April 7, 2009

Dear Client:

Every day we are confronted by new commentary and analysis from industry watchers who are trying to come to terms with some of the most troubling economic and financial market conditions in decades. Some of this commentary is thoughtful and helpful, but much of it is pure guesswork. You should know, however, that our business model is sound, our products and advice are needed more than ever, and we are well-positioned to help you secure your financial futures.

Therefore, I want to take this opportunity to set the facts straight on four key issues that have been the subject of headlines and speculation in recent months: the state of our holding company liquidity, the state of our insurance subsidiary capital, our investment portfolio, and our variable annuity business.

**Holding Company Liquidity**

Like all of our peers, Lincoln's corporate debt ratings have been downgraded in recent months, and we should be realistic about the potential for additional downgrades throughout the industry and for our company. In effect, the entire industry has been downgraded, and these actions have fueled concerns about holding company liquidity.

My senior management team and I are taking the steps needed to prudently manage holding company liquidity in this environment. We recently announced that we have repaid a $500 million debt maturity on schedule and in full, and also have plans to reduce our outstanding commercial paper by $200 million. The source of funds for the debt repayment includes a $400 million ordinary cash dividend from The Lincoln National Life Insurance Company and a $300 million dividend from the company's principal reinsurance subsidiary.

With these repayments we have reduced short-term debt at the holding company to approximately $450 million, a level at or below prior years. The decline in interest expense resulting from these debt repayments, combined with a previously announced dividend cut, will significantly reduce ongoing holding company cash needs. We expect to meet our ongoing holding company cash needs with the combination of commercial paper, as available, and a contractual inter-company borrowing facility of up to $1 billion. The company also has access to $1 billion in bank credit lines, none of which are currently drawn.

**Insurance Subsidiary Capitalization**

Holding company liquidity does not have a direct impact on the ability of our insurance subsidiaries to meet their obligations. Policies and contracts are issued by Lincoln Financial Group insurance company subsidiaries, whose assets are separate from those of the holding company. The insurance subsidiaries are required by law to set aside a level of assets sufficient to protect the company's ability to pay claims and other policy benefits. Our insurance subsidiaries remain well-capitalized: while market volatility and investment losses can depress risk-based capital (RBC) ratios (a regulatory tool used to evaluate financial strength), we expect to maintain sufficient RBC ratios in our insurance subsidiaries during the year.

In addition to taking action to address holding company liquidity issues, we are also taking steps to protect and build capital at the insurance company subsidiary level. One recent such action is a reinsurance transaction that provided approximately $240 million of statutory capital for our primary insurance subsidiary, The Lincoln National Life Insurance Company. We also announced an enterprise-wide restructuring effort, which will generate $250 million in annual run-rate savings before taxes.

**Investment Portfolio**
Our investment portfolio is well-diversified across sectors and specific holdings, and our exposure to many of the problem areas that have been in the news is limited. Companies with higher-risk investment portfolios suffered large investment losses in 2008 as the market prices of investment securities declined sharply across almost every asset class.

At Lincoln, we became increasingly concerned about credit risk and asset valuations beginning in late 2006 and into 2007. We reduced our investment portfolio exposures to subprime mortgages, high yield debt, hedge funds and real estate and increased our exposure to investment-grade corporate bonds. This repositioning substantially reduced our losses in 2008. In addition, we believe that high-grade corporate bonds will be among the first sectors to improve when the economy recovers, and our decision to increase our weighting in corporate bonds should benefit our portfolio over time.

Our residential mortgage-backed securities portfolio – another area that has been in the news lately – is conservatively positioned. More than 80% of the total holdings are prime, and more than 66% of the total holdings are backed by federal agencies.

With more than $70 billion in invested assets, our portfolio is likely to see some credit losses, however, the majority of the losses we did see in 2008 resulted from writing down the value of certain investment securities to depressed market prices. On average, however, the securities in our investment portfolio have long lives and as the financial markets recover, we would expect to reverse some of the mark-to-market unrealized losses we have experienced. We are confident the portfolio is well-positioned for the current environment and to take advantage of improving market conditions over time.

**Variable Annuities**
Recently, concern about the variable annuity business has centered on how exposure to guarantees during periods of extreme market volatility is putting pressure on the life insurers. As a relatively large provider of variable annuities – we ranked #5 for sales of these products in 2008 – Lincoln is not immune to the challenges posed by equity market volatility. However, we have always taken a conservative approach to this business. For example:

- We consciously balance our exposure to equity-sensitive retirement products businesses with the less sensitive insurance products businesses
- We stayed at the conservative end of the spectrum of guarantees on these products, and avoided the extremes in product design and pricing
- Half of our account values (49%) and nearly a quarter of 2008 sales (22%) carry no living benefit guarantees at all

- We have actively moved to more conservative product designs as the market environment has deteriorated
- We hedge nearly 100% of our equity exposure, which allows us the best opportunity to meet the claims and manage risk, and did not offer products with living benefits until we had our hedging program in place
- Our hedging and risk management programs are considered robust by outside groups who have evaluated them – for example, Standard & Poor's rated our risk management program "Strong" at the end of last year

Just as important is why and how these products were designed. In order to benefit from the living or income guarantees these products carry, customers can only withdraw their principal over a period of several years. As a result, there is a significant amount of time for the market to recover. We can't be certain that the market will recover fully or even partially from the current downturn, but over time markets have consistently recovered from sharp declines.

We are committed to these products because they address the needs of many investors seeking investing for Retirement Income Security by offering tax-deferred growth in principal, a variety of payout alternatives, and guarantee features that are not available in any other investment vehicle and that are particularly attractive to investors in times like these.

In summary, as long as the economy and financial markets remain in turmoil, you can expect to hear a lot of speculation about our industry, our products and Lincoln specifically. Despite all of this noise, we know that our business model is sound, our products and advice are needed more than ever, and we are well-positioned to help you secure your financial future. Thank you for your support in this unprecedented environment.

Sincerely,

Dennis Glass

Dennis R. Glass
President and CEO

* The risk-based capital (RBC) ratio is an estimate because the component numbers are only published once a year as part of the annual statutory filing. The inclusion of RBC measures is intended solely for the information of investors and is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities.

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