LINCOLN NATIONAL CORP
Form 10-Q
May 05, 2011

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2011
OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-6028

LINCOLN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1140070 (I.R.S. Employer Identification No.)
150 N. Radnor Chester Road, Suite A305, Radnor, Pennsylvania (Address of principal executive offices)	19087 (Zip Code)

(484) 583-1400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 2, 2011, there were 313,468,372 shares of the registrant's common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	As of March 31, 2011 (Unaudited)	As of December 31, 2010
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2011 - $66,521; 2010 - $65,175)	$ 69,231	$ 68,030
Variable interest entities' fixed maturity securities (amortized cost: 2011 - $571; 2010 - $570)	587	584
Equity securities (cost: 2011 - $120; 2010 - $179)	145	197
Trading securities	2,598	2,596
Mortgage loans on real estate	6,749	6,752
Real estate	189	202
Policy loans	2,837	2,865
Derivative investments	946	1,076
Other investments	1,029	1,038
Total investments	84,311	83,340
Cash and invested cash	2,216	2,741
Deferred acquisition costs and value of business acquired	9,272	8,930
Premiums and fees receivable	401	335
Accrued investment income	989	933
Reinsurance recoverables	6,580	6,527
Goodwill	3,019	3,019
Other assets	3,293	3,369
Separate account assets	88,236	84,630
Total assets	$ 198,317	$ 193,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 17,313	$ 17,562
Other contract holder funds	67,125	66,376
Short-term debt	351	351
Long-term debt	5,370	5,399
Reinsurance related embedded derivatives	91	102
Funds withheld reinsurance liabilities	1,135	1,149
Deferred gain on business sold through reinsurance	450	468
Payables for collateral on investments	1,554	1,659
Variable interest entities' liabilities	130	132
Other liabilities	3,472	3,190
Separate account liabilities	88,236	84,630
Total liabilities	185,227	181,018

Contingencies and Commitments (See Note 9)

Stockholders' Equity		
Preferred stock - 10,000,000 shares authorized:		
Series A preferred stock - 10,914 and 10,914 shares issued and outstanding as of March 31, 2011, and December 31, 2010, respectively	-	-
Common stock - 800,000,000 shares authorized; 313,456,824 and 315,718,554 shares issued and outstanding as of March 31, 2011, and December 31, 2010, respectively	8,064	8,124
Retained earnings	4,243	3,934
Accumulated other comprehensive income (loss)	783	748
Total stockholders' equity	13,090	12,806
Total liabilities and stockholders' equity	$ 198,317	$ 193,824

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited, in millions, except per share data)

	For the Three Months Ended March 31,	
	2011	2010
Revenues		
Insurance premiums	$ 568	$ 532
Insurance fees	818	788
Net investment income	1,191	1,106
Realized gain (loss):		
Total other-than-temporary impairment losses on securities	(45)	(77)
Portion of loss recognized in other comprehensive income	6	24
Net other-than-temporary impairment losses on securities recognized in earnings	(39)	(53)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	37	27
Total realized gain (loss)	(2)	(26)
Amortization of deferred gain on business sold through reinsurance	19	19
Other revenues and fees	120	108
Total revenues	2,714	2,527
Benefits and Expenses		
Interest credited	614	618
Benefits	835	779
Underwriting, acquisition, insurance and other expenses	725	714
Interest and debt expense	72	68
Total benefits and expenses	2,246	2,179
Income (loss) from continuing operations before taxes	468	348
Federal income tax expense (benefit)	129	93
Income (loss) from continuing operations	339	255
Income (loss) from discontinued operations, net of federal income taxes	-	28
Net income (loss)	339	283
Preferred stock dividends and accretion of discount	-	(18)
Net income (loss) available to common stockholders	$ 339	$ 265
Earnings (Loss) Per Common Share - Basic		
Income (loss) from continuing operations	$ 1.08	$ 0.79
Income (loss) from discontinued operations	-	0.09
Net income (loss)	$ 1.08	$ 0.88
Earnings (Loss) Per Common Share - Diluted		
Income (loss) from continuing operations	$ 1.05	$ 0.76
Income (loss) from discontinued operations	-	0.09
Net income (loss)	$ 1.05	$ 0.85

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in millions, except per share data)

	For the Three Months Ended March 31,	
	2011	2010
Preferred Stock		
Balance as of beginning-of-year	$ -	$ 806
Accretion of discount on Series B preferred stock	-	6
Balance as of end-of-period	-	812
Common Stock		
Balance as of beginning-of-year	8,124	7,840
Stock compensation/issued for benefit plans	2	5
Retirement of common stock/cancellation of shares	(62)	-
Balance as of end-of-period	8,064	7,845
Retained Earnings		
Balance as of beginning-of-year	3,934	3,316
Cumulative effect from adoption of new accounting standards	-	(169)
Comprehensive income (loss)	374	666
Less other comprehensive income (loss), net of tax	35	383
Net income (loss)	339	283
Retirement of common stock	(13)	-
Dividends declared: Common (2011 - $0.050; 2010 - $0.010)	(17)	(3)
Dividends on preferred stock	-	(12)
Accretion of discount on Series B preferred stock	-	(6)
Balance as of end-of-period	4,243	3,409
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	748	(262)
Cumulative effect from adoption of new accounting standards	-	181
Other comprehensive income (loss), net of tax	35	383
Balance as of end-of-period	783	302
Total stockholders' equity as of end-of-period	$ 13,090	$ 12,368

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	For the Three Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	$ 339	$ 283
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(74)	(48)
Trading securities purchases, sales and maturities, net	5	2
Change in premiums and fees receivable	(66)	(27)
Change in accrued investment income	(56)	(51)
Change in future contract benefits and other contract holder funds	124	318
Change in reinsurance related assets and liabilities	(67)	(139)
Change in federal income tax accruals	145	315
Realized (gain) loss	2	26
Amortization of deferred gain on business sold through reinsurance	(19)	(19)
(Gain) loss on disposal of discontinued operations	-	(64)
Other	7	(31)
Net cash provided by (used in) operating activities	340	565
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(3,111)	(3,418)
Sales of available-for-sale securities	556	805
Maturities of available-for-sale securities	1,431	919
Purchases of other investments	(855)	(694)
Sales or maturities of other investments	740	695
Increase (decrease) in payables for collateral on investments	(105)	(79)
Proceeds from sale of subsidiaries/businesses, net of cash disposed	-	293
Other	(23)	(10)
Net cash provided by (used in) investing activities	(1,367)	(1,489)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	-	(250)
Increase (decrease) in commercial paper, net	-	1
Deposits of fixed account values, including the fixed portion of variable	2,570	2,382
Withdrawals of fixed account values, including the fixed portion of variable	(1,200)	(1,251)
Transfers to and from separate accounts, net	(772)	(682)
Common stock issued for benefit plans and excess tax benefits	(5)	-
Repurchase of common stock	(75)	-
Dividends paid to common and preferred stockholders	(16)	(15)
Net cash provided by (used in) financing activities	502	185
Net increase (decrease) in cash and invested cash, including discontinued operations	(525)	(739)

Cash and invested cash, including discontinued operations, as of beginning-of-year	2,741	4,184
Cash and invested cash, including discontinued operations, as of end-of-period	$ 2,216	$ 3,445

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 14 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, term life insurance, mutual funds and group life, disability and dental.

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, ("2010 Form 10-K") should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2010 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the three month period ended March 31, 2011, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011. All material intercompany accounts and transactions have been eliminated in consolidation.

Certain amounts reported in prior years' consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. These reclassifications had no effect on net income or stockholders' equity of the prior years.

2. New Accounting Standards

Adoption of New Accounting Standards

Fair Value Measurements and Disclosures Topic

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which requires additional disclosure related to the three-level fair value hierarchy. For a more detailed description of ASU 2010-06, see "Adoption of New Accounting Standards – Fair Value Measurements and Disclosures Topic" in Note 2 of our 2010 Form 10-K. We adopted the remaining disclosure requirements in ASU 2010-06 effective January 1, 2011, and have prospectively included the disclosures related to purchases, sales, issuances and settlements for Level 3 fair value measurements in Note 13 for the period ended March 31, 2011.

Financial Services – Insurance Industry Topic

In April 2010, the FASB issued ASU No. 2010-15, "How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments" ("ASU 2010-15"), to clarify a consolidation issue for insurance entities that hold a controlling interest in an investment fund either partially or completely through separate accounts. For a more detailed description of ASU 2010-15, see "Future Adoption of New Accounting Standards – Financial Services – Insurance Industry Topic" in Note 2 of our 2010 Form 10-K. We adopted the accounting guidance in ASU 2010-15 effective January 1, 2011. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Intangibles – Goodwill and Other Topic

In December 2010, the FASB issued ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts" ("ASU 2010-28"). For a more detailed description of ASU 2010-28, see "Future Adoption of New Accounting Standards – Intangibles – Goodwill and Other Topic" in Note 2 of our 2010 Form 10-K. We adopted ASU 2010-28 effective January 1, 2011, and evaluated the reporting units within scope under this new accounting guidance. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Receivables Topic

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"), in order to enhance and expand the financial statement disclosures. For a more detailed description of ASU 2010-20, see "Adoption of New Accounting Standards – Receivables Topic" in Note 2 of our 2010 Form 10-K. We adopted the remaining disclosure requirements in ASU 2010-20 effective January 1, 2011, and have prospectively included the required financial statement disclosures related to the activity in our allowance for mortgage loan on real estate losses in Note 5 for the period ended March 31, 2011.

Future Adoption of New Accounting Standards

Financial Services – Insurance Industry Topic

In October 2010, the FASB issued ASU No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" ("ASU 2010-26"), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. For a more detailed description of ASU 2010-26, see "Future Adoption of New Accounting Standards – Financial Services – Insurance Industry Topic" in Note 2 of our 2010 Form 10-K. We will adopt the provisions of ASU 2010-26 effective January 1, 2012, and are currently evaluating the effect of the adoption on our consolidated financial condition and results of operations.

Transfers and Servicing Topic

In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements" ("ASU 2011-03"), which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. ASU 2011-03 removes from the assessment of effective control: the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The amendments in ASU 2011-03 will be effective for interim and annual reporting periods beginning on or after December 15, 2011, early adoption is prohibited, and the amendments will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. We will adopt the provisions of ASU 2011-03 effective January 1, 2012, and are currently evaluating the effect of the adoption on our consolidated financial condition and results of operations.

3. Dispositions

Discontinued Investment Management Operations

On January 4, 2010, we closed on the stock sale of Delaware Management Holdings, Inc. ("Delaware"), our subsidiary, which provided investment products and services to individuals and institutions, to Macquarie Bank Limited ("MBL") with net of tax proceeds of approximately $405 million.

We have reclassified the results of operations of Delaware into income (loss) from discontinued operations, net of federal income taxes, for all periods presented on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended March 31, 2010
Discontinued Operations Before Disposal	
Income (loss) from discontinued operations before disposal, before federal income taxes	$ (17)
Federal income tax expense (benefit)	(3)
Income (loss) from discontinued operations before disposal	(14)
Disposal	
Gain (loss) on disposal, before federal income taxes	37
Federal income tax expense (benefit)	13
Gain (loss) on disposal	24
Income (loss) from discontinued operations	$ 10

The income (loss) from discontinued operations for the three months ended March 31, 2010, reflected stock compensation expense attributable to the acceleration of vesting of equity awards for certain Delaware employees upon the sale of Delaware.

Discontinued Lincoln UK Operations

On October 1, 2009, we closed on the stock sale of Lincoln National (UK) plc (“Lincoln UK”), our subsidiary, which focused primarily on providing life and retirement income products in the United Kingdom to SLF of Canada UK Limited (“SLF”), and we retained Lincoln UK’s pension plan assets and liabilities.

We have reclassified the results of operations of Lincoln UK into income (loss) from discontinued operations, net of federal income taxes, for all periods presented on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended March 31, 2010
Disposal	
Gain (loss) on disposal, before federal income taxes	$ 27
Federal income tax expense (benefit)	9
Gain (loss) on disposal	18
Income (loss) from discontinued operations	$ 18

The income (loss) from discontinued operations for the three months ended March 31, 2010, related to additional consideration received attributable to a post-closing adjustment of the purchase price based upon a final actuarial appraisal of the value of the business as set forth in the share purchase agreement.

4. Variable Interest Entities (“VIEs”)

Consolidated VIEs

We have invested in the Class 1 Notes of two credit-linked note (“CLN”) structures, which represent special purpose trusts combining asset-backed securities with credit default swaps to produce multi-class structured securities. The CLN structures also include subordinated Class 2 Notes, which are held by third parties, and, together with the Class 1 Notes, represent 100% of the outstanding notes of the CLN structures. The entities that issued the CLNs are financed by the note holders, and, as such, the note holders participate in the expected losses and residual returns of the entities. Because the note holders do not have voting rights or similar rights, we determined the entities issuing the CLNs are VIEs, and as a note holder, our interest represented a variable interest. We have the power to direct the most significant activity impacting the performance of both CLN structures, as we have the ability to actively manage the reference portfolio underlying the credit default swaps. As a result, we have concluded we are the primary beneficiary of the VIEs associated with the CLNs and have consolidated the assets and liabilities of both CLN structures in our Consolidated Balance Sheets.

Asset and liability information (dollars in millions) for these consolidated VIEs included on our Consolidated Balance Sheets was as follows:

	As of March 31, 2011			As of December 31, 2010		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity corporate asset-backed credit card loan securities (1)	N/A	$ -	$ 587	N/A	$ -	$ 584
Liabilities						
Derivative instruments not designated and not qualifying as hedging instruments:						
Credit default swaps (2)	2	$ 600	$ 207	2	$ 600	$ 215
Contingent forwards (2)	2	-	(4)	2	-	(6)
Total derivative instruments not designated and not qualifying as hedging instruments	4	600	203	4	600	209
Federal income tax (2)	N/A	-	(73)	N/A	-	(77)
Total liabilities	4	$ 600	$ 130	4	$ 600	$ 132

(1) Reported in VIEs’ fixed maturity securities on our Consolidated Balance Sheets.
(2) Reported in VIEs’ liabilities on our Consolidated Balance Sheets.

For details related to the fixed maturity available-for-sale (“AFS”) securities for these VIEs, see Note 5.

The credit default swaps create variability in the CLN structures and expose the note holders to the credit risk of the referenced portfolio. The contingent forwards transfer a portion of the loss in the underlying fixed maturity corporate asset-backed credit card loan securities back to the counterparty after credit losses reach our attachment point.

The gains (losses) for these consolidated VIEs (in millions) recorded on our Consolidated Statements of Income (Loss) were as follows:

	For the Three Months Ended March 31,	
	2011	2010
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments		
Credit default swaps (1)	$ 8	$ 1
Contingent forwards (1)	(2)	(5)
Total derivative instruments not designated and not qualifying as hedging instruments	$ 6	$ (4)

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

The following summarizes information regarding the CLN structures (dollars in millions) as of March 31, 2011:

	Amount and Date of Issuance	
	$400 December 2006	$200 April 2007
Original attachment point (subordination)	5.50 %	2.05 %
Current attachment point (subordination)	4.17 %	1.48 %
Maturity	12/20/2016	3/20/2017
Current rating of tranche	B	Ba2
Current rating of underlying collateral pool	Aa1-B3	Aaa-B1
Number of defaults in underlying collateral pool	2	2
Number of entities	123	99
Number of countries	19	22

There has been no event of default on the CLNs themselves. Based upon our analysis, the remaining subordination as represented by the attachment point should be sufficient to absorb future credit losses, subject to changing market conditions. Similar to other debt market instruments, our maximum principal loss is limited to our original investment as of March 31, 2011.

As described more fully in Note 1 of the 2010 Form 10-K, we regularly review our investment holdings for other-than-temporary impairments (“OTTIs”). Based upon this review, we believe that the fixed maturity corporate asset-backed credit card loan securities were not other-than-temporarily impaired as of March 31, 2011.

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of March 31, 2011:

Industry	AAA	AA	A	BBB	BB	B	CCC	Total
Telecommunications	- %	- %	6.4 %	4.3 %	0.5 %	- %	- %	11.2 %
Financial intermediaries	0.4 %	4.0 %	6.2 %	0.5 %	- %	- %	- %	11.1 %
Oil and gas	- %	1.0 %	1.2 %	4.1 %	- %	- %	- %	6.3 %
Utilities	- %	- %	3.1 %	1.4 %	- %	- %	- %	4.5 %
Chemicals and plastics	- %	- %	2.3 %	1.2 %	0.3 %	- %	- %	3.8 %
Drugs	0.3 %	2.2 %	1.2 %	- %	- %	- %	- %	3.7 %
Retailers (except food and drug)	- %	- %	1.2 %	1.2 %	1.1 %	- %	- %	3.5 %
Industrial equipment	- %	- %	3.0 %	0.3 %	- %	- %	- %	3.3 %
Sovereign	- %	0.7 %	1.6 %	1.0 %	- %	- %	- %	3.3 %
Food products	- %	0.3 %	1.8 %	1.1 %	- %	- %	- %	3.2 %
Conglomerates	- %	2.6 %	0.5 %	- %	- %	- %	- %	3.1 %
Forest products	- %	- %	- %	1.6 %	1.4 %	- %	- %	3.0 %
Other industry < 3% (28 industries)	- %	2.0 %	15.4 %	17.3 %	3.6 %	1.4 %	0.3 %	40.0 %
Total	0.7 %	12.8 %	43.9 %	34.0 %	6.9 %	1.4 %	0.3 %	100.0 %

Unconsolidated VIEs

Effective December 31, 2010, we issued a $500 million long-term senior note in exchange for a corporate bond AFS security of like principal and duration from a non-affiliated VIE whose primary activities are to acquire, hold and issue notes and loans, as well as pay and collect interest on the notes and loans. We have concluded that we are not the primary beneficiary of this VIE because we do not have power over the activities that most significantly affect its economic performance. In addition, the terms of the senior note provide us with a set-off right to the corporate bond AFS security we purchased from the VIE; therefore, neither appears on our Consolidated Balance Sheets. We assigned the corporate bond AFS security to one of our subsidiaries and issued a guarantee to our subsidiary for the timely payment of the corporate bond's principal.

Through our investment activities, we make passive investments in structured securities issued by VIEs for which we are not the manager. These structured securities include our mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), mortgage pass through securities ("MPTS") and commercial mortgage-backed securities ("CMBS") and our asset-backed securities ("ABS") collateralized debt obligations ("CDOs"). We have not provided financial or other support with respect to these VIEs other than our original investment. We have determined that we are not the primary beneficiary of these VIEs due to the relative size of our investment in comparison to the principal amount of the structured securities issued by the VIEs and the level of credit subordination which reduces our obligation to absorb losses or right to receive benefits. Our maximum exposure to loss on these structured securities is limited to the amortized cost for these investments. We recognize our variable interest in these VIEs at fair value on our consolidated financial statements. For information about these structured securities, see Note 5.

5. Investments

AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards CodificationTM ("ASC"), we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 1 in our 2010 Form 10-K, which also includes additional disclosures regarding our fair value measurements.

The amortized cost, gross unrealized gains, losses and OTTI and fair value of AFS securities (in millions) were as follows:

	As of March 31, 2011				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$ 50,575	$ 3,285	$ 615	$ 69	$ 53,176
U.S. Government bonds	149	16	3	-	162
Foreign government bonds	478	39	1	-	516
MBS:					
CMOs	5,438	303	58	135	5,548
MPTS	2,986	83	7	-	3,062
CMBS	1,966	89	116	7	1,932
ABS CDOs	149	5	18	-	136
State and municipal bonds	3,323	38	81	-	3,280
Hybrid and redeemable preferred securities	1,457	74	112	-	1,419
VIEs' fixed maturity securities	571	16	-	-	587
Total fixed maturity securities	67,092	3,948	1,011	211	69,818
Equity Securities					
Banking securities	2	-	-	-	2
Insurance securities	27	4	-	-	31
Other financial services securities	17	14	-	-	31
Other securities	74	7	-	-	81
Total equity securities	120	25	-	-	145
Total AFS securities	$ 67,212	$ 3,973	$ 1,011	$ 211	$ 69,963

	As of December 31, 2010				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$ 48,863	$ 3,571	$ 607	$ 87	$ 51,740
U.S. Government bonds	150	17	2	-	165
Foreign government bonds	473	38	3	-	508
MBS:					
CMOs	5,693	324	114	146	5,757
MPTS	2,980	106	5	-	3,081
CMBS	2,144	95	180	6	2,053
ABS CDOs	174	22	13	9	174
State and municipal bonds	3,222	27	94	-	3,155
Hybrid and redeemable preferred securities	1,476	56	135	-	1,397
VIEs' fixed maturity securities	570	14	-	-	584
Total fixed maturity securities	65,745	4,270	1,153	248	68,614
Equity Securities					
Banking securities	61	-	3	-	58
Insurance securities	33	4	-	-	37
Other financial services securities	18	14	-	-	32
Other securities	67	7	4	-	70
Total equity securities	179	25	7	-	197
Total AFS securities	$ 65,924	$ 4,295	$ 1,160	$ 248	$ 68,811

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) were as follows:

	As of March 31, 2011	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,388	$ 2,442
Due after one year through five years	12,032	12,873
Due after five years through ten years	20,453	21,686
Due after ten years	21,680	22,139
Subtotal	56,553	59,140
MBS	10,390	10,542
ABS CDOs	149	136
Total fixed maturity AFS securities	$ 67,092	$ 69,818

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

The fair value and gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) ("OCI"), of AFS securities (dollars in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	As of March 31, 2011					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$ 7,147	$ 317	$ 1,925	$ 367	$ 9,072	$ 684
U.S. Government bonds	28	3	2	-	30	3
Foreign government bonds	69	1	-	-	69	1
MBS:						
CMOs	386	65	784	128	1,170	193
MPTS	481	7	5	-	486	7
CMBS	119	7	218	116	337	123
ABS CDOs	-	-	117	18	117	18
State and municipal bonds	1,878	68	70	13	1,948	81
Hybrid and redeemable preferred securities	99	2	512	110	611	112
Total fixed maturity securities	$ 10,207	$ 470	$ 3,633	$ 752	$ 13,840	$ 1,222
Total number of AFS securities in an unrealized loss position						1,263

	As of December 31, 2010					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$ 5,271	$ 297	$ 2,007	$ 397	$ 7,278	$ 694
U.S. Government bonds	28	2	2	-	30	2
Foreign government bonds	19	-	9	3	28	3
MBS:						
CMOs	465	121	748	139	1,213	260
MPTS	190	5	2	-	192	5
CMBS	75	8	304	178	379	186
ABS CDOs	-	-	147	22	147	22
State and municipal bonds	1,889	84	27	10	1,916	94
Hybrid and redeemable preferred securities	203	10	568	125	771	135
Total fixed maturity securities	8,140	527	3,814	874	11,954	1,401
Equity Securities						
Banking securities	57	3	-	-	57	3
Other securities	3	4	-	-	3	4
Total equity securities	60	7	-	-	60	7
Total AFS securities	$ 8,200	$ 534	$ 3,814	$ 874	$ 12,014	$ 1,408
Total number of AFS securities in an unrealized loss position						1,237

For information regarding our investments in VIEs, see Note 4.

We perform detailed analysis on the AFS securities backed by pools of residential and commercial mortgages that are most at risk of impairment based on factors discussed in Note 1 in our 2010 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of March 31, 2011		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 2,722	$ 2,278	$ 444
AFS securities backed by pools of commercial mortgages	502	367	135
Total	$ 3,224	$ 2,645	$ 579
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 2,190	$ 1,754	$ 436
AFS securities backed by pools of commercial mortgages	133	62	71
Total	$ 2,323	$ 1,816	$ 507

	As of December 31, 2010		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 2,539	$ 2,006	$ 533
AFS securities backed by pools of commercial mortgages	611	410	201
Total	$ 3,150	$ 2,416	$ 734
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 2,303	$ 1,776	$ 527
AFS securities backed by pools of commercial mortgages	185	76	109
Total	$ 2,488	$ 1,852	$ 636

For the three months ended March 31, 2011 and 2010, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $21 million and $43 million, pre-tax, respectively, and before associated amortization expense for deferred acquisition costs (“DAC”), value of business acquired (“VOBA”), deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”), of which $(26) million and $(5) million, respectively, was recognized in OCI and $47 million and $48 million, respectively, was recognized in net income (loss).

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

	As of March 31, 2011			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$ 93	$ 22	$ 19	28
Six months or greater, but less than nine months	31	16	-	6
Nine months or greater, but less than twelve months	33	14	-	11
Twelve months or greater	762	419	138	190
Total	$ 919	$ 471	$ 157	235

	As of December 31, 2010			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$ 170	$ 73	$ 5	41
Six months or greater, but less than nine months	60	22	-	13
Nine months or greater, but less than twelve months	42	17	1	13
Twelve months or greater	929	520	184	224
Total	$ 1,201	$ 632	$ 190	291

(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 on AFS securities decreased $186 million for the three months ended March 31, 2011. This change was attributable primarily to a decline in

overall market yields, which was driven, in part, by improved credit fundamentals. As discussed further below, we believe the unrealized loss position as of March 31, 2011, did not represent OTTI as we did not intend to sell these fixed maturity AFS securities, 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, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of March 31, 2011, management believed we had 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, 2011, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the underlying collateral and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of March 31, 2011, the unrealized losses associated with our MBS and ABS CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model as discussed above. The key assumptions included 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, sector credit ratings 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 basis of each security.

As of March 31, 2011, 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 specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined we expected to recover the entire amortized cost of each 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,	
	2011	2010
Balance as of beginning-of-year	$ 319	$ 268
Increases attributable to:		
Credit losses on securities for which an OTTI was not previously recognized	25	2
Credit losses on securities for which an OTTI was previously recognized	22	27
Decreases attributable to:		
Securities sold	(14)	(4)
Balance as of end-of-period	$ 352	$ 293

During the three months ended March 31, 2011 and 2010, 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;
- Deterioration of fundamentals in the economy including, but not limited to, higher unemployment and lower housing prices; 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 AFS securities.

Details of 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), were as follows:

	As of March 31, 2011				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 192	$ 1	$ 63	$ 130	$ 50
MBS:					
CMOs	515	1	102	414	276
CMBS	9	-	6	3	26
Total	$ 716	$ 2	$ 171	$ 547	$ 352

	As of December 31, 2010				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 204	$ 3	$ 76	$ 131	$ 60
MBS:					
CMOs	509	2	126	385	258
CMBS	6	-	5	1	1
Total	$ 719	$ 5	$ 207	$ 517	$ 319

Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for approximately 31% and 30% of mortgage loans as of March 31, 2011, and December 31, 2010, respectively.

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

	As of March 31, 2011	As of December 31, 2010
Current	$ 6,687	$ 6,697
60 to 90 days past due	17	8
Greater than 90 days past due	38	40
Valuation allowance associated with impaired mortgage loans on real estate	(11)	(13)
Unamortized premium (discount)	18	20
Total carrying value	$ 6,749	$ 6,752

The number of impaired mortgage loans on real estate, each of which had an associated specific valuation allowance, and the carrying value of impaired mortgage loans on real estate (dollars in millions) were as follows:

	As of March 31, 2011	As of December 31, 2010
Number of impaired mortgage loans on real estate	8	9
Principal balance of impaired mortgage loans on real estate	$ 59	$ 75
Valuation allowance associated with impaired mortgage loans on real estate	(11)	(13)
Carrying value of impaired mortgage loans on real estate	$ 48	$ 62

Changes in the valuation allowance for credit losses associated with impaired mortgage loans on real estate (in millions) were as follows:

	For the Three Months Ended March 31, 2011
Balance as of beginning-of-year	$ 13
Additions	1
Charge-offs	(3)
Balance as of end-of-period	$ 11

Information for our impaired mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended March 31,	
	2011	2010
Average carrying value for impaired mortgage loans on real estate	$ 55	$ 40
Interest income recognized on impaired mortgage loans on real estate	1	-
Interest income collected on impaired mortgage loans on real estate	1	-

As described in Note 1 in our 2010 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans on real estate, which were as follows (dollars in millions):

	As of March 31, 2011			As of December 31, 2010		
Loan-to-Value	Principal Amount	%	Debt-Service Coverage Ratio	Principal Amount	%	Debt-Service Coverage Ratio
Less than 65%	$ 4,928	73.1 %	1.63	$ 4,863	72.1 %	1.62
65% to 74%	1,409	20.9 %	1.40	1,484	22.0 %	1.40
75% to 100%	222	3.3 %	0.91	179	2.7 %	0.85
Greater than 100%	182	2.7 %	1.08	219	3.2 %	1.06
	$ 6,741	100.0 %		$ 6,745	100.0 %	

Total mortgage loans on real estate

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Alternative Investments

As of March 31, 2011, and December 31, 2010, alternative investments included investments in approximately 97 and 95 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

The detail of the realized gain (loss) related to certain investments (in millions) was as follows:

	For the Three Months Ended March 31,	
	2011	2010
Fixed maturity AFS securities:		
Gross gains	$ 36	$ 50
Gross losses	(63)	(84)
Equity AFS securities:		
Gross gains	8	-
Gross losses	-	(4)
Gain (loss) on other investments	13	(21)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(11)	4
Total realized gain (loss) related to certain investments	$ (17)	$ (55)

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

	For the Three Months Ended March 31,	
	2011	2010
OTTI Recognized in Net Income (Loss)		
Fixed maturity securities:		
Corporate bonds	$ (3)	$ (41)
MBS:		
CMOs	(20)	(24)
CMBS	(24)	-
ABS CDOs	(1)	(1)
Hybrid and redeemable preferred securities	(2)	(5)
Total fixed maturity securities	(50)	(71)
Equity securities:		
Other financial services securities	-	(3)
Total equity securities	-	(3)
Gross OTTI recognized in net income (loss)	(50)	(74)
Associated amortization of DAC, VOBA, DSI and DFEL	11	21
Net OTTI recognized in net income (loss), pre-tax	$ (39)	$ (53)

Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$	8	$	22
Change in DAC, VOBA, DSI and DFEL		(2)		2
Net portion of OTTI recognized in OCI, pre-tax	$	6	$	24

Determination of Credit Losses on Corporate Bonds and ABS CDOs

As of March 31, 2011, and December 31, 2010, we reviewed our corporate bond and ABS CDO portfolios for potential shortfall 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, that is 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, 2011, and December 31, 2010, 96% and 95%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of March 31, 2011, and December 31, 2010, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $2.5 billion and $2.6 billion, respectively, and a fair value of $2.4 billion for both period ends. As of March 31, 2011, and December 31, 2010, 91% of the fair value of our ABS CDO portfolio was rated investment grade. As of March 31, 2011, and December 31, 2010, the portion of our ABS CDO portfolio rated below investment grade had an amortized cost of $22 million and $24 million and fair value of $12 million and $16 million, respectively. Based upon the analysis discussed above, we believed as of March 31, 2011, and December 31, 2010, that we would recover the amortized cost of each investment grade corporate bond and ABS CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the three months ended March 31, 2011 and 2010, the recovery as a percentage of amortized cost was 98% and 58% for corporate bonds, respectively, and 0% for ABS CDOs for both periods.

Determination of Credit Losses on MBS

As of March 31, 2011, and December 31, 2010, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 25% to 100% 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 (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) in the pool to project the future expected cash flows.

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 housing price depreciation.

Payables for Collateral on Investments

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

	As of March 31, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$ 730	$ 730	$ 800	$ 800

Securities pledged under securities lending agreements (2)	200	192	199	192
Securities pledged under reverse repurchase agreements (3)	280	293	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	244	278	280	318
Securities pledged for Federal Home Loan Bank of Indianapolis Securities ("FHLBI") (5)	100	115	100	115
Total payables for collateral on investments	$ 1,554	$ 1,608	$ 1,659	$ 1,719

(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 once exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.
(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 reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal 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 reverse repurchase program is typically invested in fixed maturity AFS securities.
(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.
(5) Our pledged securities for FHLBI are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 85% to 95% of the fair value of the FHLBI securities. The cash received in these transactions is typically invested in cash and invested cash or fixed maturity AFS securities.

Increase (decrease) in payables for collateral on investments (in millions) included on the Consolidated Statements of Cash Flows consisted of the following:

	For the Three Months Ended March 31,	
	2011	2010
Collateral payable held for derivative investments	$ (70)	$ (4)
Securities pledged under securities lending agreements	1	(61)
Securities pledged under reverse repurchase agreements	-	(9)
Securities pledged for TALF	(36)	(5)
Total increase (decrease) in payables for collateral on investments	$ (105)	$ (79)

Investment Commitments

As of March 31, 2011, our investment commitments were $743 million, which included $307 million of LPs, $167 million of private placements and $269 million of mortgage loans.

Concentrations of Financial Instruments

As of March 31, 2011, and December 31, 2010, 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 $4.9 billion and $5.0 billion, or 6% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of $2.8 billion and $2.9 billion, or 3% of our invested assets portfolio, respectively. These investments are included in corporate bonds in the tables above.

As of March 31, 2011, and December 31, 2010, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $6.8 billion and $6.7 billion, or 8% of our invested assets portfolio, respectively, and our investment securities in the CMO industry with a fair value of $6.3 billion and $6.5 billion, or 7% and 8% of our invested assets portfolio, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

6. Derivative Instruments

Types of Derivative Instruments and Derivative Strategies

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. We assess these risks by continually identifying and monitoring changes in interest rate exposure, foreign currency exposure, equity market exposure and credit exposure that may adversely affect expected future cash flows and by evaluating hedging opportunities. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swap agreements, interest rate cap agreements, interest rate futures, forward-starting interest rate swaps, consumer price index swaps, interest rate cap corridors, treasury locks and reverse treasury locks. Derivative instruments that are used as part of our foreign currency risk management strategy include foreign currency swaps, currency futures and foreign currency forwards. Call options based on our stock, call options based on the S&P 500 Index® ("S&P 500"), total return swaps, variance swaps, equity collars, put options and equity futures are used as part of our equity market risk management strategy. We also use credit default swaps as part of our credit risk management strategy.

We evaluate and recognize our derivative instruments in accordance with the Derivatives and Hedging Topic of the FASB ASC. As of March 31, 2011, we had derivative instruments that were designated and qualifying as cash flow hedges and fair value hedges. We also had embedded derivatives that were economic hedges, but were not designed to meet the requirements for hedge accounting treatment. See Note 1 in our 2010 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments.

Our derivative instruments are monitored by our Asset Liability Management Committee and our Equity Risk Management Committee as part of those committees' oversight of our derivative activities. Our committees are responsible for implementing various hedging strategies that are developed through their analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are incorporated into our overall risk management strategies.

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 living benefit guarantees offered in our variable annuity products, including the Lincoln SmartSecurity® Advantage guaranteed withdrawal benefit ("GWB") feature, the 4LATER® Advantage guaranteed income benefit ("GIB") feature and the i4LIFE® Advantage GIB feature. See "Guaranteed Living Benefit ("GLB") Reserves Embedded Derivatives" below for further details.

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

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

	As of March 31, 2011					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value		(Liability) Carrying or Fair Value	
			Gain	Loss	Gain	Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	150	$ 901	$ 22	$ (57)	$ -	$ -
Foreign currency swaps (1)	13	340	37	(19)	-	-
Reverse treasury locks (1)	5	1,000	2	(11)	-	-
Total cash flow hedges	168	2,241	61	(87)	-	-
Fair value hedges:						
Interest rate swap agreements (2)	11	1,675	89	(64)	-	(25)
Total fair value hedges	11	1,675	89	(64)	-	(25)
Total derivative instruments designated and qualifying as hedging instruments	179	3,916	150	(151)	-	(25)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	2	100	-	-	-	-
Interest rate futures (1)	9,266	1,366	-	-	-	-
Equity futures (1)	8,133	617	-	-	-	-
Interest rate swap agreements (1)	86	8,335	16	(533)	-	-
Credit default swaps (3)	8	125	-	-	-	(6)
Total return swaps (1)	7	650	10	(4)	-	-
Put options (1)	159	6,077	1,082	-	-	-
Call options (based on S&P 500) (1)	539	4,308	327	-	-	-
Variance swaps (1)	44	27	25	(37)	-	-
Currency futures (1)	66	9	-	-	-	-
Consumer price index swaps (1)	98	51	1	(1)	-	-
Interest rate cap corridors (1)	73	8,050	46	-	-	-
Embedded derivatives:						
Deferred compensation plans (3)	6	-	-	-	-	(357)
Indexed annuity contracts (4)	136,041	-	-	-	-	(528)
GLB reserves (4)	314,088	-	-	-	615	(733)
AFS securities (1)	1	-	15	-	-	-
Total derivative instruments not						

designated and not qualifying as hedging instruments	468,617	29,715	1,522	(575)	615	(1,715)
Total derivative instruments	468,796	$ 33,631	$ 1,672	$ (726)	$ 615	$ (1,740)

	As of December 31, 2010					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value		(Liability) Carrying or Fair Value	
			Gain	Loss	Gain	Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	151	$ 926	$ 24	$ (71)	$ -	$ -
Forward-starting interest rate swaps (1)	2	150	1	-	-	-
Foreign currency swaps (1)	13	340	43	(13)	-	-
Reverse treasury locks (1)	5	1,000	11	(5)	-	-
Total cash flow hedges	171	2,416	79	(89)	-	-
Fair value hedges:						
Interest rate swap agreements (2)	11	1,675	106	(51)	-	(55)
Total fair value hedges	11	1,675	106	(51)	-	(55)
Total derivative instruments designated and qualifying as hedging instruments	182	4,091	185	(140)	-	(55)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	3	150	-	-	-	-
Interest rate futures (1)	15,881	2,251	-	-	-	-
Equity futures (1)	13,375	907	-	-	-	-
Interest rate swap agreements (1)	81	7,955	34	(511)	-	-
Credit default swaps (3)	9	145	-	-	-	(16)
Total return swaps (1)	9	900	-	(21)	-	-
Put options (1)	145	5,602	1,151	-	-	-
Call options (based on S&P 500) (1)	544	4,083	301	-	-	-
Variance swaps (1)	50	30	46	(34)	-	-
Currency futures (1)	1,589	219	-	-	-	-
Consumer price index swaps (1)	100	55	-	(2)	-	-
Interest rate cap corridors (1)	73	8,050	52	-	-	-
Embedded derivatives:						
Deferred compensation plans (3)	6	-	-	-	-	(363)
Indexed annuity contracts (4)	132,260	-	-	-	-	(497)
GLB reserves (4)	305,962	-	-	-	518	(926)
Reinsurance related (5)	-	-	-	-	-	(102)
AFS securities (1)	1	-	15	-	-	-
Total derivative instruments not						

designated and not qualifying as hedging instruments	470,088		30,347		1,599		(568)		518		(1,904)
Total derivative instruments	470,270	$	34,438	$	1,784	$	(708)	$	518	$	(1,959)

(1) Reported in derivative investments on our Consolidated Balance Sheets.

(2) The asset is reported in derivative investments and the liability in long-term debt on our Consolidated Balance Sheets.

(3) Reported in other liabilities on our Consolidated Balance Sheets.

(4) Reported in future contract benefits on our Consolidated Balance Sheets.

(5) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

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

	Remaining Life as of March 31, 2011					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements	$ 24	$ 59	$ 264	$ 540	$ 14	$ 901
Foreign currency swaps	-	124	135	81	-	340
Reverse treasury locks	-	850	150	-	-	1,000
Total cash flow hedges	24	1,033	549	621	14	2,241
Fair value hedges:						
Interest rate swap agreements	-	800	-	875	-	1,675
Total fair value hedges	-	800	-	875	-	1,675
Total derivative instruments designated and qualifying as hedging instruments	24	1,833	549	1,496	14	3,916
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements	100	-	-	-	-	100
Interest rate futures	1,366	-	-	-	-	1,366
Equity futures	617	-	-	-	-	617
Interest rate swap agreements	203	1,819	1,949	4,364	-	8,335
Credit default swaps	-	40	85	-	-	125
Total return swaps	400	250	-	-	-	650
Put options	-	1,489	4,588	-	-	6,077
Call options (based on S&P 500)	3,492	816	-	-	-	4,308
Variance swaps	-	3	24	-	-	27
Currency futures	9	-	-	-	-	9
Consumer price index swaps	4	15	13	18	1	51
Interest rate cap corridors	-	-	8,050	-	-	8,050
Total derivative instruments not designated and not qualifying as hedging instruments	6,191	4,432	14,709	4,382	1	29,715
Total derivative instruments with notional amounts	$ 6,215	$ 6,265	$ 15,258	$ 5,878	$ 15	$ 33,631

The change in our unrealized gain (loss) on derivative instruments in accumulated OCI (in millions) was as follows:

	For the Three Months Ended March 31,	
	2011	2010
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ (15)	$ 11
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate swap agreements	11	-
Forward-starting interest rate swaps	(1)	-
Foreign currency swaps	-	15
Treasury locks	(15)	-
Fair value hedges:		
Interest rate swap agreements	1	1
Change in foreign currency exchange rate adjustment	(9)	-
Change in DAC, VOBA, DSI and DFEL	5	2
Income tax benefit (expense)	3	(6)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate swap agreements (1)	(1)	1
Foreign currency swaps (1)	2	1
Treasury locks (2)	1	-
Fair value hedges:		
Interest rate swap agreements (2)	1	1
Income tax benefit (expense)	(1)	(1)
Balance as of end-of-period	$ (22)	$ 21

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

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

	For the Three Months Ended March 31,	
	2011	2010
Derivative Instruments Designated and Qualifying as Hedging Instruments		
Cash flow hedges:		
Interest rate swap agreements (1)	$ (1)	$ 2
Foreign currency swaps (1)	1	1
Total cash flow hedges	-	3
Fair value hedges:		
Interest rate swap agreements (2)	13	8
Total fair value hedges	13	8
Total derivative instruments designated and qualifying as hedging instruments	13	11
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments		
Interest rate futures (3)	(24)	35
Equity futures (3)	(44)	(93)
Interest rate swap agreements (3)	(38)	(19)
Foreign currency forwards (3)	-	43
Credit default swaps - marked-to-market (3)	4	10
Total return swaps (4)	(19)	4
Put options (3)	(172)	(109)
Call options (based on S&P 500) (3)	54	36
Variance swaps (3)	(37)	(47)
Currency futures (3)	(5)	(15)
Consumer price index swaps (3)	1	(1)
Interest rate cap corridors (1)	(6)	-
Embedded derivatives:		
Deferred compensation plans (4)	(8)	(8)
Indexed annuity contracts (3)	48	39
GLB reserves (3)	408	181
Reinsurance related (3)	11	(16)
AFS securities (1)	1	-
Total derivative instruments not designated and not qualifying as hedging instruments	174	40
Total derivative instruments	$ 187	$ 51

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

The location in the Consolidated Statements of Income (Loss) where the gains (losses) are recorded for each of the derivative instruments discussed below is specified in the table above.

Derivative Instruments Designated and Qualifying as Cash Flow Hedges

Gains (losses) (in millions) on derivative instruments designated and qualifying as cash flow hedges were as follows:

	For the Three Months Ended March 31,	
	2011	2010
Gain (loss) recognized as a component of OCI with the offset to net investment income	$ -	$ 3

As of March 31, 2011, $20 million of the deferred net losses on derivative instruments in accumulated OCI are expected to be reclassified to earnings during the next twelve months. This reclassification would be due primarily to the interest rate variances related to the interest rate swap agreements.

For the three months ended March 31, 2011 and 2010, 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.

Interest Rate Swap Agreements

We use a portion of our interest rate swap agreements to hedge the interest rate risk of our exposure to floating rate bond coupon payments, replicating a fixed rate bond. An interest rate swap is a contractual agreement to exchange payments at one or more times based on the actual or expected price level, performance or value of one or more underlying interest rates. We are required to pay the counterparty the stream of variable interest payments based on the coupon payments from the hedged bonds, and in turn, receive a fixed payment from the counterparty at a predetermined interest rate. The gains or losses on interest rate swaps hedging our interest rate exposure on floating rate bond coupon payments are reclassified from accumulated OCI to net income (loss) as the related bond interest is accrued.

In addition, we use interest rate swap agreements to hedge our exposure to fixed rate bond coupon payments and the change in underlying asset values as interest rates fluctuate.

As of March 31, 2011, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was June 2042.

Forward-Starting Interest Rate Swaps

We use forward-starting interest rate swaps to hedge our exposure to interest rate fluctuations related to the forecasted purchase of certain AFS securities. The gains or losses resulting from the swap agreements are recorded in OCI. The gains or losses are reclassified from accumulated OCI to earnings over the life of the assets once the assets are purchased.

Foreign Currency Swaps

We use foreign currency swaps, which are traded over-the-counter, to hedge some of the foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency swap is a contractual agreement to exchange the currencies of two different countries at a specified rate of exchange in the future. The gains or losses on foreign currency swaps hedging foreign exchange risk exposure on foreign currency bond coupon

payments are reclassified from accumulated OCI to net income (loss) as the related bond interest is accrued.

As of March 31, 2011, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was July 2022.

Reverse Treasury Locks

We use reverse treasury locks to hedge the interest rate exposure related to the 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. The gains or losses resulting from the reverse treasury locks are recorded in OCI and are reclassified from accumulated OCI to earnings over the life of the assets once the assets are purchased.

Derivative Instruments Designated and Qualifying as Fair Value Hedges

Gains (losses) (in millions) on derivative instruments designated and qualifying as fair value hedges were as follows:

	For the Three Months Ended March 31,	
	2011	2010
Ineffective portion recognized in realized gain (loss)	$ -	$ 1
Gain (loss) recognized as a component of OCI with the offset to interest expense	1	1

Interest Rate Swap Agreements

We used a portion of our interest rate swap agreements to hedge the risk of paying a higher fixed rate of interest on junior subordinated debentures issued to affiliated trusts, which were redeemed during 2010, and on senior debt than would be paid on long-term debt based on current interest rates in the marketplace. We are required to pay the counterparty a stream of variable interest payments based on the referenced index, and in turn, we receive a fixed payment from the counterparty at a predetermined interest rate. The net receipts or payments earned or owed from these interest rate swap agreements are recorded as an adjustment to the interest expense for the debt being hedged in the period it occurs. The changes in fair value of the interest rate swap agreements are recorded as an offsetting adjustment to derivative investments and long-term debt on our Consolidated Balance Sheets.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

We use various other derivative instruments for risk management and income generation purposes that either do not qualify for hedge accounting treatment or have not currently been designated by us for hedge accounting treatment.

Interest Rate Cap Agreements

We use interest rate cap agreements to provide a level of protection from the effect of rising interest rates for our annuity business, within our Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution segments. Interest rate cap agreements entitle us to receive quarterly payments from the counterparties on specified future reset dates, contingent on future interest rates. For each cap, the amount of such quarterly payments, if any, is determined by the excess of a market interest rate over a specified cap rate, multiplied by the notional amount divided by four. Our interest rate cap agreements provide an economic hedge of our annuity business.

Interest Rate Futures and Equity Futures

We use interest rate futures and 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.

Interest Rate Swap Agreements

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

Foreign Currency Forwards

We used foreign currency forward contracts to hedge the liability exposure on certain options in variable annuity products. The foreign currency forward contracts obligated us to deliver a specified amount of currency at a future date and a specified exchange rate.

Credit Default Swaps

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.

We sold 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.

Information related to our open credit default swap liabilities for which we are the seller (dollars in millions) was as follows:

		As of March 31, 2011				
Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	$ -	$ 40
12/20/2016 (4)	(5)	(6)	A	2	(3)	45
03/20/2017 (4)	(5)	(6)	BBB-	2	(3)	40
				8	$ (6)	$ 125

		As of December 31, 2010				
Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	-	40
12/20/2016 (4)	(5)	(6)	BBB	3	(12)	65
03/20/2017 (4)	(5)	(6)	BBB-	2	(4)	40
				9	$ (16)	$ 145

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
(2) Broker quotes are used to determine the market value of credit default swaps.
(3) These credit default swaps were sold to our contract holders, prior to 2007, where we determined there was a spread versus premium mismatch.
(4) These credit default swaps were sold to a counter-party of the consolidated VIEs as discussed in Note 4 in our 2010 Form 10-K .
(5) Credit default swap was entered into in order to generate income by providing default protection in return for a quarterly payment.
(6) Seller does not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

Details underlying the associated collateral of our open credit default swaps for which we are the seller, if credit risk related contingent features were triggered (in millions) are as follows:

	As of March 31, 2011	As of December 31, 2010
Maximum potential payout	$ 125	$ 145

Less:		
Counterparty thresholds	-	10
Maximum collateral potentially required to post	$ 125	$ 135

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post approximately $6 million as of March 31, 2011, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

Total Return Swaps

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.

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.

Call Options (Based on LNC Stock)

We use call options on our stock to hedge the expected increase in liabilities arising from stock appreciation rights ("SARs") granted on our stock.

Call Options (Based on S&P 500)

We use indexed annuity contracts to 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, subject to minimum 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. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity.

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 and whose payoff is the difference between the realized variance rate of an underlying index and the fixed variance rate determined as of inception.

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.

Consumer Price Index Swaps

We use consumer price index swaps to hedge the liability exposure on certain options in fixed/indexed 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.

Interest Rate Cap Corridors

We use interest rate cap corridors to provide a level of protection from the effect of rising interest rates for our annuity business, within our Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution segments. 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. Our interest rate cap corridors provide an economic hedge of our annuity business.

Deferred Compensation Plans Embedded Derivatives

We have certain deferred compensation plans that have embedded derivative instruments. The liability related to these plans varies based on the investment options selected by the participants. The liability related to certain investment options selected by the participants is marked-to-market through net income (loss).

Indexed Annuity Contracts Embedded Derivatives

We distribute indexed annuity contracts that 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. This feature represents an embedded derivative under the Derivatives and Hedging Topic of the FASB ASC. 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, subject to minimum 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. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity.

GLB Reserves Embedded Derivatives

We have certain GLB variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB, 4LATER® and Lincoln Lifetime IncomeSMAdvantage features, have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. As of March 31, 2011, we had $31.9 billion of account values that were attributable to variable annuities with a GWB feature and $12.1 billion of account values that were attributable to variable annuities with a GIB feature.

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 GWB and GIB features. The hedging strategy is designed such that changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities move in the opposite direction of changes in embedded derivative reserves of the GWB and GIB caused by those same factors. As part of our current hedging program, equity markets, interest rates and volatility in market conditions are monitored on a daily basis. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these 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, 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.

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. Changes in the estimated fair value of these derivatives as they occur are recorded through net income (loss). Offsetting these amounts are corresponding changes in the estimated fair value of trading securities

in portfolios that support these arrangements. During the first quarter of 2009, the portion of the embedded derivative liability related to the funds withheld reinsurance agreement on our disability income business was released due to the rescission of the underlying reinsurance agreement. See Note 14 in our 2010 Form 10-K for information regarding the rescission of the underlying reinsurance agreement.

AFS Securities Embedded Derivatives

We own various debt securities that either contain call options to exchange the debt security for other specified securities of the borrower, usually common stock, or contain call options to receive the return on equity-like indexes. The change in fair value of these embedded derivatives flows through net income (loss).

Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk 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, 2011, the nonperformance risk adjustment was $10 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all 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 the derivatives contract, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contract. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. We do not believe the inclusion of termination or collateralization events pose any material threat to the liquidity position of any insurance subsidiary of the Company. 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, 2011, the exposure was $161 million.

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, 2011		As of December 31, 2010	
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)
AAA	$ -	$ -	$ 1	$ -
AA	52	-	99	-
AA-	89	-	65	-
A+	475	(41)	548	(76)
A	453	(263)	436	(223)
	$ 1,069	$ (304)	$ 1,149	$ (299)

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). The effective tax rate was 28% and 27% for the three months ended March 31, 2011 and 2010, respectively. The effective tax rate on pre-tax income (loss) from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deduction ("DRD"), foreign tax credits and other tax preference items.

The application of GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary, to reduce our deferred tax asset to an amount that is more likely than not to be realizable. Considerable judgment and the use of estimates are required in determining whether a valuation allowance

is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including: the nature and character of the deferred tax assets and liabilities; taxable income in prior carryback years; future reversals of temporary differences; the length of time carryovers can be utilized; and any tax planning strategies we would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, including our capital loss deferred tax asset, will be realized.

In the normal course of business, we are subject to examination by taxing authorities throughout the U.S. and the U.K. At any given time, we may be under examination by state, local or non-U.S. income tax authorities. We are currently under audit by the IRS for years 2007 and 2008. The Jefferson-Pilot subsidiaries acquired in the April 2006 merger are subject to a separate IRS examination cycle. For the former Jefferson-Pilot subsidiaries, Jefferson Pilot Life Insurance Company and Jefferson Pilot Financial Insurance Company, the IRS is examining the tax years ended April 1, 2007 and July 1, 2007, respectively.

8. Guaranteed Benefit Features

Information on the guaranteed death benefit ("GDB") features outstanding (dollars in millions) was as follows (our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	As of March 31, 2011	As of December 31, 2010
Return of Net Deposits		
Total account value	$ 54,639	$ 52,211
Net amount at risk (1)	586	816
Average attained age of contract holders	58 years	58 years
Minimum Return		
Total account value (2)	$ 186	$ 187
Net amount at risk (1)	41	46
Average attained age of contract holders	71 years	70 years
Guaranteed minimum return	5 %	5 %
Anniversary Contract Value		
Total account value	$ 24,007	$ 23,483
Net amount at risk (1)	1,648	2,183
Average attained age of contract holders	66 years	66 years

(1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing March 31, 2011, to December 31, 2010, was attributable primarily to the rise in equity markets and associated increase in the account values.
(2) The decrease in total account value when comparing March 31, 2011, to December 31, 2010, was attributable primarily to an increase in contract surrender rates.

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 GDB (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Three Months Ended March 31, 2011	2010
Balance as of beginning-of-year	$ 44	$ 71
Changes in reserves	4	13
Benefits paid	(10)	(24)
Balance as of end-of-period	$ 38	$ 60

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

	As of March 31, 2011	As of December 31, 2010
Asset Type		
Domestic equity	$ 37,328	$ 35,659
International equity	14,744	14,172
Bonds	16,681	15,913
Money market	5,876	5,725
Total	$ 74,629	$ 71,469
Percent of total variable annuity separate account values	98 %	98 %

Future contract benefits also include reserves for our products with secondary guarantees for our products sold through our Insurance Solutions – Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 39% of permanent life insurance in force as of March 31, 2011, and approximately 50% of total sales for these products in 2011.

9. Contingencies and Commitments

See "Contingencies and Commitments" in Note 14 to the consolidated financial statements in our 2010 Form 10-K for a discussion of commitments and contingencies, which information is incorporated herein by reference.

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 and unclaimed property laws.

In the ordinary course of its business, LNC and its subsidiaries are involved in various pending or threatened legal proceedings, including purported class actions, arising from the conduct of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. After consultation with legal counsel and a review of available facts, it is management's opinion that these proceedings, after consideration of any reserves and rights to indemnification, ultimately will be resolved without materially affecting the consolidated financial position of LNC. However, given the large and indeterminate amounts sought in certain of these proceedings and the inherent difficulty in predicting the outcome of such legal proceedings, it is possible that an adverse outcome in certain matters could be material to our operating results for any particular reporting period.

10. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Three Months Ended March 31,	
	2011	2010
Series A Preferred Stock		
Balance as of beginning-of-year	10,914	11,497
Conversion of convertible preferred stock (1)	-	(132)
Balance as of end-of-period	10,914	11,365
Series B Preferred Stock		
Balance as of beginning-of-year	-	950,000
Balance as of end-of-period	-	950,000
Common Stock		
Balance as of beginning-of-year	315,718,554	302,223,281
Conversion of convertible preferred stock (1)	-	2,112
Stock compensation/issued for benefit plans	152,134	259,734
Retirement/cancellation of shares	(2,413,864)	(18,093)
Balance as of end-of-period	313,456,824	302,467,034
Common Stock as of End-of-Period		
Assuming conversion of preferred stock	313,631,448	302,648,874
Diluted basis	321,320,873	312,965,633

(1) Represents the conversion of Series A preferred stock into common stock.

Our common, Series A and Series B preferred stocks are without par value.

Average Shares

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

	For the Three Months Ended March 31,	
	2011	2010
Weighted-average shares, as used in basic calculation	315,014,084	302,221,901
Shares to cover exercise of outstanding warrants	10,150,292	13,049,451
Shares to cover conversion of preferred stock	174,624	183,459
Shares to cover non-vested stock	771,357	603,861
Average stock options outstanding during the period	959,872	780,617
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(3,669,994)	(5,428,421)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(654,934)	(515,391)
Shares repurchaseable from measured but unrecognized stock option expense	(152,416)	(162,378)
Average deferred compensation shares	271,447	1,355,432
Weighted-average shares, as used in diluted calculation	322,864,332	312,088,531

In the event the average market price of LNC common stock exceeds the issue price of stock options, such options would be dilutive to our EPS and will be shown in the table above.

The income used in the calculation of our diluted EPS is our net income (loss), reduced by preferred stock dividends and accretion of discount. These amounts are presented on our Consolidated Statements of Income (Loss).

Accumulated OCI

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

	For the Three Months Ended March 31,	
	2011	2010
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 1,072	$ 49
Cumulative effect from adoption of new accounting standards	-	181
Unrealized holding gains (losses) arising during the period	(191)	953
Change in foreign currency exchange rate adjustment	14	(13)
Change in DAC, VOBA, DSI and other contract holder funds	179	(386)
Income tax benefit (expense)	1	(199)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(19)	(38)
Reclassification adjustment for gains (losses) on derivatives included in net income (loss)	-	11
Associated amortization of DAC, VOBA, DSI and DFEL	(11)	4
Income tax benefit (expense)	11	8
Balance as of end-of-period	$ 1,094	$ 600
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ (129)	$ (115)
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(8)	(22)
Change in DAC, VOBA, DSI and DFEL	2	(2)
Income tax benefit (expense)	2	8
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	45	33
Change in DAC, VOBA, DSI and DFEL	(8)	(7)
Income tax benefit (expense)	(13)	(9)
Balance as of end-of-period	$ (109)	$ (114)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ (15)	$ 11
Unrealized holding gains (losses) arising during the period	(4)	16
Change in foreign currency exchange rate adjustment	(9)	-
Change in DAC, VOBA, DSI and DFEL	5	2
Income tax benefit (expense)	3	(6)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	3	3
Income tax benefit (expense)	(1)	(1)
Balance as of end-of-period	$ (22)	$ 21
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ 1	$ 3
Foreign currency translation adjustment arising during the period	2	(2)
Income tax benefit (expense)	(1)	1
Balance as of end-of-period	$ 2	$ 2
Funded Status of Employee Benefit Plans		

Balance as of beginning-of-year	$	(181)	$	(210)
Adjustment arising during the period		(1)		5
Income tax benefit (expense)		-		(2)
Balance as of end-of-period	$	(182)	$	(207)

11. Realized (Gain) Loss

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

	For the Three Months Ended March 31,	
	2011	2010
Total realized gain (loss) related to certain investments (1)	$ (17)	$ (55)
Realized gain (loss) related to certain derivative instruments, including those associated with our consolidated VIEs, and trading securities (2)	10	13
Indexed annuity net derivative results: (3)		
Gross gain (loss)	6	4
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	(2)
Guaranteed living benefits: (4)		
Gross gain (loss)	21	39
Associated amortization of DAC, VOBA, DSI and DFEL	(10)	(12)
Guaranteed death benefits: (5)		
Gross gain (loss)	(11)	(15)
Associated amortization of DAC, VOBA, DSI and DFEL	1	2
Total realized gain (loss)	$ (2)	$ (26)

(1) See "Realized Gain (Loss) Related to Certain Investments" section in Note 5.

(2) Represents changes in the fair values of certain derivative investments (including the credit default swaps and contingent forwards associated with our consolidated VIEs), total return swaps (embedded derivatives that are theoretically included in our various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements) and trading securities.

(3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products 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) Represents the net difference in the change in embedded derivative reserves of our GLB products and the change in the fair value of the derivative instruments we own to hedge, including the cost of purchasing the hedging instruments.

(5) Represents the change in the fair value of the derivatives used to hedge our GDB riders.

12. Stock-Based Incentive Compensation Plans

We sponsor various incentive plans for our employees and directors, and for the employees and agents of our subsidiaries that provide for the issuance of stock options, performance shares (performance-vested shares as opposed to time-vested shares), SARS and restricted stock units.

LNC stock-based awards granted were as follows:

	For the Three Months Ended March 31, 2011
Awards	
10-year LNC stock options	459,093
Performance shares	215,137
SARs	106,966
Restricted stock units	451,090
Non-employee:	
Agent stock options	96,575
Director stock options	32,560
Director restricted stock units	9,779

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, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 69,231	$ 69,231	$ 68,030	$ 68,030
VIEs' fixed maturity securities	587	587	584	584
Equity securities	145	145	197	197
Trading securities	2,598	2,598	2,596	2,596
Mortgage loans on real estate	6,749	7,114	6,752	7,183
Derivative investments	946	946	1,076	1,076
Other investments	1,029	1,029	1,038	1,038
Cash and invested cash	2,216	2,216	2,741	2,741
Separate account assets	88,236	88,236	84,630	84,630
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	(528)	(528)	(497)	(497)
GLB reserves embedded derivatives	(118)	(118)	(408)	(408)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(1,203)	(1,203)	(1,119)	(1,119)
Account values of certain investment contracts	(26,511)	(26,724)	(26,130)	(27,142)
Short-term debt (1)	(351)	(362)	(351)	(364)
Long-term debt	(5,370)	(5,535)	(5,399)	(5,512)
Reinsurance related embedded derivatives	(91)	(91)	(102)	(102)
VIEs' liabilities - derivative instruments	(203)	(203)	(209)	(209)
Other liabilities:				

Deferred compensation plans embedded derivatives	(357)	(357)	(363)	(363)
Credit default swaps	(6)	(6)	(16)	(16)

(1) The difference between the carrying value and fair value of short-term debt as of March 31, 2011, and December 31, 2010, related to current maturities of long-term debt.

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 on real estate 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.

Other Investments

The carrying value of our assets classified as other investments approximates their fair value. Other investments include LPs and other privately held investments that are accounted for using the equity method of accounting.

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, 2011, and December 31, 2010, the remaining guaranteed interest and similar contracts carrying value approximates 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.

Short-term and Long-term Debt

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analysis determined in conjunction with our incremental borrowing rate as of the balance sheet date for similar types of borrowing arrangements where quoted prices are not available. For short-term debt, excluding current maturities of long-term debt, the carrying value approximates fair value.

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, 2011, or December 31, 2010, 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 described in "Summary of Significant Accounting Policies" in Note 1 of the 2010 Form 10-K:

	As of March 31, 2011			
	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	$ 60	$ 51,310	$ 1,806	$ 53,176
U.S. Government bonds	157	3	2	162
Foreign government bonds	-	416	100	516
MBS:				
CMOs	-	5,526	22	5,548
MPTS	-	2,969	93	3,062
CMBS	-	1,868	64	1,932
ABS CDOs	-	-	136	136
State and municipal bonds	-	3,280	-	3,280
Hybrid and redeemable preferred securities	21	1,274	124	1,419
VIEs' fixed maturity securities	-	587	-	587
Equity AFS securities:				
Banking securities	-	2	-	2
Insurance securities	3	-	28	31
Other financial services securities	-	9	22	31
Other securities	35	-	46	81
Trading securities	2	2,525	71	2,598
Derivative investments	-	(493)	1,439	946
Cash and invested cash	-	2,216	-	2,216
Separate account assets	-	88,236	-	88,236
Total assets	$ 278	$ 159,728	$ 3,953	$ 163,959
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	$ -	$ -	$ (528)	$ (528)
GLB reserves embedded derivatives	-	-	(118)	(118)
Long-term debt - interest rate swap agreements	-	(25)	-	(25)
Reinsurance related embedded derivatives	-	(91)	-	(91)
VIEs' liabilities - derivative instruments	-	-	(203)	(203)
Other liabilities:				
Deferred compensation plans embedded derivatives	-	-	(357)	(357)
Credit default swaps	-	-	(6)	(6)
Total liabilities	$ -	$ (116)	$ (1,212)	$ (1,328)

	As of December 31, 2010			
	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	$ 60	$ 49,864	$ 1,816	$ 51,740
U.S. Government bonds	160	3	2	165
Foreign government bonds	-	395	113	508
MBS:				
CMOs	-	5,734	23	5,757
MPTS	-	2,985	96	3,081
CMBS	-	1,944	109	2,053
ABS CDOs	-	2	172	174
State and municipal bonds	-	3,155	-	3,155
Hybrid and redeemable preferred securities	18	1,260	119	1,397
VIEs' fixed maturity securities	-	584	-	584
Equity AFS securities:				
Banking securities	-	58	-	58
Insurance securities	3	-	34	37
Other financial services securities	-	8	24	32
Other securities	34	2	34	70
Trading securities	2	2,518	76	2,596
Derivative investments	-	(419)	1,495	1,076
Cash and invested cash	-	2,741	-	2,741
Separate account assets	-	84,630	-	84,630
Total assets	$ 277	$ 155,464	$ 4,113	$ 159,854
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	$ -	$ -	$ (497)	$ (497)
GLB reserves embedded derivatives	-	-	(408)	(408)
Long-term debt - interest rate swap agreements	-	(55)	-	(55)
Reinsurance related embedded derivatives	-	(102)	-	(102)
VIEs' liabilities - derivative instruments	-	-	(209)	(209)
Other liabilities:				
Deferred compensation plans embedded derivatives	-	-	(363)	(363)
Credit default swaps	-	-	(16)	(16)
Total liabilities	$ -	$ (157)	$ (1,493)	$ (1,650)

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, VOBA, DSI and 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, 2011					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,816	$ (1)	$ 10	$ 54	$ (73)	$ 1,806
U.S. Government bonds	2	-	-	-	-	2
Foreign government bonds	113	-	7	(3)	(17)	100
MBS:						
CMOs	23	(2)	2	(1)	-	22
MPTS	96	-	-	(3)	-	93
CMBS	109	(23)	30	(52)	-	64
ABS CDOs	172	14	(12)	(38)	-	136
Hybrid and redeemable preferred securities	119	-	1	-	4	124
Equity AFS securities:						
Insurance securities	34	1	-	(7)	-	28
Other financial services securities	24	7	(1)	(8)	-	22
Other securities	34	-	4	6	2	46
Trading securities	76	1	(2)	(2)	(2)	71
Derivative investments	1,495	(145)	(18)	107	-	1,439
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(497)	48	-	(79)	-	(528)
GLB reserves embedded derivatives	(408)	290	-	-	-	(118)
VIEs' liabilities - derivative instruments (5)	(209)	6	-	-	-	(203)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(363)	(8)	-	14	-	(357)
Credit default swaps (7)	(16)	4	-	6	-	(6)
Total, net	$ 2,620	$ 192	$ 21	$ (6)	$ (86)	$ 2,741

	For the Three Months Ended March 31, 2010					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 2,070	$ (4)	$ (6)	$ (61)	$ 282	$ 2,281
U.S. Government bonds	3	-	-	(1)	-	2
Foreign government bonds	92	-	-	(3)	1	90
MBS:						
CMOs	35	(1)	1	(2)	(2)	31
MPTS	101	-	1	72	-	174
CMBS	259	-	13	(18)	(4)	250
ABS:						
CDOs	153	-	10	(4)	-	159
CLNs	322	-	278	-	(600)	-
Hybrid and redeemable preferred securities	156	-	(26)	1	4	135
Equity AFS securities:						
Insurance securities	43	-	-	(13)	-	30
Other financial services securities	22	(3)	8	-	-	27
Other securities	23	-	-	11	-	34
Trading securities	91	1	(16)	(3)	2	75
Derivative investments	1,368	(132)	3	42	-	1,281
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(419)	(39)	-	1	-	(457)
GLB reserves embedded derivatives	(676)	181	-	-	-	(495)
VIEs' liabilities - derivative instruments (5)	-	(4)	-	-	(225)	(229)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(332)	(8)	-	40	-	(300)
Credit default swaps (7)	(65)	10	-	11	-	(44)
Total, net	$ 3,246	$ 1	$ 266	$ 73	$ (542)	$ 3,044

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments. See "Derivatives Instruments Designated and Qualifying as Fair Value Hedges" section in Note 6.

(2) Transfers in or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. 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 prior years.

(3) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Income (Loss).
(4) Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Income (Loss).
(5) The changes in fair value of the credit default swaps and contingency forwards are included in realized gain (loss) on our Consolidated Statements of Income (Loss).
(6) Deferrals and subsequent changes in fair value for the participants' investment options are reported in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).

(7) Gains (losses) from sales, maturities, settlements and calls are included in net investment income on our Consolidated Statements of Income (Loss).

The following provides the components of the items included in issuances, sales, maturities, settlements, 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, 2011					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 101	$ (8)	$ (1)	$ (37)	$ (1)	$ 54
Foreign government bonds	-	(3)	-	-	-	(3)
MBS:						
CMOs	-	-	-	(1)	-	(1)
MPTS	-	-	-	(3)	-	(3)
CMBS	1	(44)	-	(9)	-	(52)
ABS CDOs	-	(33)	-	(5)	-	(38)
Equity AFS securities:						
Insurance securities	-	(7)	-	-	-	(7)
Other financial services securities	-	(8)	-	-	-	(8)
Other securities	6	-	-	-	-	6
Trading securities	-	-	-	(2)	-	(2)
Derivative investments	167	(2)	(58)	-	-	107
Future contract benefits:						
Indexed annuity contracts embedded derivatives	(17)	-	-	(62)	-	(79)
Other liabilities:						
Deferred compensation plans embedded derivatives	-	-	-	14	-	14
Credit default swaps	-	6	-	-	-	6
Total, net	$ 258	$ (99)	$ (59)	$ (105)	$ (1)	$ (6)

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,	
	2011	2010
Investments: (1)		
Derivative investments	$ (140)	$ (117)
Future contract benefits: (1)		
Indexed annuity contracts embedded derivatives	(4)	(45)

GLB reserves embedded derivatives		338		221
VIEs' liabilities - derivative instruments (1)		2		(4)
Other liabilities:				
Deferred compensation plans embedded derivatives (2)		(8)		(8)
Credit default swaps (3)		6		9
Total, net	$	194	$	56

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

(2) Included in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).
(3) Included in net investment income on our Consolidated Statements of Income (Loss).

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

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 32	$ (105)	$ (73)	$ 401	$ (119)	$ 282
Foreign government bonds	-	(17)	(17)	1	-	1
MBS:						
CMOs	-	-	-	-	(2)	(2)
CMBS	-	-	-	-	(4)	(4)
ABS CLNs	-	-	-	-	(600)	(600)
Hybrid and redeemable preferred securities	4	-	4	4	-	4
Equity AFS securities:						
Other securities	2	-	2	-	-	-
Trading securities	-	(2)	(2)	2	-	2
VIEs' liabilities - derivative instruments	-	-	-	(225)	-	(225)
Total, net	$ 38	$ (124)	$ (86)	$ 183	$ (725)	$ (542)

For the three months ended March 31, 2011 and 2010, our corporate bonds transfers in and out were attributable primarily to the securities' observable market information being available or no longer being available, respectively. For the three months ended March 31, 2010, the ABS CLNs transfer out of Level 3 and VIEs' liabilities – derivative instruments transfer into Level 3 are related to new accounting guidance that is discussed in Note 4 of our 2010 Form 10-K. For the three months ended March 31, 2011 and 2010, there were no significant transfers between Level 1 and 2 of the fair value hierarchy.

14. Segment Information

We provide products and services in two operating businesses and report results through four business segments as follows:

Business	Corresponding Segments
Retirement Solutions	Annuities
	Defined Contribution
Insurance Solutions	Life Insurance

Group Protection

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. The following is a brief description of these segments and Other Operations.

Retirement Solutions

The Retirement Solutions business provides its products through two segments: Annuities and Defined Contribution. The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities and variable annuities. The Defined Contribution segment provides employer-sponsored variable and fixed annuities, defined benefit, individual retirement accounts and mutual-fund based programs in the retirement plan marketplaces.

Insurance Solutions

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single (including corporate-owned UL and VUL insurance and bank-owned UL and VUL) and survivorship versions of UL and VUL insurance products. The Group Protection segment offers group life, disability and dental insurance to employers. These offices develop business through employee benefit brokers, third-party administrators and other employee benefit firms.

Other Operations

Other Operations includes investments related to the excess capital in our insurance subsidiaries; investments in media properties and other corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance to Swiss Re in 2001; the results of certain disability income business due to the rescission of a reinsurance agreement with Swiss Re; the Institutional Pension business, which is a closed-block of pension business, the majority of which was sold on a group annuity basis, and is currently in run-off; and debt costs. We are actively managing our remaining radio station clusters to maximize performance and future value.

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)"):
  - § Sale or disposal of securities;
  - § Impairments of securities;
  - § Change in the fair value of derivative instruments, embedded derivatives within certain reinsurance arrangements and our trading securities;
  - § Change in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
  - § Change in the GLB embedded derivative reserves, net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves; and
  - § 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 under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC.
- Change in reserves accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC resulting from benefit ratio unlocking on our GDB and GLB riders ("benefit ratio unlocking");
- Income (loss) from the initial adoption of new accounting standards;
- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Gain (loss) on early extinguishment of debt;
- Losses from the impairment of intangible assets; and
- Income (loss) from discontinued operations.

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

- Excluded realized gain (loss);
- Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking;
- Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and

- Revenue adjustments from the initial adoption of new accounting standards.

We use our prevailing corporate federal income tax rate of 35% while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

	For the Three Months Ended March 31,	
	2011	2010
Revenues		
Operating revenues:		
Retirement Solutions:		
Annuities	$ 732	$ 630
Defined Contribution	263	240
Total Retirement Solutions	995	870
Insurance Solutions:		
Life Insurance	1,147	1,128
Group Protection	478	445
Total Insurance Solutions	1,625	1,573
Other Operations	116	124
Excluded realized gain (loss), pre-tax	(23)	(41)
Amortization of deferred gains from reserve changes on business sold through reinsurance, pre-tax	1	1
Total revenues	$ 2,714	$ 2,527

	For the Three Months Ended March 31,	
	2011	2010
Net Income (Loss)		
Income (loss) from operations:		
Retirement Solutions:		
Annuities	$ 147	$ 119
Defined Contribution	49	36
Total Retirement Solutions	196	155
Insurance Solutions:		
Life Insurance	166	137
Group Protection	24	21
Total Insurance Solutions	190	158
Other Operations	(37)	(37)
Excluded realized gain (loss), after-tax	(15)	(27)
Benefit ratio unlocking, after-tax	5	6
Income (loss) from continuing operations, after-tax	339	255
Income (loss) from discontinued operations, after-tax	-	28
Net income (loss)	$ 339	$ 283

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, 2011, compared with December 31, 2010, and the results of operations for the three months ended March 31, 2011, compared with the corresponding period in 2010 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Lincoln," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. 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, 2010 ("2010 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 2011.

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. Income (loss) from operations is net income recorded in accordance with United States of America generally accepted accounting principles ("GAAP") 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 of securities;
  - § Impairments of securities;
  - § Change in the fair value of derivative investments, embedded derivatives within certain reinsurance arrangements and our trading securities;
  - § Change in the fair value of the derivatives we own to hedge our guaranteed death benefit ("GDB") riders within our variable annuities, which is referred to as "GDB derivatives results";
  - § Change in the fair value of the embedded derivatives of our guaranteed living benefit ("GLB") riders within our variable annuities accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC") ("embedded derivative reserves"), net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves, the net of which is referred to as "GLB net derivative results"; and
  - § 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 under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("indexed annuity forward-starting option").
- Change in reserves accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC resulting from benefit ratio unlocking on our GDB and GLB riders ("benefit ratio unlocking");
- Income (loss) from the initial adoption of new accounting standards;
- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Gain (loss) on early extinguishment of debt;
- Losses from the impairment of intangible assets; and
- Income (loss) from discontinued operations.

Income (loss) from operations available to common stockholders is net income (loss) available to common stockholders (used in the calculation of earnings (loss) per share) in accordance with GAAP, excluding the after-tax effects of the items above and the acceleration of our Series B preferred stock discount as a result of redemption prior to five years from the date of issuance.

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

- Excluded realized gain (loss);
- Amortization of deferred front-end loads ("DFEL") arising from changes in GDB and GLB benefit ratio unlocking;
- Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and
- Revenue adjustments from the initial adoption of new accounting standards.

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 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.

We use our prevailing corporate federal income tax rate of 35% while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Certain reclassifications have been made to prior periods' financial information.

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 i 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 involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
    - Adverse capital and credit market conditions could cause us to realize impairments on investments and certain intangible assets, including goodwill and a 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, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital ("RBC") requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline 43 (also known as Commissioners Annuity Reserve Valuation Method for Variable Annuities or VACARVM); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;
- Uncertainty about the effect of rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us and 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 extra-contractual and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
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Changes in or sustained low interest rates causing reductions of investment income, estimated gross profits relating to our variable annuity and universal life products, margins of our subsidiaries' fixed annuity and life insurance businesses and demand for their products;

- 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 amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and DFEL and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our 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 amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in GAAP, including moving to International Financial Reporting Standards, as well as the methodologies, estimations and assumptions thereunder, that may result in unanticipated changes to our net income;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;

- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios as well as counterparties to which we are exposed to credit risk requiring that we realize losses on investments;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including our ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
- The adequacy and collectibility 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 changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
- 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 Securities and Exchange Commission ("SEC") include additional factors that could affect our business 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 include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, term life insurance, mutual funds and group life, disability and dental.

We provide products and services in two operating businesses and report results through four business segments as follows:

Business	Corresponding Segments
Retirement Solutions	Annuities
	Defined Contribution
	Life Insurance

Insurance Solutions	Group Protection

These operating businesses and their segments are described in "Part I – Item 1. Business" of our 2010 Form 10-K. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments.

For information on how we derive our revenues, see the discussion in results of operations by segment below.

Current Market Conditions

Although economic conditions have improved, the following concerns are still weighing on the U.S. economy:

- Uncertainty with regard to the timing and ability for U.S. policymakers to agree on and implement a deficit reduction strategy given growth of U.S. deficits as a percentage of gross domestic product could potentially impede further economic recovery;
- Revision of Standard and Poor's ("S&P's") outlook on the long-term rating of the U.S. sovereign debt to negative from stable in April 2011, and a correlating change in outlook on Fannie Mae, Freddie Mac, the Federal Home Loan Bank system and the Farm Credit system, as a result of the above-mentioned fiscal challenges;

- Persistent high unemployment;
- Slow U.S. housing market, as new home sales in February 2011 fell to the lowest seasonally adjusted annual rate since records have been kept;
- Uncertainty about the outcome of the nuclear disaster in Japan; and
- Ongoing conflicts in the Middle East.

In the face of these economic challenges, we continue to focus on building our businesses through these difficult markets and beyond by developing and introducing high quality products, expanding distribution in new and existing key accounts and channels and targeting market segments that have high growth potential while maintaining a disciplined approach to managing our expenses.

Significant Operational Matters

Earnings from Account Values

Our asset-gathering segments – Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution – are the most sensitive to the equity markets, as well as, to a lesser extent, our Insurance Solutions – Life Insurance segment. We discuss the earnings effect of the equity markets on account values and the related asset-based earnings below in "Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Effect of Equity Market Sensitivity." From December 31, 2010, to March 31, 2011, our account values were up $5.0 billion driven primarily by an increase in equity markets during the first quarter of 2011 and positive net flows.

Improvement of Return on Equity

One of our highest priorities continues to be increasing our return on equity ("ROE"). Growth in ROE will be driven by a number of items including:

- Earnings mix shift to businesses with higher returns;
- Continued sales of products that have higher returns than the products already in force; and
- Capital management actions consisting of redeployment of excess capital (including returning capital to common stockholders) and further generation of excess capital.

Strategic Investments

We continue to make strategic investments in our businesses to grow revenues, further spur productivity and improve our efficiency and service to our customers. These efforts include investments in technology and system upgrades, new products for the voluntary market and expanded distribution focus.

Industry Trends

We continue to be influenced by a variety of trends that affect the industry. For information on these trends, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Industry Trends" in our 2010 Form 10-K.

Issues and Outlook

For the remainder of 2011, significant issues include:

- Increased actions by government and regulatory authorities to introduce regulations that could have a significant effect on our earnings and/or business models;
  - Continuation of the low interest rate environment in comparison to historical periods;
- Implementation of new accounting requirements in 2012 that could have a significant effect on the earnings and/or business models of companies within the insurance industry, including Lincoln; and
- Loss ratios remaining at the high end or above our long-term expectations in our Insurance Solutions – Group Protection segment.

In the face of these issues and potential issues, we expect to focus on the following for the remainder of 2011:

- Closely monitoring our capital and liquidity positions taking into account the uncertain economic recovery and changing statutory accounting and reserving practices.
- Continuing to explore additional financing strategies addressing the statutory reserve strain related to our secondary guarantee UL products in order to manage our capital position effectively in accordance with our pricing guidelines;
- Taking actions to manage the risk of a continuation of lower interest rates;
- Closely monitoring ongoing changes in the legal and regulatory environment;
- Controlling our non-medical loss ratios through continued focus on claims risk management;
- Increasing our product development activities together with identifying future product development initiatives, with a focus on further reducing risk related to guaranteed benefit riders available with certain variable annuity contracts;
- Evaluating opportunities for strategic investments in our businesses to grow revenues and further spur productivity; and
- Managing our expenses aggressively through process improvement initiatives combined with continued financial discipline and execution excellence throughout our operations.

For additional factors that could cause actual results to differ materially from those set forth in this section, see “Part I – Item 1A. Risk Factors” in our 2010 Form 10-K and “Forward-Looking Statements – Cautionary Language.”

Critical Accounting Policies and Estimates

The MD&A included in our 2010 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 2010 Form 10-K and, accordingly, should be read in conjunction with the “Critical Accounting Policies and Estimates” discussed in our 2010 Form 10-K.

DAC, VOBA, DSI and DFEL

Unlocking

As discussed and defined in our 2010 Form 10-K, we may record retrospective unlocking, prospective unlocking – assumption changes and prospective unlocking – model refinements on a quarterly basis that result in increases or decreases to the carrying values of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees. The primary distinction between retrospective and prospective unlocking is that retrospective unlocking is driven by the difference between actual gross profits compared to estimated gross profits (“EGPs”) each period, while prospective unlocking is driven by changes in assumptions or projection models related to our expectations of future EGPs.

Reversion to the Mean

As equity markets 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 2010 Form 10-K.

Our long-term separate account growth assumption rate is 9%, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, as this component is related primarily to underlying investments in equity funds within the separate accounts. If we were to have unlocked our RTM assumption in the corridor as of March 31, 2011, we would have recorded a favorable prospective unlocking of approximately $400 million, pre-tax, for our Retirement Solutions business, and approximately $35

million, pre-tax, for our Insurance Solutions business, as a result of improved market conditions since our last unlock of RTM in the fourth quarter of 2008.

Investments

Investment Valuation

The following summarizes our investments carried at fair value by pricing source and the Fair Value Measurements and Disclosures Topic of the FASB ASC hierarchy level (in millions):

	As of March 31, 2011			
	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	$ 278	$ 60,645	$ -	$ 60,923
Priced by independent broker quotations	-	-	2,456	2,456
Priced by matrices	-	8,631	-	8,631
Priced by other methods (1)	-	-	1,497	1,497
Total	$ 278	$ 69,276	$ 3,953	$ 73,507
Percent of total	1%	94%	5%	100%

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

For more information about the three-level hierarchy that we use to categorize 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 2010 Form 10-K and Note 13.

As of March 31, 2011, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions. We use an internationally recognized pricing service as our primary pricing source, and we generally do not obtain multiple prices for our financial instruments. We generally use prices from the pricing service rather than broker quotes as we have documentation from the pricing service on the observable market inputs that they use to determine the prices in contrast to the broker quotes where we have limited information on the pricing inputs. As of March 31, 2011, we only obtained multiple prices for 40 available-for-sale ("AFS") and trading securities. These multiple prices were related primarily to instances where the vendor was providing a price for the first time and we also received a broker quote. In these instances, we used the price from the pricing service due to the higher reliability as discussed above. As of March 31, 2011, we used broker quotes for 111 securities as our final price source, representing approximately 2% of total securities owned.

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 2010 Form 10-K.

Guaranteed Living Benefits

As of March 31, 2011, the fair value of our derivative assets, which hedge both our GLB and GDB features, and including margins generated by futures contracts, was $755 million. As of March 31, 2011, the sum of all GLB liabilities at fair value, excluding the non-performance risk ("NPR") adjustment, and GDB reserves was $173 million, comprised of $135 million for GLB liabilities and $38 million for the GDB reserves. The fair value of the hedge assets exceeded the estimated liabilities by $582 million. However, the relationship of hedge assets to the liabilities for the guarantees may vary in any given reporting period due to market conditions, hedge performance and/or changes to the hedging strategy.

Approximately 45% of our variable annuity account values contained a guaranteed withdrawal benefit (“GWB”) rider as of March 31, 2011. Declines in the equity markets increase our exposure to potential benefits under the GWB contracts, leading to an increase in our existing liability for those benefits. The increase in the equity markets over the recent months has decreased our existing liability. For example, a GWB contract is “in the money” if the contract holder’s account balance falls below the guaranteed amount. As of March 31, 2011, and March 31, 2010, 29% and 47% respectively, of all GWB in-force contracts were “in the money,” and our exposure to the guaranteed amounts, after reinsurance, as of March 31, 2011, and March 31, 2010, was $796 million and $1.7 billion, respectively. Our exposure before reinsurance for these same periods was $911 million and $2.0 billion, respectively.

For information on our GLB and GDB hedging results, see our discussion in “Realized Gain (Loss)” below.

Acquisitions and Dispositions

For information about acquisitions and divestitures, see Note 3 in this report and “Part I – Item 1. Business – Acquisitions and Dispositions,” “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Acquisitions and Dispositions” and Note 3 in our 2010 Form 10-K.

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,		
	2011	2010	Change
Revenues			
Insurance premiums	$ 568	$ 532	7%
Insurance fees	818	788	4%
Net investment income	1,191	1,106	8%
Realized gain (loss):			
Total OTTI losses on securities	(45)	(77)	42%
Portion of loss recognized in OCI	6	24	-75%
Net OTTI losses on securities recognized in earnings	(39)	(53)	26%
Realized gain (loss), excluding OTTI losses on securities	37	27	37%
Total realized gain (loss)	(2)	(26)	92%
Amortization of deferred gain on business sold through reinsurance	19	19	0%
Other revenues and fees	120	108	11%
Total revenues	2,714	2,527	7%
Benefits and Expenses			
Interest credited	614	618	-1%
Benefits	835	779	7%
Underwriting, acquisition, insurance and other expenses	725	714	2%
Interest and debt expense	72	68	6%
Total benefits and expenses	2,246	2,179	3%
Income (loss) from continuing operations before taxes	468	348	34%
Federal income tax expense (benefit)	129	93	39%
Income (loss) from continuing operations	339	255	33%
Income (loss) from discontinued operations, net of federal income taxes	-	28	-100%
Net income (loss)	$ 339	$ 283	20%

	For the Three Months Ended March 31,		
	2011	2010	Change
Revenues			
Operating revenues:			
Retirement Solutions:			
Annuities	$ 732	$ 630	16%
Defined Contribution	263	240	10%
Total Retirement Solutions	995	870	14%
Insurance Solutions:			
Life Insurance	1,147	1,128	2%
Group Protection	478	445	7%
Total Insurance Solutions	1,625	1,573	3%
Other Operations	116	124	-6%
Excluded realized gain (loss), pre-tax	(23)	(41)	44%
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	0%
Total revenues	$ 2,714	$ 2,527	7%

	For the Three Months Ended March 31,		
	2011	2010	Change
Net Income (Loss)			
Income (loss) from operations:			
Retirement Solutions:			
Annuities	$ 147	$ 119	24%
Defined Contribution	49	36	36%
Total Retirement Solutions	196	155	26%
Insurance Solutions:			
Life Insurance	166	137	21%
Group Protection	24	21	14%
Total Insurance Solutions	190	158	20%
Other Operations	(37)	(37)	0%
Excluded realized gain (loss), after-tax	(15)	(27)	44%
Benefit ratio unlocking, after-tax	5	6	-17%
Income (loss) from continuing operations, after-tax	339	255	33%
Income (loss) from discontinued operations, after-tax	-	28	-100%
Net income (loss)	$ 339	$ 283	20%

	For the Three Months Ended March 31,		
	2011	2010	Change
Deposits			
Retirement Solutions:			
Annuities	$ 2,639	$ 2,276	16%
Defined Contribution	1,341	1,307	3%
Insurance Solutions - Life Insurance	1,270	1,077	18%
Total deposits	$ 5,250	$ 4,660	13%
Net Flows			
Retirement Solutions:			
Annuities	$ 483	$ 575	-16%
Defined Contribution	134	109	23%
Insurance Solutions - Life Insurance	821	602	36%
Total net flows	$ 1,438	$ 1,286	12%

	As of March 31,		
	2011	2010	Change
Account Values			
Retirement Solutions:			
Annuities	$ 87,785	$ 76,846	14%
Defined Contribution	40,308	36,699	10%
Insurance Solutions - Life Insurance	34,149	32,074	6%
Total account values	$ 162,242	$ 145,619	11%

Comparison of the Three Months Ended March 31, 2011 to 2010

Net income increased due primarily to the following:

· Higher net investment income and relatively flat interest credited, excluding unlocking, driven primarily by:

§ Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to positive net flows, partially offset by transfers from fixed to variable;

§ Higher prepayment and bond makewhole premiums and more favorable investment income on alternative investments within our surplus portfolio (see "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums" and "Consolidated Investments – Alternative Investments" below for more information);

§ Higher invested assets driven primarily by favorable net flows on fixed account values, including the fixed portion of variable, partially offset by the decline in new money rates and interest rates in general; and

§ Reductions in crediting rates after the first quarter of 2010;

- Higher earnings from our variable annuity and mutual fund (within our Defined Contribution segment) products as a result of higher average account values driven by increases in the equity markets;
- A lower DAC, VOBA, DSI and DFEL amortization rate, net of interest, excluding unlocking, during the first quarter of 2011, and a $13 million favorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for life insurance and annuity products with living benefit and death benefit guarantees during the first quarter of 2011, compared to a $26 million favorable retrospective unlocking during the first quarter of 2010:

§

The lower amortization rate during the first quarter of 2011 was due primarily to higher EGPs attributable to rider fees related to our products with living benefit guarantees and an overall shift in business mix towards products with lower deferrable expense rates;

- The favorable retrospective unlocking during the first quarter of 2011 was due primarily to higher equity markets, expense assessments and prepayment and bond makewhole premiums and lower lapses than our model projections assumed, partially offset by lower premiums received than our model projections assumed; and
- The favorable retrospective unlocking during the first quarter of 2010 was due primarily to higher equity markets and expense assessments and lower lapses than our model projections assumed; and

- A decrease in realized losses attributable primarily to lower other-than-temporary impairment ("OTTI") due to overall improvement in the credit markets.

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

- Higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to:
  - § Higher account values driving higher trail commissions;
  - § Higher incentive compensation accruals as a result of higher earnings and production performance relative to targets;
  - § Investments in strategic initiatives related to updating information technology and expanding distribution and support during the first quarter of 2011; and
  - § An increase in expenses associated with reserve financing supporting our secondary guarantee UL and term business due primarily to higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see "Results of Insurance Solutions – Life Insurance – Income (Loss) from Operations – Strategies to Address Statutory Reserve Strain" below for more information);
- Income from discontinued operations of $28 million during the first quarter of 2010 related to our former Lincoln UK and Investment Management segments (see Note 3 for more information on our discontinued operations);
- Higher benefits, excluding unlocking, driven primarily by:
  - § Continued growth in our businesses; partially offset by
  - § Favorable mortality experience on single-premium immediate annuities and a decrease in the change in GDB reserves due to a decrease in our expected GDB benefit payments attributable primarily to the increase in account values above guaranteed levels due to the more favorable equity markets; and
  - § Lower death claims as a percentage of business in force; and
- A $14 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for life insurance and annuity products with living benefit and death benefit guarantees during the first quarter of 2011 compared to a $21 million favorable prospective unlocking during the first quarter of 2010 (see "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL" for more information):
  - § The favorable prospective unlocking during the first quarter of 2011 was recorded in the Insurance Solutions – Life Insurance segment and was due to a $17 million favorable unlocking from model refinements, net of a $3 million unfavorable unlocking from assumption changes; and
  - § The favorable prospective unlocking during the first quarter of 2010 was due to assumption changes in the Retirement Solutions – Annuities segment.

The foregoing items are discussed in further detail in results of operations by segment discussions and "Realized Gain (Loss)" below. In addition, for a discussion of the earnings effect of the equity markets, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Effect of Equity Market Sensitivity."

RESULTS OF RETIREMENT SOLUTIONS

The Retirement Solutions business provides its products through two segments: Annuities and Defined Contribution. The Retirement Solutions – Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities, and variable annuities. The Retirement Solutions – Defined Contribution segment provides employer-sponsored variable and fixed annuities, defined benefit, individual retirement accounts and mutual-fund based programs in the retirement plan marketplaces.

For factors that could cause actual results to differ materially from those set forth in this section, see “Part I – Item 1A. Risk Factors” in our 2010 Form 10-K and “Forward-Looking Statements – Cautionary Language” above.

Retirement Solutions – Annuities

Income (Loss) from Operations

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

	For the Three Months Ended March 31,		
	2011	2010	Change
Operating Revenues			
Insurance premiums (1)	$ 23	$ 10	130%
Insurance fees	310	260	19%
Net investment income	288	271	6%
Operating realized gain (loss)	22	15	47%
Other revenues and fees (2)	89	74	20%
Total operating revenues	732	630	16%
Operating Expenses			
Interest credited	174	176	-1%
Benefits	35	44	-20%
Underwriting, acquisition, insurance and other expenses	334	260	28%
Total operating expenses	543	480	13%
Income (loss) from operations before taxes	189	150	26%
Federal income tax expense (benefit)	42	31	35%
Income (loss) from operations	$ 147	$ 119	24%

(1) Includes primarily our single premium immediate annuities, which have a corresponding offset in benefits for changes in reserves.

(2) Consists primarily of fees attributable to broker-dealer services that are subject to market volatility.

Comparison of the Three Months Ended March 31, 2011 to 2010

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

- Higher insurance fees driven primarily by higher average daily variable account values due to more favorable equity markets;
- A $27 million favorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders and a lower DAC, VOBA, DSI and DFEL amortization rate, net of interest, excluding unlocking, during the first quarter of 2011, compared to a $24 million favorable retrospective unlocking during the first quarter of 2010:

§ The favorable retrospective unlocking during the first quarter of 2011 was due primarily to higher equity markets, expense assessments and prepayment and bond makewhole premiums and lower lapses than our model projections assumed;

§ The lower amortization rate during the first quarter of 2011 was due primarily to higher EGPs attributable to rider fees related to our products with living benefit guarantees; and

§ The favorable retrospective unlocking during the first quarter of 2010 was due primarily to higher equity markets and expense assessments and lower lapses than our model projections assumed;

- Higher net investment income and relatively flat interest credited, excluding unlocking, driven primarily by:

§ Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to positive net flows, partially offset by transfers from fixed to variable since the first quarter of 2010; and

§ Higher prepayment and bond makewhole premiums and more favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” and “Consolidated Investments – Alternative Investments” below for more information); partially offset by

§ The decline in new money rates and interest rates in general; and

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- Lower benefits due to favorable mortality experience on single-premium immediate annuities and a decrease in the change in GDB reserves due to a decrease in our expected GDB benefit payments attributable primarily to the increase in account values above guaranteed levels due to the more favorable equity markets.

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

- A $21 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders during the first quarter of 2010 from assumption changes due to including an estimate in our models for rider fees related to our annuity products with living benefit guarantees; and
- Higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to:
  - § Higher account values driving higher trail commissions; and
  - § Investments in strategic initiatives related to updating information technology and expanding distribution and support during the first quarter of 2011.

Additional Information

During 2010, we completed the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business, which we deemed to be the most significant, as discussed in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” in our 2010 Form 10-K. We have other blocks of business that we intend to convert in 2011. Although we expect some differences to emerge as a result of the planned conversion of the other blocks of business, based upon the current status of these efforts, we are not able to provide an estimate or range of the effects to our results of operations until completion of the conversion.

We made strategic investments during 2010 and the first quarter of 2011 that resulted in higher expenses, and we expect this trend will continue for the remainder of 2011.

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 are an important indicator of future profitability.

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity products was 8% for the first quarter of 2011 compared to 7% for the corresponding period in 2010.

See Note 8 for information on contractual guarantees to contract holders related to GDB features for our Retirement Solutions business.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and the interest rate risk due to falling interest rates, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein and “Part I – Item 1A. Risk Factors – 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 2010 Form 10-K.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain (loss), see "Realized Gain (Loss)" below.

Insurance Fees

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

	For the Three Months Ended March 31,		
	2011	2010	Change
Insurance Fees			
Mortality, expense and other assessments	$ 310	$ 262	18%
Surrender charges	11	11	0%
DFEL:			
Deferrals	(17)	(17)	0%
Amortization, net of interest:			
Retrospective unlocking	-	(1)	100%
Amortization, net of interest, excluding unlocking	6	5	20%
Total insurance fees	$ 310	$ 260	19%

	As of March 31,		
	2011	2010	Change
Account Values			
Variable portion of variable annuities	$ 67,787	$ 57,815	17%
Fixed portion of variable annuities	3,304	3,896	-15%
Total variable annuities	71,091	61,711	15%
Fixed annuities, including indexed	17,643	16,146	9%
Fixed annuities ceded to reinsurers	(949)	(1,011)	6%
Total fixed annuities	16,694	15,135	10%
Total account values	$ 87,785	$ 76,846	14%

	For the Three Months Ended March 31,		
	2011	2010	Change
Averages			
Daily variable account values, excluding the fixed portion of variable	$ 66,459	$ 55,809	19%
Daily S&P 500 Index® (“S&P 500”)	1,302.22	1,121.45	16%

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	For the Three Months Ended March 31,		
	2011	2010	Change
Net Flows on Account Values			
Variable portion of variable annuity deposits	$ 1,523	$ 1,138	34%
Variable portion of variable annuity withdrawals	(1,643)	(1,215)	-35%
Variable portion of variable annuity net flows	(120)	(77)	-56%
Fixed portion of variable annuity deposits	661	727	-9%
Fixed portion of variable annuity withdrawals	(89)	(98)	9%
Fixed portion of variable annuity net flows	572	629	-9%
Total variable annuity deposits	2,184	1,865	17%
Total variable annuity withdrawals	(1,732)	(1,313)	-32%
Total variable annuity net flows	452	552	-18%
Fixed indexed annuity deposits	377	324	16%
Fixed indexed annuity withdrawals	(158)	(124)	-27%
Fixed indexed annuity net flows	219	200	10%
Other fixed annuity deposits	78	87	-10%
Other fixed annuity withdrawals	(266)	(264)	-1%
Other fixed annuity net flows	(188)	(177)	-6%
Total annuity deposits	2,639	2,276	16%
Total annuity withdrawals	(2,156)	(1,701)	-27%
Total annuity net flows	$ 483	$ 575	-16%

	For the Three Months Ended March 31,		
	2011	2010	Change
Other Changes to Account Values			
Change in market value on variable, excluding the fixed portion of variable	$ 2,217	$ 1,752	27%
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	832	772	8%

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 account values are driven by net flows and the equity markets. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Insurance fees include charges on both our variable and fixed annuity products, but exclude the attributed fees on our GLB products; see "Realized Gain (Loss) – Operating Realized Gain (Loss) – GLB" below for discussion of these attributed fees.

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,		
	2011	2010	Change
Net Investment Income			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 248	$ 248	0%
Commercial mortgage loan prepayment and bond makewhole premiums (1)	12	1	NM
Surplus investments (2)	28	22	27%
Total net investment income	$ 288	$ 271	6%
Interest Credited			
Amount provided to contract holders	$ 171	$ 182	-6%
DSI deferrals	(10)	(19)	47%
Interest credited before DSI amortization	161	163	-1%
DSI amortization:			
Retrospective unlocking	(3)	(2)	-50%
Amortization, excluding unlocking	16	15	7%
Total interest credited	$ 174	$ 176	-1%

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole 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.

	For the Three Months Ended March 31,		Basis Point
	2011	2010	Change
Interest Rate Spread			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.28%	5.63%	(35)
Commercial mortgage loan prepayment and bond make whole premiums	0.26%	0.02%	24
Net investment income yield on reserves	5.54%	5.65%	(11)
Interest rate credited to contract holders	3.31%	3.52%	(21)
Interest rate spread	2.23%	2.13%	10

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

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	For the Three Months Ended March 31,		
	2011	2010	Change
Other Information			
Average invested assets on reserves	$ 18,790	$ 17,658	6%
Average fixed account values, including the fixed portion of variable	20,479	19,485	5%
Transfers to the fixed portion of variable annuity products from the variable portion of variable annuity products	(832)	(772)	-8%
Net flows for fixed annuities, including the fixed portion of variable	603	652	-8%

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management program interest expense and interest on collateral divided by average invested assets on reserves. The average invested assets on reserves is calculated based upon total invested assets, excluding hedge derivatives and collateral. The average crediting rate is calculated as interest credited before DSI amortization, plus the immediate annuity reserve change (included within benefits) divided by the average fixed account values, including the fixed portion of variable annuity contracts, net of coinsured account values. Fixed account values reinsured under modified coinsurance agreements are included in account values for this calculation. Changes in commercial mortgage loan prepayments and bond makewhole 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 reserves of immediate annuity account values driven by premiums, changes in GDB and GLB benefit reserves and our expected costs associated with purchases of derivatives used to hedge our GDB benefit ratio unlocking.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended March 31,		
	2011	2010	Change
Underwriting, Acquisition, Insurance and Other Expenses			
Commissions:			
Deferrable	$ 112	$ 97	15%
Non-deferrable	65	53	23%
General and administrative expenses	87	78	12%
Taxes, licenses and fees	8	8	0%
Total expenses incurred, excluding broker-dealer	272	236	15%
DAC deferrals	(150)	(132)	-14%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	122	104	17%
DAC and VOBA amortization, net of interest:			
Prospective unlocking - assumption changes	-	(32)	100%
Retrospective unlocking	(29)	(28)	-4%
Amortization, net of interest, excluding unlocking	149	141	6%
Broker-dealer expenses incurred	92	75	23%
Total underwriting, acquisition, insurance and other expenses	$ 334	$ 260	28%
DAC Deferrals			
As a percentage of sales/deposits	5.7%	5.8%	

Commissions and other costs that vary with and are related primarily to the production of new business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain of our 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 and fees.

Retirement Solutions – Defined Contribution

Income (Loss) from Operations

Details underlying the results for Retirement Solutions – Defined Contribution (in millions) were as follows:

	For the Three Months Ended March 31,		
	2011	2010	Change
Operating Revenues			
Insurance fees	$ 55	$ 50	10%
Net investment income	205	186	10%
Other revenues and fees (1)	3	4	-25%
Total operating revenues	263	240	10%
Operating Expenses			
Interest credited	108	110	-2%
Benefits	-	2	-100%
Underwriting, acquisition, insurance and other expenses	85	78	9%
Total operating expenses	193	190	2%
Income (loss) from operations before taxes	70	50	40%
Federal income tax expense (benefit)	21	14	50%
Income (loss) from operations	$ 49	$ 36	36%

(1) Consists primarily of mutual fund account program fees for mid-to-large employers.

Comparison of the Three Months Ended March 31, 2011 to 2010

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

- Higher net investment income and relatively flat interest credited driven primarily by:
  - § Higher prepayment and bond makewhole premiums and more favorable investment income on alternative investments within our surplus portfolio (see "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums" and "Consolidated Investments – Alternative Investments" below for more information);
  - § Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to transfers from variable to fixed since the first quarter of 2010; and
  - § Reductions in crediting rates after the first quarter of 2010;
- A $2 million favorable retrospective unlocking of DAC, VOBA and DSI and a lower DAC, VOBA and DSI amortization rate, net of interest and excluding unlocking, during the first quarter of 2011, compared to a $1 million unfavorable retrospective unlocking during the first quarter of 2010:
  - § The favorable retrospective unlocking during the first quarter of 2011 was due primarily to higher equity markets and prepayment and bond makewhole premiums than our model projections assumed, partially offset by higher lapses than our model projections assumed;
  - § The lower amortization rate during the first quarter of 2011 was due primarily to an overall shift in business mix towards products with lower deferrable expense rates for this segment and no VOBA amortization during the first quarter of 2011 as our VOBA balance became fully amortized during the fourth quarter of 2010; and

§ The unfavorable retrospective unlocking during the first quarter of 2010 was due primarily to higher lapses than our model projections assumed; and

- Higher insurance fees driven primarily by higher average daily variable account values due to higher equity markets, partially offset by an overall shift in business mix toward products with lower expense assessment rates.

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The increase in income from operations was partially offset by higher underwriting, acquisition, insurance and other expenses, excluding unlocking, due primarily to the following:

- Investments in strategic initiatives related to updating information technology and expanding distribution during the first quarter of 2011, as discussed in "Additional Information" below; and
- Higher account values driving higher trail commissions.

Additional Information

We made strategic investments during 2010 and the first quarter of 2011 that resulted in higher expenses, and we expect this trend will continue for the remainder of 2011.

Net flows in this business fluctuate based on the timing of larger plans rolling onto our platform and rolling off over the course of the year, and we expect this trend will continue for the remainder of 2011.

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 are an important indicator of future profitability. The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity and mutual fund products was 12% for the first quarter of 2011 compared to 13% for the corresponding period in 2010.

Our lapse rate is negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Account Value Roll Forward table below as "Total Multi-Fund® and Other Variable Annuities"), which are also our higher margin product lines in this segment, due to the fact that they are mature blocks with much of the account values out of their surrender charge period. The proportion of these products to our total account values was 41% and 44% as of March 31, 2011 and 2010, respectively. Due to this expected overall shift in business mix toward products with lower returns, a significant increase in new deposit production will be necessary to maintain earnings at current levels.

See Note 8 for information on contractual guarantees to contract holders related to GDB features for our Retirement Solutions business.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on a quarterly basis. Our ability to retain quarterly reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and the interest rate risk due to falling interest rates, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" herein and "Part I – Item 1A. Risk Factors – 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 2010 Form 10-K.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

Insurance Fees

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

	For the Three Months Ended March 31,		
	2011	2010	Change
Insurance Fees			
Annuity expense assessments	$ 46	$ 43	7%
Mutual fund fees	8	6	33%
Total expense assessments	54	49	10%
Surrender charges	1	1	0%
Total insurance fees	$ 55	$ 50	10%

	For the Three Months Ended March 31,		
Averages	2011	2010	Change
Daily variable annuity account values, excluding the fixed portion of variable	$ 14,178	$ 12,909	10%
Daily S&P 500	1,302.22	1,121.45	16%

	As of March 31,		
	2011	2010	Change
Account Values			
Variable portion of variable annuities	$ 14,400	$ 13,250	9%
Fixed portion of variable annuities	6,149	6,096	1%
Total variable annuities	20,549	19,346	6%
Fixed annuities	6,807	6,324	8%
Total annuities	27,356	25,670	7%
Mutual funds (1)	12,952	11,029	17%
Total annuities and mutual funds	$ 40,308	$ 36,699	10%

(1) Includes mutual fund account values and other third-party trustee-held assets. These items are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

	For the Three Months Ended March 31,		
	2011	2010	Change
Account Value Roll Forward – By Product			
Total Micro – Small Segment:			
Balance as of beginning-of-period	$ 6,396	$ 5,863	9%
Gross deposits	326	342	-5%
Withdrawals and deaths	(384)	(422)	9%
Net flows	(58)	(80)	28%
Transfers between fixed and variable accounts	(6)	(1)	NM
Investment increase and change in market value	262	184	42%
Balance as of end-of-period	$ 6,594	$ 5,966	11%
Total Mid – Large Segment:			
Balance as of beginning-of-period	$ 16,207	$ 13,653	19%
Gross deposits	831	769	8%
Withdrawals and deaths	(398)	(350)	-14%
Net flows	433	419	3%
Transfers between fixed and variable accounts	(21)	6	NM
Other (1)	-	186	-100%
Investment increase and change in market value	605	503	20%
Balance as of end-of-period	$ 17,224	$ 14,767	17%
Total Multi-Fund® and Other Variable Annuities:			
Balance as of beginning-of-period	$ 16,221	$ 15,786	3%
Gross deposits	184	196	-6%
Withdrawals and deaths	(425)	(426)	0%
Net flows	(241)	(230)	-5%
Investment increase and change in market value	510	410	24%
Balance as of end-of-period	$ 16,490	$ 15,966	3%
Total Annuities and Mutual Funds:			
Balance as of beginning-of-period	$ 38,824	$ 35,302	10%
Gross deposits	1,341	1,307	3%
Withdrawals and deaths	(1,207)	(1,198)	-1%
Net flows	134	109	23%
Transfers between fixed and variable accounts	(27)	5	NM
Other (1)	-	186	-100%
Investment increase and change in market value	1,377	1,097	26%

Balance as of end-of-period	$ 40,308	$ 36,699	10%

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(1) Includes mutual fund account values and other third-party trustee-held assets. These items are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

	For the Three Months Ended March 31,		
	2011	2010	Change
Net Flows on Account Values			
Variable portion of variable annuity deposits	$ 415	$ 441	-6%
Variable portion of variable annuity withdrawals	(587)	(637)	8%
Variable portion of variable annuity net flows	(172)	(196)	12%
Fixed portion of variable annuity deposits	77	80	-4%
Fixed portion of variable annuity withdrawals	(176)	(167)	-5%
Fixed portion of variable annuity net flows	(99)	(87)	-14%
Total variable annuity deposits	492	521	-6%
Total variable annuity withdrawals	(763)	(804)	5%
Total variable annuity net flows	(271)	(283)	4%
Fixed annuity deposits	269	236	14%
Fixed annuity withdrawals	(160)	(174)	8%
Fixed annuity net flows	109	62	76%
Total annuity deposits	761	757	1%
Total annuity withdrawals	(923)	(978)	6%
Total annuity net flows	(162)	(221)	27%
Mutual fund deposits	580	550	5%
Mutual fund withdrawals	(284)	(220)	-29%
Mutual fund net flows	296	330	-10%
Total annuity and mutual fund deposits	1,341	1,307	3%
Total annuity and mutual fund withdrawals	(1,207)	(1,198)	-1%
Total annuity and mutual fund net flows	$ 134	$ 109	23%

	For the Three Months Ended March 31,		
	2011	2010	Change
Other Changes to Account Values			
Change in market value on variable, excluding the fixed portion of variable	$ 695	$ 515	35%
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	(50)	(22)	NM

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. In addition, for both our fixed and variable annuity contracts, we collect surrender charges when contract holders surrender their contracts during the surrender charge periods to protect us from premature withdrawals.

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,		
	2011	2010	Change
Net Investment Income			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 177	$ 173	2%
Commercial mortgage loan prepayment and bond makewhole premiums (1)	11	-	NM
Alternative investments (2)	1	1	0%
Surplus investments (3)	16	12	33%
Total net investment income	$ 205	$ 186	10%
Interest Credited	$ 108	$ 110	-2%

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole 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,		Basis Point
	2011	2010	Change
Interest Rate Spread			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.61%	5.71%	(10)
Commercial mortgage loan prepayment and bond makewhole premiums	0.35%	0.01%	34
Alternative investments	0.03%	0.02%	1
Net investment income yield on reserves	5.99%	5.74%	25
Interest rate credited to contract holders	3.36%	3.58%	(22)
Interest rate spread	2.63%	2.16%	47

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Three Months Ended March 31,		
	2011	2010	Change
Other Information			
Average invested assets on reserves	$ 12,647	$ 12,131	4%
Average fixed account values, including the fixed portion of variable	12,872	12,330	4%
Transfers to the fixed portion of variable annuity products from the variable portion of variable annuity products	50	22	127%
Net flows for fixed annuities, including the fixed portion of variable	10	(25)	140%

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management program interest expense and interest on collateral, divided by average invested assets on reserves. The average invested assets on reserves are calculated based upon total invested assets, excluding hedge derivatives. The average crediting rate is calculated as interest credited before DSI amortization, divided by the average fixed account values, including the fixed portion of variable annuity contracts. Commercial mortgage loan prepayments and bond makewhole 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 GDB and GLB benefit reserves and our expected costs associated with purchases of derivatives used to hedge our GDB benefit ratio unlocking.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended March 31,		
	2011	2010	Change
Underwriting, Acquisition, Insurance and Other Expenses			
Commissions:			
Deferrable	$ 6	$ 7	-14%
Non-deferrable	11	9	22%
General and administrative expenses	63	53	19%
Taxes, licenses and fees	5	4	25%
Total expenses incurred	85	73	16%
DAC deferrals	(16)	(16)	0%
Total expenses recognized before amortization	69	57	21%
DAC and VOBA amortization, net of interest:			
Retrospective unlocking	(3)	1	NM
Amortization, net of interest, excluding unlocking	19	20	-5%
Total underwriting, acquisition, insurance and other expenses	$ 85	$ 78	9%
DAC Deferrals			
As a percentage of annuity sales/deposits	2.1%	2.1%	

Commissions and other costs that vary with and are related primarily to the sale of annuity contracts are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain of our commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. We do not pay commissions on sales of our mutual fund products, and distribution expenses associated with the sale of these mutual fund products are expensed as incurred.

RESULTS OF INSURANCE SOLUTIONS

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Insurance Solutions – Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single (including corporate-owned UL and VUL ("COLI") and bank-owned UL and VUL ("BOLI")) and survivorship versions of UL and VUL insurance products. The Insurance Solutions – Group Protection segment offers group life, disability and dental insurance to employers.

For factors that could cause actual results to differ materially from those set forth in this section, see "Part I – Item 1A. Risk Factors" in our 2010 Form 10-K and "Forward-Looking Statements – Cautionary Language" above.

Insurance Solutions – Life Insurance

Income (Loss) from Operations

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	Change
Operating Revenues			
Insurance premiums	$ 108	$ 112	-4%
Insurance fees	452	477	-5%
Net investment income	579	530	9%
Other revenues and fees	8	9	-11%
Total operating revenues	1,147	1,128	2%
Operating Expenses			
Interest credited	302	297	2%
Benefits	448	399	12%
Underwriting, acquisition, insurance and other expenses	150	230	-35%
Total operating expenses	900	926	-3%
Income (loss) from operations before taxes	247	202	22%
Federal income tax expense (benefit)	81	65	25%
Income (loss) from operations	$ 166	$ 137	21%

Comparison of the Three Months Ended March 31, 2011 to 2010

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

- Higher net investment income and relatively flat interest credited attributable primarily to:
  - § Growth in business in force;
  - § More favorable investment income on alternative investments, including those within our surplus portfolio (see "Consolidated Investments – Alternative Investments"); and
  - § Reductions in crediting rates after the first quarter of 2010, discussed in "Additional Information" below;
-

An increase in insurance fees, excluding unlocking, attributable primarily to growth in insurance in force, partially offset by lower surrender charges due to lower surrender rates;

- A $14 million favorable prospective unlocking of DAC, VOBA and DFEL and secondary guarantee life insurance product reserves during the first quarter of 2011 due to a $17 million favorable unlocking from model refinements, net of a $3 million unfavorable unlocking from assumption changes related to secondary guarantee life insurance product reserves; and
- Relatively flat benefits, excluding unlocking, attributable primarily to lower death claims as a percentage of business in force.

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

- A $12 million unfavorable retrospective unlocking of DAC, VOBA and DFEL during the first quarter of 2011, compared to a $4 million unfavorable retrospective unlocking during the first quarter of 2010:
  - § The unfavorable retrospective unlocking during the first quarter of 2011 was due primarily to lower premiums received than our model projections assumed; and
  - § The unfavorable retrospective unlocking during the first quarter of 2010 was due primarily to lower premiums received and investment income on alternative investments and prepayment and bond makewhole premiums and higher death claims than our model projections assumed, partially offset by lower lapses and expenses than our model projections assumed; and
- An increase in underwriting, acquisition, insurance and other underwriting expenses, excluding unlocking, attributable primarily to:
  - § An increase in expenses associated with reserve financing supporting our secondary guarantee UL and term business due primarily to higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see "Strategies to Address Statutory Reserve Strain" below for more information); and
  - § Higher incentive compensation accruals as a result of higher earnings and production performance relative to targets.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and RBC levels above current regulatory required levels. Products containing secondary guarantees require reserves calculated under Actuarial Guideline 38, or The Application of the Valuation of Life Insurance Policies Model Regulation ("AG38"). Our insurance subsidiaries are employing strategies to reduce the strain of increasing AG38 and Valuation of Life Insurance Policies Model Regulation ("XXX") statutory reserves associated with secondary guarantee UL and term products. As discussed further below, we have been successful in executing reinsurance solutions to release capital to Other Operations. We expect to regularly execute transactions designed to release capital as we continue to sell products that are subject to these reserving requirements. We also plan to refinance prior transactions with long-term structured solutions. Recently, we introduced new secondary guarantee UL products that are more capital efficient, reducing our dependency on such reinsurance solutions.

Included in the letters of credit ("LOCs") issued as of March 31, 2011, and reported in the credit facilities table below in "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities," was approximately $1.2 billion of LOCs issued to support inter-company reinsurance arrangements, of which approximately $400 million was issued for UL business with secondary guarantees and approximately $800 million was issued for term business. LOCs and related capital market alternatives lower the capital effect of secondary guarantee UL products. An inability to obtain the necessary LOC capacity or other capital market alternatives could affect our returns on our in-force secondary guarantee UL business. However, we believe that our insurance subsidiaries have sufficient capital to support the increase in statutory reserves if such structures are not available. See "Part I – Item 1A. Risk Factors – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations" in our 2010 Form 10-K for further information on XXX reserves. Our expenses associated with reserve financing are separately reflected in the underwriting, acquisition, insurance and other expenses table below. We expect these expenses will approximately double in 2011 as compared to the level we experienced in 2010 as a result of higher pricing that has

occurred in reaction to the unfavorable market conditions experienced during the recession and our expectation to execute additional reserve financing arrangements.

Additional Information

We are in the process of completing a conversion of our actuarial valuation systems to a uniform valuation platform for a significant portion of this segment's blocks of business as discussed in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL" in our 2010 Form 10-K. Although we expect some differences to emerge as a result of this exercise, based upon the current status of these efforts, we are not able to provide an estimate or range of the effects to our results of operations until completion of the conversion.

We made strategic investments during 2010 and the first quarter of 2011 that resulted in higher expenses, and we expect this trend will continue for the remainder of 2011.

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. On January 1, 2011, we implemented a 65 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which reduced overall crediting rates by approximately 7 basis points. During the fourth quarter of 2010, we locked in Treasury rates by executing reverse treasury locks on $1.0 billion of assets backing our secondary guarantee business at rates in excess of those required by product pricing. These locks will mature over 2012 to 2016. During the third quarter of 2010, we lowered our new money investment yield assumption to reflect the then current new money rates and to approximate the forward curve for interest rates relevant at such time. The result was a drop in the current new money investment rate followed by a gradual annual recovery over eight years to a rate of 6.31%, 54 basis points below our previous ultimate long-term assumption of 6.85%. This assumption revision had the effect of lowering the projected EGPs for this segment, thereby increasing our rate of amortization, which results in higher DAC, VOBA and DFEL amortization and lower earnings for this segment.

For information on interest rate spreads and the interest rate risk due to falling interest rates, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" herein and "Part I – Item 1A. Risk Factors – 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 2010 Form 10-K.

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.

Insurance Premiums

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

Insurance Fees

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

	For the Three Months Ended March 31,		
	2011	2010	Change
Insurance Fees			
Mortality assessments	$ 325	$ 318	2%
Expense assessments	230	199	16%
Surrender charges	23	31	-26%
DFEL:			
Deferrals	(126)	(118)	-7%
Amortization, net of interest:			
Prospective unlocking - assumption changes	(2)	-	NM
Prospective unlocking - model refinements	(18)	-	NM

Retrospective unlocking		(11)		8	NM
Amortization, net of interest, excluding unlocking		31		39	-21%
Total insurance fees	$	452	$	477	-5%

	For the Three Months Ended March 31,		
	2011	2010	Change
Sales by Product			
UL:			
Excluding MoneyGuard®	$ 85	$ 90	-6%
MoneyGuard®	34	18	89%
Total UL	119	108	10%
VUL	10	8	25%
COLI and BOLI	17	7	143%
Term	13	20	-35%
Total sales	$ 159	$ 143	11%
Net Flows			
Deposits	$ 1,270	$ 1,077	18%
Withdrawals and deaths	(449)	(475)	5%
Net flows	$ 821	$ 602	36%
Contract holder assessments	$ 806	$ 763	6%

	As of March 31,		
	2011	2010	Change
Account Values			
UL	$ 26,585	$ 25,194	6%
VUL	5,294	4,629	14%
Interest-sensitive whole life	2,270	2,251	1%
Total account values	$ 34,149	$ 32,074	6%
In-Force Face Amount			
UL and other	$ 299,920	$ 292,204	3%
Term insurance	266,764	254,115	5%
Total in-force face amount	$ 566,684	$ 546,319	4%

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality 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. Insurance in force, in turn, is driven by sales, persistency and mortality experience. In-force growth should be considered independently with respect to term products versus UL and other products, as term products have a lower profitability relative to face amount compared to interest-sensitive and other products.

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

- UL (excluding linked-benefit products) and VUL (including COLI and BOLI) – first year commissionable premiums plus 5% of excess premiums received, including an adjustment for internal replacements of approximately 50% of commissionable premiums;
- MoneyGuard® (our linked-benefit product) – 15% of premium deposits; and

- Term – 100% of first year paid premiums.

UL and VUL products with secondary guarantees represented approximately 39% of interest-sensitive life insurance in force as of March 31, 2011, and approximately 50% of sales for the first three months of 2011. Actuarial Guideline 37, or Variable Life Reserves for Guaranteed Minimum Death Benefits, and AG38 impose additional statutory reserve requirements for these products.

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,		
	2011	2010	Change
Net Investment Income			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 517	$ 489	6%
Commercial mortgage loan prepayment and bond makewhole premiums (1)	4	4	0%
Alternative investments (2)	25	13	92%
Surplus investments (3)	33	24	38%
Total net investment income	$ 579	$ 530	9%
Interest Credited	$ 302	$ 297	2%

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole 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,		Basis Point
	2011	2010	Change
Interest Rate Yields and Spread			
Attributable to interest-sensitive products:			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.91%	5.82%	9
Commercial mortgage loan prepayment and bond makewhole premiums	0.04%	0.05%	(1)
Alternative investments	0.32%	0.18%	14
Net investment income yield on reserves	6.27%	6.05%	22
Interest rate credited to contract holders	4.08%	4.18%	(10)
Interest rate spread	2.19%	1.87%	32
Attributable to traditional products:			
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.89%	6.23%	(34)
Commercial mortgage loan prepayment			

and bond makewhole premiums	0.10%	0.00%	10
Alternative investments	0.02%	0.02%	-
Net investment income yield on reserves	6.01%	6.25%	(24)

	For the Three Months Ended March 31,		
	2011	2010	Change
Averages			
Attributable to interest-sensitive products:			
Invested assets on reserves	$ 30,793	$ 28,772	7%
Account values - universal and whole life	29,440	28,050	5%
Attributable to traditional products:			
Invested assets on reserves	4,273	4,507	-5%

A portion of the investment income earned for this segment is credited to contract holder accounts. Invested assets will typically grow at a faster rate than account values because of the AG38 reserve requirements, which cause statutory reserves to grow at a faster rate than account values. Invested assets are based upon the statutory reserve liabilities and are therefore affected by various reserve adjustments, including capital transactions providing relief from AG38 reserve requirements, which leads to a transfer of invested assets from this segment to Other Operations for use in other corporate purposes. 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. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate on interest-sensitive products. The yield on invested assets on reserves is calculated as net investment income, excluding amounts attributable to our surplus investments and reverse repurchase agreement interest expense, divided by average invested assets on reserves. In addition, we exclude the effect of earnings from affordable housing tax credit securities, which is reflected as a reduction to federal income tax expense, from our spread calculations. We use our investment income to offset the earnings effect of the associated build of our policy reserves for traditional products. Commercial mortgage loan prepayments and bond makewhole 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,		
	2011	2010	Change
Benefits			
Death claims direct and assumed	$ 699	$ 666	5%
Death claims ceded	(318)	(297)	-7%
Reserves released on death	(132)	(117)	-13%
Net death benefits	249	252	-1%
Change in secondary guarantee life insurance product reserves:			
Prospective unlocking - assumption changes	10	-	NM
Prospective unlocking - model refinements	33	-	NM

Change in reserves, excluding unlocking	109	77	42%
Other benefits (1)	47	70	-33%
Total benefits	$ 448	$ 399	12%
Death claims per $1,000 of in-force	1.76	1.85	-5%

(1) Includes primarily traditional product changes in reserves and dividends.

Benefits for this segment includes claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits includes the change in secondary guarantee life insurance product reserves. The reserve for secondary guarantees is affected by changes in expected future trends of expense assessments causing unlocking adjustments to this liability similar to DAC, VOBA and DFEL.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended March 31,		
	2011	2010	Change
Underwriting, Acquisition, Insurance and Other Expenses			
Commissions	$ 173	$ 167	4%
General and administrative expenses	112	103	9%
Expenses associated with reserve financing	14	4	250%
Taxes, licenses and fees	36	32	13%
Total expenses incurred	335	306	9%
DAC and VOBA deferrals	(234)	(223)	-5%
Total expenses recognized before amortization	101	83	22%
DAC and VOBA amortization, net of interest:			
Prospective unlocking - assumption changes	(8)	-	NM
Prospective unlocking - model refinements	(78)	-	NM
Retrospective unlocking	8	15	-47%
Amortization, net of interest, excluding unlocking	126	131	-4%
Other intangible amortization	1	1	0%
Total underwriting, acquisition, insurance and other expenses	$ 150	$ 230	-35%
DAC and VOBA Deferrals			
As a percentage of sales	147.2%	155.9%	

Commissions and other general and administrative expenses that vary with and are related primarily to the production of new business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives 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, 2011 and 2010, the decrease is primarily a result of incurred deferrable commissions declining at a rate higher than sales

attributable primarily to changes in sales mix to products with lower commission rates.

Insurance Solutions – Group Protection

Income (Loss) from Operations

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

For the Three
Months Ended
March 31,