Total (1)	$ 3	$ 41

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

As of March 31, 2019, and December 31, 2018, alternative investments included investments in 246 and 237 different partnerships, respectively, and the portfolio represented approximately 2% and 1% of our overall invested assets, respectively. As of March 31, 2019, there were three partnerships totaling $85 million that support our Modco reinsurance agreements and the investment results are passed directly to the reinsurers. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

Non-Income Producing Investments

The carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing as of March 31, 2019, and December 31, 2018, was $7 million.

Net Investment Income

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

	For the Three Months Ended March 31,	
	2019	2018
Net Investment Income		
Fixed maturity AFS securities	$ 1,072	$ 1,042
Trading securities	34	23
Equity securities	1	1
Mortgage loans on real estate	142	114
Policy loans	32	32
Invested cash	7	6
Commercial mortgage loan prepayment and bond make-whole premiums (1)	15	18
Alternative investments (2)	3	41
Consent fees	1	1
Other investments	7	3
Investment income	1,314	1,281
Investment expense	(63)	(48)
Net investment income	$ 1,251	$ 1,233

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

	For the Three Months Ended March 31,	
	2019	2018
Interest Rate Yield		
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.33%	4.50%
Commercial mortgage loan prepayment and bond make-whole premiums	0.05%	0.07%

Alternative investments	0.01%	0.16%
Net investment income yield on invested assets	4.39%	4.73%

	For the Three Months Ended March 31,	
	2019	2018
Average invested assets at amortized cost	$ 114,075	$ 104,378

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

Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums

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

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended March 31,	
	2019	2018
Fixed maturity AFS securities:		
Gross gains	$ 12	$ 14
Gross losses	(27)	(30)
Gross OTTI	(8)	(2)
Gain (loss) on other investments (1)	5	2
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(2)	(5)
Total realized gain (loss) related to certain investments	$ (20)	$ (21)

(1) Includes market adjustments on equity securities still held of $6 million and less than $1 million for the three months ended March 31, 2019 and 2018, respectively.

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

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During the first three months of 2019 and 2018, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as fixed maturity AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with

the fixed maturity AFS classification.

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

When the detailed analysis by our external asset managers and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Write-downs for OTTI and Allowance for Losses" in our 2018 Form 10-K for additional information on our portfolio management strategy.

Details underlying write-downs taken as a result of OTTI that were recognized in net income (loss) and included in realized gain (loss) on fixed maturity AFS securities above and the portion of OTTI recognized in OCI (in millions) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
OTTI Recognized in Net Income (Loss)		
Fixed maturity AFS securities:		
Corporate bonds	$ (6)	$ (2)
ABS	(1)	-
RMBS	(1)	-
Gross OTTI recognized in net income (loss)	(8)	(2)
Associated amortization of DAC, VOBA, DSI and DFEL	-	-
Net OTTI recognized in net income (loss)	$ (8)	$ (2)
Portion of OTTI Recognized in OCI		
Gross OTTI recognized in OCI	$ 16	$ -
Change in DAC, VOBA, DSI and DFEL	(1)	-
Net portion of OTTI recognized in OCI	$ 15	$ -

The $8 million of impairments recognized in net income taken during the first three months of 2019 were all credit-related impairments. The increase in write-downs for OTTI when comparing the first three months of 2019 to the corresponding period in 2018 was primarily attributable to the destabilization of certain corporate holdings as well as certain ABS and RMBS holdings.

We recognized $16 million of OTTI in OCI, offset by $1 million for the change in DAC, VOBA, DSI and DFEL, for the three months ended March 31, 2019. We recognized less than $1 million of OTTI in OCI for the three months ended March 31, 2018. The increase in OTTI recognized in OCI was primarily attributable to the fair values and recovery values being less aligned on impaired securities resulting in an increase of the non-credit portion of the impairment.

REVIEW OF CONSOLIDATED FINANCIAL CONDITION

Liquidity and Capital Resources

Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities (used) provided cash of $(1.3) billion and $140 million for the three months ended March 31, 2019 and 2018, respectively. The use of cash flows from operating activities for the three months ended March 31, 2019, was primarily driven by purchases of trading securities in repositioning a portion of a Modco investment portfolio from AFS securities to trading securities. As a result, the cash outflows from operating activities were largely offset by sales of AFS securities within investing activities. See Note 8 for more information. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

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

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

	For the Three Months Ended March 31,	
	2019	2018
Dividends from Subsidiaries		
The Lincoln National Life Insurance Company ("LNL")	$ 200	$ -
Lincoln National Reinsurance Company (Barbados) Limited	50	-
Total dividends from subsidiaries	$ 250	$ -
Loan Repayments and Interest from Subsidiaries		
Interest on inter-company notes	$ 14	$ 31
Other Cash Flow Items		
Amounts received from (paid for taxes on) stock option exercises and restricted stock, net	$ 12	$ 1

The table above focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic issuance and retirement of debt and cash flows related to our inter-company cash management program (discussed below). Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company. Also excluded from this analysis is the modest amount of investment income on short-term investments of the holding company. For information regarding limits on the dividends that our insurance subsidiaries may pay without prior approval, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Restrictions on Subsidiaries' Dividends and Other Payments" in our 2018 Form 10-K.

Insurance Subsidiaries' Statutory Capital and Surplus

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. Our term products and UL products containing secondary guarantees require reserves calculated pursuant to XXX and AG38, respectively. As discussed in "Part I – Item 1A. Risk Factors – Legislative, Regulatory, and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and result of operations" in our 2018 Form 10-K, our insurance subsidiaries employ strategies to reduce the strain caused by XXX and AG38 by reinsuring the business to reinsurance captives. Our captive reinsurance and reinsurance subsidiaries provide a mechanism for financing a portion of the excess reserve amounts in a more efficient manner. We use long-dated LOCs and debt financing as well as other financing strategies to finance those reserves. Included in the LOCs issued as of March 31,

2019, was approximately $2.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements for UL products containing secondary guarantees ($350 million will expire in 2019 and $1.9 billion relates to arrangements that will expire by 2031). For information on the LOCs, see the credit facilities table in Note 13 in our 2018 Form 10-K. Our captive reinsurance and reinsurance subsidiaries have also issued long-term notes of $3.1 billion to finance a portion of the excess reserves as of March 31, 2019; of this amount, $2.1 billion involve exposure to VIEs. For information on these long-term notes issued by our captive reinsurance and reinsurance subsidiaries, see Note 4 in our 2018 Form 10-K. We have also used the proceeds from senior note issuances of $875 million to execute long-term structured solutions primarily supporting reinsurance of UL products containing secondary guarantees. LOCs and related capital market solutions lower the capital effect of term products and UL products containing secondary guarantees. While we believe we have sufficient capital to support the statutory reserves on this business, an inability to obtain efficient capital market solutions could affect our returns on these types of products.

Our captive reinsurance and reinsurance subsidiaries free up capital the insurance subsidiaries can use for any number of purposes, including paying dividends to the holding company. The NAIC's adoption of the Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. Principles-based reserving places a greater weight on our past experience and anticipated future experience as well as considers current economic conditions in calculating life insurance product reserves in accordance with statutory accounting principles. We adopted the framework for our newly issued term business in 2017 and will phase in the framework by January 1, 2020, for all other newly issued life insurance products. We believe that these changes may reduce our future use of captive reinsurance and reinsurance subsidiaries for reserve financing transactions for our life insurance business. For more information on principles-based reserving, see "Part I – Item 1. Business – Regulatory – Insurance Regulation" in our 2018 Form 10-K.

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees, product design and reinsurance arrangements. As a result, the relationship between reserve changes and equity market performance is non-linear during any given reporting period. Market conditions greatly influence the ultimate capital required due to its effect on the valuation of reserves and derivative assets hedging these reserves. We also utilize inter-company reinsurance arrangements to manage our hedge program for variable annuity guarantees. The NAIC is currently in the process of implementing changes to the statutory reserving, capital and accounting framework for variable annuities that

will go into effect as of January 1, 2020. The NAIC is also considering modifications to the NAIC RBC C-1 capital charges for bonds, which may impact the level of the C-1 related RBC we are required to hold. For more information, see “Part I – Item 1A. Risk Factors – Federal Regulation – Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements” in our 2018 Form 10-K.

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

Financing Activities

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

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

Details underlying debt and financing activities (in millions) for the three months ended March 31, 2019, were as follows:

	Beginning Balance	Issuance	Maturities, Repayments and Refinancing	Change in Fair Value Hedges	Other Changes (1)	Ending Balance
Short-Term Debt						
Current maturities of long-term debt	$ -	$ -	$ -	$ -	$ 300	$ 300
Long-Term Debt						
Senior notes	$ 4,432	$ -	$ -	$ 34	$ (301)	$ 4,165
Bank borrowing	200	-	-	-	-	200
Capital securities (2)	1,207	-	-	-	-	1,207

Total long-term debt	$ 5,839	$ -	$ -	$ 34	$ (301)	$ 5,572

(1) Includes the net increase (decrease) in commercial paper, non-cash reclassification of long-term debt to current maturities of long-term debt, accretion (amortization) of discounts and premiums, amortization of debt issuance costs and amortization of adjustments from discontinued hedges, as applicable.
(2) To hedge the variability in rates, we purchased interest rate swaps to lock in a fixed rate of approximately 5% over the remaining terms of the capital securities.

As of March 31, 2019, the holding company had available liquidity of $481 million. Available liquidity consists of cash and invested cash, excluding cash held as collateral, and certain short-term investments that can be readily converted into cash, net of commercial paper outstanding.

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Note 13 in our 2018 Form 10-K.

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

If current credit ratings or claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event with respect to LNC if its long-term senior debt ratings drop below BBB-/Baa3 (S&P/Moody’s); or with respect to LNL if its financial strength ratings drop below BBB-/Baa3 (S&P/Moody’s). Our long-term senior debt held a rating of A-/Baa1 (S&P/Moody’s) as of March 31, 2019. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See “Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings” and “Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors” in our 2018 Form 10-K for more information. See “Part I – Item 1. Business – Financial Strength Ratings” in our 2018 Form 10-K for additional information on our current financial strength ratings.

See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities” in our 2018 Form 10-K for information on our credit ratings.

Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans between LNC and participating subsidiaries that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. As of March 31, 2019, the holding company had a net outstanding receivable (payable) of $111 million from (to) certain subsidiaries resulting from loans made by subsidiaries in excess of amounts placed (borrowed) by the holding company and subsidiaries in the inter-company cash management account. Any change in holding company cash management program balances is offset by the immediate and equal change in holding company cash and invested cash. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana and New Hampshire-domiciled insurance subsidiaries, the borrowing and lending limit is currently 3% of the insurance company's admitted assets as of its most recent year end. For our New York-domiciled insurance subsidiary, it may borrow from LNC less than 2% of its admitted assets as of the last year end but may not lend any amounts to LNC.

Our insurance subsidiaries, by virtue of their general account fixed-income investment holdings, can access liquidity through securities lending programs and repurchase agreements. Our primary insurance subsidiary, LNL, is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). Membership allows LNL access to the FHLBI's financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets, agency securities or U.S. Treasury securities. LNL had an estimated maximum borrowing capacity of $5.0 billion under the FHLBI facility as of March 31, 2019. Borrowings under this facility are subject to the FHLBI's discretion and require the availability of qualifying assets at LNL. As of March 31, 2019, our insurance subsidiaries had investments with a carrying value of $4.7 billion out on loan or subject to repurchase agreements. The cash received in our securities lending programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 5.

Cash Flows from Collateral on Derivatives

Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset decreases (or increases), the collateral required to be posted by our counterparties would also decrease (or increase). Likewise, when the value of a derivative liability decreases (or increases), the collateral we are required to post to our counterparties would also decrease (or increase). For the three months ended March 31, 2019, our collateral payable for derivative investments increased due primarily to decreasing interest rates that increased the fair values of our associated over-the-counter derivative investments. In the event of adverse changes in fair value of our derivative instruments, we may need to post collateral with a counterparty if our net derivative liability position reaches certain contractual levels. If we do not have sufficient high quality securities or cash and invested cash to provide as collateral, we have liquidity sources, as discussed above, to leverage that would be eligible for collateral posting. For additional information, see "Credit Risk" in Note 6.

Uses of Capital

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

Return of Capital to Common Stockholders

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

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

	For the Three Months Ended March 31,	
	2019	2018
Dividends to common stockholders	$ 76	$ 72
Repurchase of common stock	240	-
Total cash returned to stockholders	$ 316	$ 72
Number of shares repurchased	3.9	-

86

On October 31, 2018, our Board of Directors approved an increase of the quarterly dividend on our common stock from $0.33 to $0.37 per share. Additionally, we expect to repurchase additional shares of common stock during 2019 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see "Part II – Item 2(c)" below.

Other Uses of Capital

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

	For the Three Months Ended March 31,	
	2019	2018
Debt service (interest paid)	$ 61	$ 72
Capital contribution to subsidiaries	-	2
Total	$ 61	$ 74

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

Significant Trends in Sources and Uses of Cash Flow

As stated above, LNC's cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries' RBC and statutory earnings performance. We currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience a period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries' statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries' dividends to the holding company, which may lead us to take steps to preserve or raise additional capital.

For factors that could cause actual results to differ materially from those set forth in this section and that could affect our expectations for liquidity and capital, see “Part I – Item 1A. Risk Factors” in our 2018 Form 10-K and “Forward-Looking Statements – Cautionary Language” above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that considers diversification. We have exposures to several market risks including interest rate risk, equity market risk, credit risk and, to a lesser extent, foreign currency exchange risk. As of March 31, 2019, there have been no material changes in our economic exposure to these market risks since December 31, 2018. For information on these market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2018 Form 10-K.

Item 4. Controls and Procedures

Conclusions Regarding Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period required by this report, we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us and our consolidated subsidiaries required to be disclosed in our periodic reports under the Exchange Act. We acquired Liberty Life Assurance Company of Boston (“Liberty Life”) on May 1, 2018, and have not yet included Liberty Life in our assessment of the effectiveness of our internal control over financial reporting. Accordingly, pursuant to the SEC’s general guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment for one year from the date of acquisition, the scope of our assessment of the effectiveness of our disclosure controls and procedures for the quarter ended March 31, 2019 did not include an assessment of those disclosure controls and procedures that are included within internal control over financial reporting as it relates to Liberty Life. See Note 3 for additional information.

Explanation of Responses:

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Cost of Insurance Litigation

Reference is made to Glover v. Connecticut General Life Insurance Company and The Lincoln National Life Insurance Company previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018. In response to the January 11, 2019, dismissal by the court of Plaintiff's complaint in its entirety, Plaintiff filed a motion for leave to amend the complaint, which we have opposed.

See Note 11 in "Part I – Item 1" above for further discussion regarding this and other contingencies.

Item 1A. Risk Factors

In addition to the factors set forth in "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements – Cautionary Language" above, you should carefully consider the risks described under "Part I – Item 1A. Risk Factors" in our Form 10-K for the year ended December 31, 2018. Such

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table summarizes purchases of equity securities by the Company during the quarter ended March 31, 2019 (dollars in millions, except per share data):

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
1/1/19 – 1/31/19	1,552,494	$ 59.05	1,552,494	$ 637
2/1/19 – 2/28/19	816,328	61.27	816,328	587
3/1/19 – 3/31/19	1,519,909	58.08	1,519,909	587

(1) Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes. For the quarter ended March 31, 2019, there were 3,888,731 shares purchased as part of publicly announced plans or programs. This amount included 1,378,912 shares delivered on March 26, 2019, upon settlement of our accelerated share repurchase agreement entered into on December 10, 2018.

(2) On November 8, 2018, our Board of Directors authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to $1.25 billion. As of March 31, 2019, our remaining security repurchase authorization was $587 million. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Our stock repurchases may be effected from time to time through open market purchases or in privately negotiated transactions and may be made pursuant to an accelerated share repurchase agreement or Rule 10b5-1 plan.

Item 6. Exhibits

The Exhibits included in this report are listed in the Exhibit Index beginning on page 89, which is incorporated herein by reference.

LINCOLN NATIONAL CORPORATION

Exhibit Index for the Report on Form 10-Q

For the Quarter Ended March 31, 2019

10.1	The Severance Plan for Officers of LNC (amended and restated effective as of February 27, 2019) is filed herewith.*
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* This exhibit is a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN NATIONAL CORPORATION

By: /s/ RANDAL J. FREITAG
Randal J. Freitag

Executive Vice President and Chief Financial Officer

By: /s/ CHRISTINE A. JANOFSKY
Christine A. Janofsky

Senior Vice President and Chief Accounting Officer

Dated: May 2, 2019