
Lincoln Financial Group Rebounds in Second Quarter

By Editor Test *Wed, Aug 5, 2009*

At \$2.6 billion, overall annuity deposits were down 23% from the second quarter of 2008 but up by 20% from the first quarter of 2009.

Lincoln Financial Group, the subject of takeover rumors last March, fared better in the second quarter of 2009 than in the first quarter, with increased deposits and net flows in variable, fixed, and indexed annuities.

Compared to the second quarter of 2008, however, the Philadelphia-based company reported a net loss of \$161 million versus net income of \$125 million a year earlier. At \$2.6 billion, overall annuity deposits were down 23% from the second quarter of 2008 but rebounded by 20% from the first quarter of 2009.

The current quarter reflected the year-over-year decline in the equity markets and included after-tax losses of \$29 million on alternative investments, \$170 million related to the sale of Lincoln National (UK) plc, and \$109 million in realized investment losses, the company said in a release.

Among the second quarter highlights:

- Consolidated net flows of \$2.1 billion doubled versus the 2008 period and increased 8% sequentially, with stable retail deposits and improved lapse rates across all segments.
- Issued \$690 million of common equity and \$500 million of senior debt and ended the quarter with holding company cash and cash equivalents of approximately \$800 million.
- Unrealized losses at the end of the quarter improved more than 40% sequentially, contributing to an overall increase of \$1.8 billion in stockholders' equity.
- Completed expense reductions expected to yield run-rate savings \$250 million, pre DAC and tax, by year-end 2009.

The individual annuities segment reported income from operations of \$65 million in the second quarter of 2009 versus \$116 million in the year-ago period, reflecting a \$13.9 billion decline in average variable account balances compared to the prior year. The 2009 quarter included a loss on alternative investments of \$5 million, after tax.

Gross annuity deposits were \$2.6 billion, down 23% from the prior year but up 20% from the first quarter. Net flows were \$1.0 billion versus \$1.6 billion in the 2008 quarter, but more than doubled sequentially.

Variable annuity product deposits of \$1.7 billion and net flows of \$651 million were down 41% and 59% year-over-year, respectively, reflecting depressed economic and market conditions. Variable annuity product deposits and net flows increased 9% and 49%, respectively, from the first quarter.

Fixed and indexed annuity product deposits of \$900 million were up 83% year-over-year and 49% sequentially, driving an improvement in net flows for both periods.

The defined contribution business reported income from operations of \$28 million, versus \$41 million for the same period a year ago, reflecting a \$6.1 billion decline in average variable account balances compared to prior year.

Gross deposits of \$1.2 billion were down 13% versus prior year. Total net flows increased 39% to \$329 million compared to the year-ago quarter, reflecting continued strong persistency. Deposits and net flows were down sequentially, a result of normal seasonality in the first quarter.

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