LINCOLN NATIONAL CORP
Form 10-Q
May 02, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock	LNC	New York Stock Exchange
Warrants, each to purchase one share of common stock	LNC.WS	New York Stock Exchange

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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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 29, 2019, there were 202,343,277 shares of the registrant’s common stock outstanding.

Lincoln National Corporation

Table of Contents

Item		Page
PART I		
1.	Financial Statements	1
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	46
	Forward-Looking Statements – Cautionary Language	46
	Introduction	47
	Executive Summary	47
	Critical Accounting Policies and Estimates	48
	Results of Consolidated Operations	49
	Results of Annuities	51
	Results of Retirement Plan Services	56
	Results of Life Insurance	60
	Results of Group Protection	64
	Results of Other Operations	67
	Realized Gain (Loss) and Benefit Ratio Unlocking	69
	Consolidated Investments	71

	Review of Consolidated Financial Condition	83
	Liquidity and Capital Resources	83
3.	Quantitative and Qualitative Disclosures About Market Risk	87
4.	Controls and Procedures	87
PART II		
1.	Legal Proceedings	88
1A.	Risk Factors	88
2.	Unregistered Sales of Equity Securities and Use of Proceeds	88
6.	Exhibits	88
	Exhibit Index for the Report on Form 10-Q	89
	Signatures	90

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of March 31, 2019 (Unaudited)	As of December 31, 2018
ASSETS		
Investments:		
Fixed maturity available-for-sale securities, at fair value (amortized cost: 2019 – $92,894; 2018 – $92,429)	$ 98,050	$ 94,024
Trading securities	3,314	1,950
Equity securities	153	99
Mortgage loans on real estate	13,997	13,260
Policy loans	2,498	2,509
Derivative investments	981	1,107
Other investments	2,752	2,267
Total investments	121,745	115,216
Cash and invested cash	1,593	2,345
Deferred acquisition costs and value of business acquired	9,441	10,264
Premiums and fees receivable	607	570
Accrued investment income	1,184	1,119
Reinsurance recoverables	17,660	17,748
Funds withheld reinsurance assets	549	557
Goodwill	1,778	1,782
Other assets	16,373	15,713
Separate account assets	143,369	132,833
Total assets	$ 314,299	$ 298,147
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 34,009	$ 34,648
Other contract holder funds	93,959	91,233
Short-term debt	300	-
Long-term debt	5,572	5,839
Reinsurance related embedded derivatives	177	3
Funds withheld reinsurance liabilities	1,762	1,740
Payables for collateral on investments	5,362	4,805
Other liabilities	13,372	12,696
Separate account liabilities	143,369	132,833
Total liabilities	297,882	283,797

Contingencies and Commitments (See Note 11)

Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 202,987,229 and 205,862,760 shares issued and outstanding as of March 31, 2019, and December 31, 2018, respectively	5,285	5,392
Retained earnings	8,679	8,551
Accumulated other comprehensive income (loss)	2,453	407
Total stockholders' equity	16,417	14,350
Total liabilities and stockholders' equity	$ 314,299	$ 298,147

See accompanying Notes to Consolidated Financial Statements

1

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended March 31,	
	2019	2018
Revenues		
Insurance premiums	$ 1,446	$ 777
Fee income	1,475	1,456
Net investment income	1,251	1,233
Realized gain (loss):		
Total other-than-temporary impairment losses on securities	(23)	(2)
Portion of loss recognized in other comprehensive income	15	-
Net other-than-temporary impairment losses on securities recognized in earnings	(8)	(2)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(354)	14
Total realized gain (loss)	(362)	12
Amortization of deferred gain on business sold through reinsurance	8	-
Other revenues	147	131
Total revenues	3,965	3,609
Expenses		
Interest credited	678	653
Benefits	1,757	1,358
Commissions and other expenses	1,176	1,057
Interest and debt expense	71	91
Strategic digitization expense	15	15
Total expenses	3,697	3,174
Income (loss) before taxes	268	435
Federal income tax expense (benefit)	16	68
Net income (loss)	252	367
Other comprehensive income (loss), net of tax	2,046	(1,639)
Comprehensive income (loss)	$ 2,298	$ (1,272)
Net Income (Loss) Per Common Share		
Basic	$ 1.23	$ 1.68
Diluted	1.22	1.64
Cash Dividends Declared Per Common Share	$ 0.37	$ 0.33

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,	
	2019	2018
Common Stock		
Balance as of beginning-of-year	$ 5,392	$ 5,693
Stock compensation/issued for benefit plans	(5)	7
Retirement of common stock/cancellation of shares	(102)	-
Balance as of end-of-period	5,285	5,700
Retained Earnings		
Balance as of beginning-of-year	8,551	8,399
Cumulative effect from adoption of new accounting standards	-	(642)
Net income (loss)	252	367
Retirement of common stock	(48)	-
Common stock dividends declared	(76)	(72)
Balance as of end-of-period	8,679	8,052
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	407	3,230
Cumulative effect from adoption of new accounting standards	-	642
Other comprehensive income (loss), net of tax	2,046	(1,639)
Balance as of end-of-period	2,453	2,233
Total stockholders' equity as of end-of-period	$ 16,417	$ 15,985

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,	
	2019	2018
Cash Flows from Operating Activities		
Net income (loss)	$ 252	$ 367
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(70)	6
Trading securities purchases, sales and maturities, net	(1,209)	39
Change in premiums and fees receivable	(37)	(84)
Change in accrued investment income	(65)	(59)
Change in future contract benefits and other contract holder funds	(348)	(104)
Change in reinsurance related assets and liabilities	(299)	(113)
Change in accrued expenses	(56)	(41)
Change in federal income tax accruals	16	68
Realized (gain) loss	362	(12)
Amortization of deferred gain on business sold through reinsurance	(8)	-
Other	131	73
Net cash provided by (used in) operating activities	(1,331)	140
Cash Flows from Investing Activities		
Purchases of available-for-sale securities and equity securities	(4,404)	(2,020)
Sales of available-for-sale securities and equity securities	2,381	427
Maturities of available-for-sale securities	1,456	1,368
Purchases of alternative investments	(174)	(63)
Sales and repayments of alternative investments	32	31
Issuance of mortgage loans on real estate	(1,103)	(546)
Repayment and maturities of mortgage loans on real estate	242	261
Issuance and repayment of policy loans, net	11	11
Net change in collateral on investments, derivatives and related settlements	488	(32)
Other	(62)	(32)
Net cash provided by (used in) investing activities	(1,133)	(595)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	-	(487)
Issuance of long-term debt, net of issuance costs	-	1,094
Payment related to early extinguishment of debt	-	(23)
Deposits of fixed account values, including the fixed portion of variable	4,042	2,765
Withdrawals of fixed account values, including the fixed portion of variable	(1,570)	(1,498)

Transfers to and from separate accounts, net	(507)	(686)
Common stock issued for benefit plans	(26)	(9)
Repurchase of common stock	(150)	-
Dividends paid to common stockholders	(77)	(72)
Net cash provided by (used in) financing activities	1,712	1,084
Net increase (decrease) in cash, invested cash and restricted cash	(752)	629
Cash, invested cash and restricted cash as of beginning-of-year	2,345	1,628
Cash, invested cash and restricted cash as of end-of-period	$ 1,593	$ 2,257

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 and solutions. These products primarily include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed universal life insurance ("IUL"), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

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. As discussed in Note 3, on May 1, 2018, LNC and The Lincoln National Life Insurance Company ("LNL") completed the acquisition of Liberty Life Assurance Company of Boston ("Liberty Life"). 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, 2018 ("2018 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 condition, results of operations and cash flows, are summarized in our 2018 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 months ended March 31, 2019, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019. All material inter-company accounts and transactions have been eliminated in consolidation.

5

2. New Accounting Standards

Adoption of New Accounting Standards

The following table provides a description of our adoption of new Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board and the impact of the adoption on our financial statements. ASUs not listed below were assessed and determined to be either not applicable or insignificant in presentation or amount.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases and all related amendments	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet as a right-of-use ("ROU") asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the ROU asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.	January 1, 2019	We adopted this standard and all related amendments, which resulted in the recognition of $207 million in ROU assets and $214 million in operating lease liabilities reported in other assets and other liabilities, respectively, on our Consolidated Balance Sheets as of January 1, 2019. Comparative periods continue to be measured and presented under historical guidance, and only the period of adoption is subject to this ASU. Also, on transition, we have elected not to reassess: 1) whether expired or existing contracts contain a lease under the new definition of a lease; 2) lease classification for expired or existing leases; and 3) whether previously capitalized initial direct costs would qualify for capitalization under this ASU. Additionally, there is not a significant difference in our pattern of lease expense recognition under this ASU, and there is no impact on cash flows. For more information, see Note 11.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	These amendments require an entity to shorten the amortization period for certain callable debt securities held at a premium so that the premium is amortized to the earliest call date. Early adoption is permitted, and the ASU requires adoption under a modified retrospective basis through a cumulative effect adjustment to the beginning balance	January 1, 2019	We adopted the provisions of this ASU, which did not result in a change to our existing practices; therefore, no cumulative effect adjustment was recorded. As such, there was no impact on our consolidated financial condition and results of operations.

	of retained earnings.		
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	These amendments change both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments retain the threshold of highly effective for hedging relationships, remove the requirement to bifurcate between the portions of the hedging relationship that are effective and ineffective, record hedge item and hedging instrument results in the same financial statement line item, require quantitative assessment initially for all hedging relationships unless the hedging relationship meets the definition of either the shortcut method or critical terms match method and allow the contractual specified index rate to be designated as the hedged risk in a cash flow hedge of interest rate risk of a variable rate financial instrument. These amendments also eliminate the benchmark interest rate concept for variable rate instruments. Early adoption is permitted.	January 1, 2019	We adopted the provisions of this ASU, which did not have an impact on our consolidated financial condition and results of operations. This ASU does result in our modification of certain hedge documentation and effectiveness methods, which we have reflected in applicable disclosures in Note 6.

Future Adoption of New Accounting Standards

The following table provides a description of future adoptions of new accounting standards that may have an impact on our financial statements when adopted:

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	These amendments adopt a new model to measure and recognize credit losses for most financial assets. The method used to measure estimated credit losses for available-for-sale (“AFS”) debt securities will be unchanged from current GAAP; however, the amendments require credit losses to be recognized through an allowance rather than as a reduction to the amortized cost of those debt securities. The amendments will permit entities to recognize improvements in credit loss estimates on AFS debt securities by reducing the allowance account immediately through earnings. The amendments will be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.	January 1, 2020	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations, with a primary focus on our fixed maturity securities, mortgage loans and reinsurance recoverables.
ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	These amendments make changes to the accounting and reporting for long-duration contracts issued by an insurance entity that will significantly change how insurers account for long-duration contracts, including how they measure, recognize and make disclosures about insurance liabilities and deferred acquisition costs (“DAC”). Under this ASU, insurers will be required to review cash flow assumptions at least annually and update them if necessary. They also will have to make quarterly updates to the discount rate assumptions they use to measure the liability for future policyholder benefits. The ASU creates a new category of market risk benefits (i.e., features that protect the contract holder from capital market risk and expose the insurer to that risk) that insurers will have to measure at fair value. The ASU provides various transition methods by topic that entities may elect upon adoption. Early adoption is permitted.	January 1, 2021	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

3. Acquisition

On May 1, 2018, we completed the acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business ("Liberty Group Business") and individual life and individual and group annuity business (the "Liberty Life Business"), from Liberty Mutual Insurance Company in a transaction accounted for under the acquisition method of accounting pursuant to Business Combinations Topic 805 ("Topic 805"). The acquisition expanded the scale and capabilities of the Group Protection business while further diversifying the Company's sources of earnings.

In connection with the acquisition and pursuant to the Master Transaction Agreement ("MTA"), dated January 18, 2018, which was attached as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 22, 2018, Liberty Life sold the Liberty Life Business on May 1, 2018, by entering into reinsurance agreements and related ancillary documents (including administrative services agreements and transition services agreements) with Protective Life Insurance Company and its wholly-owned subsidiary, Protective Life and Annuity Insurance Company (together with Protective Life Insurance Company, "Protective"), providing for the reinsurance and administration of the Liberty Life Business.

The acquisition date fair values of certain assets and liabilities, including future contract benefits, intangible assets and related weighted average expected lives, commercial mortgage loans, reinsurance recoverables and deferred income taxes, are provisional and subject to

revision within one year of the acquisition date. Since the May 1, 2018 acquisition date, we have adjusted provisional assets acquired by $(5) million and provisional liabilities acquired by $23 million for an increase in provisional goodwill of $28 million. Under the terms of the MTA, a final balance sheet will be agreed upon at a later date. As such, our estimates of fair values are pending finalization, which may result in adjustments to goodwill. The following table presents the preliminary fair values (in millions) of the net assets acquired related to the Liberty Group Business as of March 31, 2019:

	Preliminary Fair Value	
Assets		
Investments	$	2,493
Mortgage loans on real estate		658
Cash and invested cash		107
Reinsurance recoverables		76
Premiums and fees receivable		83
Accrued investment income		24
Other intangible assets acquired		640
Other assets acquired		142
Separate account assets		99
Total assets acquired	$	4,322
Liabilities		
Future contract benefits	$	2,930
Other contract holder funds		46
Other liabilities acquired		140
Separate account liabilities		99
Total liabilities assumed	$	3,215
Net identifiable assets acquired	$	1,107
Goodwill		410
Net assets acquired	$	1,517

Financial Information

The following unaudited pro forma condensed consolidated results of operations of the Company assume that the acquisition of Liberty Life was completed on January 1, 2017 (in millions):

	For the Three Months Ended March 31, 2018
Revenue	$ 4,165
Net income	378

Pro forma adjustments include the revenue and net income of the acquired business for each period as well as amortization of identifiable intangible assets acquired and the fair value adjustment to acquired insurance reserves and investments. Other pro forma adjustments include the incremental increase to interest expense attributable to financing the acquisition, and the impact of reflecting acquisition and integration costs and investment expenses directly attributable to the business combination in 2017 instead of in 2018. Pro forma adjustments do not include retrospective adjustments to defer and amortize acquisition costs as would be recorded under our accounting policy.

4. Variable Interest Entities

Consolidated VIEs

Asset information (dollars in millions) for the consolidated variable interest entities ("VIEs") included on our Consolidated Balance Sheets was as follows:

	As of March 31, 2019			As of December 31, 2018		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Total return swap	1	$ 587	$ -	1	$ 600	$ -
Total assets	1	$ 587	$ -	1	$ 600	$ -

As of March 31, 2019, and December 31, 2018, there were no gains or losses for consolidated VIEs recognized on our Consolidated Statements of Comprehensive Income (Loss).

Unconsolidated VIEs

Structured Securities

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 asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and collateralized loan obligations ("CLOs"). 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 that 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 Balance Sheets. For information about these structured securities, see Note 5.

Limited Partnerships and Limited Liability Companies

We invest in certain limited partnerships ("LPs") and limited liability companies ("LLCs"), including qualified affordable housing projects, that we have concluded are VIEs. We do not hold any substantive kick-out or participation rights in the LPs and LLCs, and we do not receive any performance fees or decision maker fees from the LPs and LLCs. Based on our analysis of the LPs and LLCs, we are not the primary beneficiary of the VIEs as we do not have the power to direct the most significant activities of the LPs and LLCs.

The carrying amounts of our investments in the LPs and LLCs are recognized in other investments on our Consolidated Balance Sheets and were $1.8 billion and $1.7 billion as of March 31, 2019, and December 31, 2018, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were $18 million and $20 million as of March 31, 2019, and December 31, 2018, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We received returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits of less than $1 million for the three months ended March 31, 2019 and 2018, which were recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss).

Our exposure to loss is limited to the capital we invest in the LPs and LLCs, and there have been no indicators of impairment that would require us to recognize an impairment loss related to the LPs and LLCs as of March 31, 2019.

5. Investments

Fixed Maturity AFS Securities

The amortized cost, gross unrealized gains, losses and other-than-temporary impairment ("OTTI") and fair value of fixed maturity AFS securities (in millions) were as follows:

	As of March 31, 2019				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity AFS securities:					
Corporate bonds	$ 79,243	$ 4,813	$ 838	$ 10	$ 83,208
ABS	990	46	6	(17)	1,047
U.S. government bonds	387	37	1	-	423
Foreign government bonds	403	50	-	-	453
RMBS	3,296	142	42	(18)	3,414
CMBS	868	16	3	(4)	885
CLOs	2,439	4	11	(5)	2,437
State and municipal bonds	4,687	890	8	-	5,569
Hybrid and redeemable preferred securities	581	57	24	-	614
Total fixed maturity AFS securities	$ 92,894	$ 6,055	$ 933	$ (34)	$ 98,050

	As of December 31, 2018				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity AFS securities:					
Corporate bonds	$ 79,623	$ 2,980	$ 2,263	$ (8)	$ 80,348
ABS	916	42	6	(14)	966
U.S. government bonds	390	29	2	-	417
Foreign government bonds	406	42	-	-	448
RMBS	3,308	118	67	(14)	3,373
CMBS	811	6	16	(3)	804
CLOs	1,746	3	24	(5)	1,730
State and municipal bonds	4,647	716	18	-	5,345
Hybrid and redeemable preferred securities	582	45	34	-	593
Total fixed maturity AFS securities	$ 92,429	$ 3,981	$ 2,430	$ (44)	$ 94,024

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

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of March 31, 2019, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 3,610	$ 3,614
Due after one year through five years	16,276	16,590
Due after five years through ten years	17,902	18,499
Due after ten years	47,513	51,564
Subtotal	85,301	90,267
Structured securities (ABS, MBS, CLOs)	7,593	7,783
Total fixed maturity AFS securities	$ 92,894	$ 98,050

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 fixed maturity 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, 2019					
	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 AFS securities:						
Corporate bonds	$ 4,831	$ 164	$ 14,492	$ 692	$ 19,323	$ 856
ABS	74	1	176	13	250	14
U.S. government bonds	6	-	28	1	34	1
RMBS	55	1	942	42	997	43
CMBS	10	-	297	3	307	3
CLOs	771	5	281	6	1,052	11
State and municipal bonds	156	1	135	7	291	8
Hybrid and redeemable preferred securities	12	2	151	22	163	24
Total fixed maturity AFS securities	$ 5,915	$ 174	$ 16,502	$ 786	$ 22,417	$ 960
Total number of fixed maturity AFS securities in an unrealized loss position						1,881

	As of December 31, 2018					
	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 AFS securities:						
Corporate bonds	$ 32,493	$ 1,530	$ 7,228	$ 735	$ 39,721	$ 2,265
ABS	117	2	143	14	260	16
U.S. government bonds	70	1	23	1	93	2
RMBS	472	10	863	60	1,335	70
CMBS	470	11	82	5	552	16
CLOs	1,124	21	103	3	1,227	24

State and municipal bonds	404	8	96	10	500	18
Hybrid and redeemable preferred securities	96	6	133	28	229	34
Total fixed maturity AFS securities	$ 35,246	$ 1,589	$ 8,671	$ 856	$ 43,917	$ 2,445
Total number of fixed maturity AFS securities in an unrealized loss position						3,414

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

	As of March 31, 2019			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 23	$ 8	$ 1	7
Six months or greater, but less than nine months	20	6	-	4
Nine months or greater, but less than twelve months	98	42	-	10
Twelve months or greater	152	52	22	32
Total	$ 293	$ 108	$ 23	53

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

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

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

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

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

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

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

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

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

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

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

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

Determination of Credit Losses on Corporate Bonds

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

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

Determination of Credit Losses on MBS and ABS

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

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

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

Mortgage Loans on Real Estate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Alternative Investments

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

14

Realized Gain (Loss)

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

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

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

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

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

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

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

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

Payables for Collateral on Investments

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

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

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

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

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

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

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

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

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

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

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

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

Investment Commitments

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

Concentrations of Financial Instruments

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

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

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

6. Derivative Instruments

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

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

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

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

Interest Rate Contracts

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

Forward-Starting Interest Rate Swaps

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

17

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

Interest Rate Cap Corridors

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

Interest Rate Futures

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

Interest Rate Swap Agreements

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

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

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

Treasury and Reverse Treasury Locks

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

Foreign Currency Contracts

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

Currency Futures

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

Foreign Currency Swaps

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

Equity Market Contracts

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

Call Options Based on the S&P 500

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

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

Consumer Price Index Swaps

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

Equity Futures

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

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

Put Options

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

Total Return Swaps

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

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

Variance Swaps

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

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

Credit Contracts

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

Credit Default Swaps – Buying Protection

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

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

Credit Default Swaps – Selling Protection

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

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

Embedded Derivatives

We have embedded derivatives that include:

GLB Reserves Embedded Derivatives

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

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

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

Indexed Annuity and IUL Contracts Embedded Derivatives

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

Reinsurance Related Embedded Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

Balance Sheet Offsetting

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

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

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

7. Federal Income Taxes

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

8. Reinsurance

Modified Coinsurance Reinsurance Transaction

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

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

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

9. Guaranteed Benefit Features

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

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

(1) Our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.
(2) Represents the amount of death benefit in excess of the account balance that is subject to market fluctuations.

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

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

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

Variable Annuity Contracts

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

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

Secondary Guarantee Products

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

10. Liability for Unpaid Claims

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

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

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

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

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

11. Contingencies and Commitments

Contingencies

Regulatory and Litigation Matters

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

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

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

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

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

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

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

Cost of Insurance Litigation

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

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

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

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

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

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

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

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

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

Commitments

Leases

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

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

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

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

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

Finance lease expense (in millions) was as follows:

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

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

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

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

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

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

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

12. Shares and Stockholders' Equity

Common Shares

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

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

Our common stock is without par value.

Average Shares

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

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

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

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

AOCI

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

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

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

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

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

13. Fair Value of Financial Instruments

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

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

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

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

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

Mortgage Loans on Real Estate

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

Other Investments

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

Separate Account Assets

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

Other Contract Holder Funds

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

Short-Term and Long-Term Debt

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

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of March 31, 2019, or December 31, 2018, an