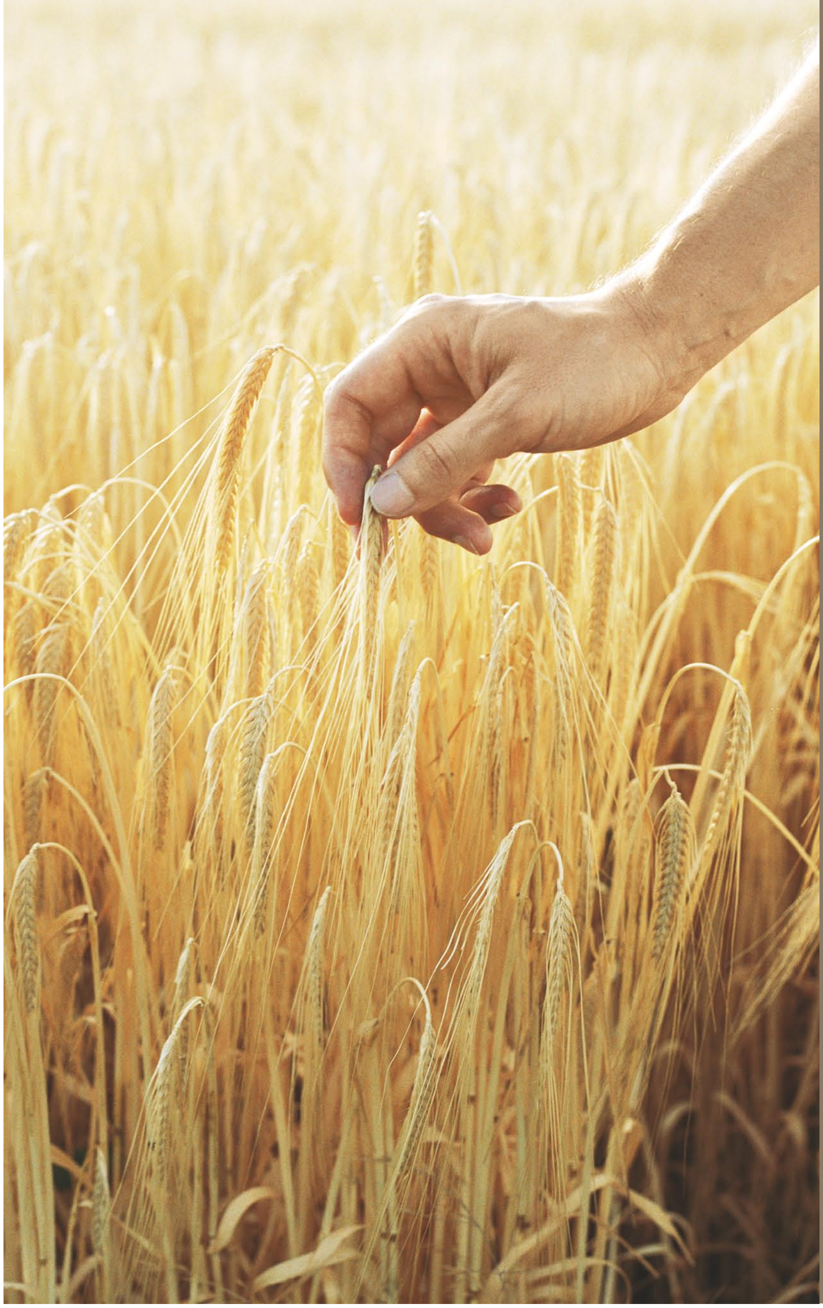

Preserving value for the next generation

Lincoln Financial Group®

Lincoln *LifeLINC*® Advisor Guide

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To share life's legacy

Your clients have worked hard to create and protect their wealth. Many are now at an age when they can enjoy the fruits of their labor. Among these are clients who have assets that clearly exceed their retirement needs or even what may be necessary for future emergencies.

For them, this is the time to create the last link in the wealth cycle: to prepare a legacy for future generations that preserves lasting value. Lincoln *LifeLINC*® can help.

Lincoln *LifeLINC* is a marketing program that allows a client to reposition certain assets they will not need for the future. Life insurance products offered by the Lincoln National Life Insurance Company are used to fund this program.

Inside this brochure, you'll find important information about Lincoln *LifeLINC*, including ways to identify appropriate clients and help them share their legacy with the next generation.

From one generation to the next: wealth transfer planning

If your clients are looking ahead and thinking of their loved ones, it's time to prepare an appropriate wealth transfer plan. In particular, they should carefully consider their nonqualified annuities, Individual Retirement Accounts (IRAs), and Certificates of Deposit (CDs) that they don't need for retirement income or emergency purposes.

While these assets are excellent wealth builders during your clients' lifetimes, taxes can substantially erode the legacy that's ultimately passed to their heirs. Here's how:

- For **tax-deferred assets** such as annuities and IRAs, the income tax effect is felt when money is taken out of the asset, either as income during the client's life or at the client's death.
- For **taxable assets** such as CDs, the income tax effect is felt annually when the client pays annual income taxes on the interest earnings.

To help preserve value from one generation to the next, your clients have a meaningful alternative—they can reposition their assets in an attempt to maximize their value.

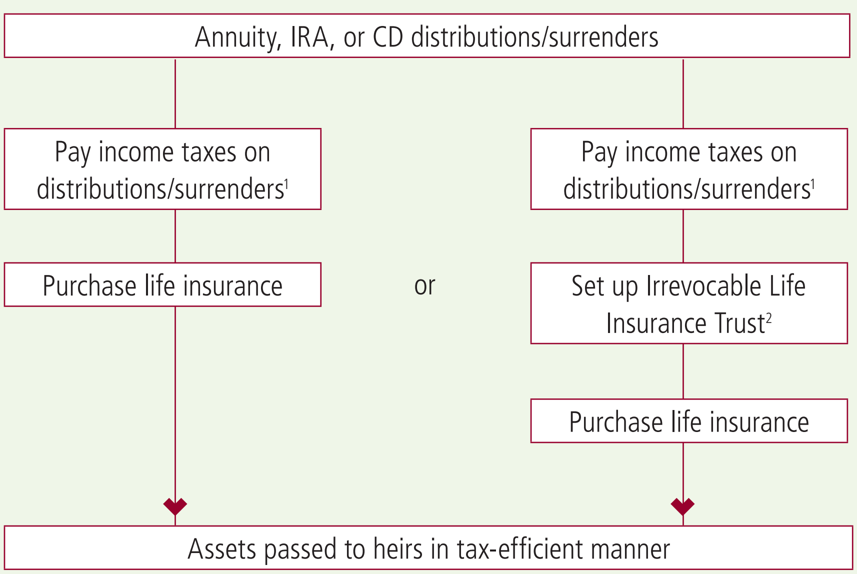
Connect your clients to the Lincoln *LifeLINC*® program

With Lincoln *LifeLINC*, you can help your clients make better use of the assets they have designated for their heirs.

- To start, clients use their earmarked assets to purchase a life insurance policy.
- They pay income tax now at liquidation, but have now removed the threat of income taxes for the future.
- Life insurance cash values are tax deferred, much like annuities or IRAs.
- Beneficiaries receive the death benefits income tax free.

It is the income tax-free death benefit provided only by a life insurance policy that really helps maximize the assets passed to the client's heirs, especially when the policy is owned by a third party (i.e., an Irrevocable Life Insurance Trust), and the proceeds are outside of the insured's estate.

Funding life insurance with Lincoln *LifeLINC*



[1] It is recommended that any income taxes payable on the annuity, IRA, or CD distributions or surrenders be paid for out of the proceeds from the annuity, IRA, or CD distributions or surrenders to avoid out-of-pocket income tax payments later.

[2] Gift taxes may be due on this transfer. Consult your tax advisor. Assets owned by a third party, such as a trust, are generally not included in your estate for estate tax purposes. If a trust or third party is not used, estate taxes might be due.

How the Lincoln *LifeLINC*® program helps maximize value

Consider the challenges of traditional assets:

- Annuities and IRAs—Income taxes are assessed at the time of annuitization, liquidation, or surrender.
- CDs—Income tax is paid on the interest each year.

But your clients can lower this tax burden later by liquidating or surrendering their annuities, IRAs, and CDs now to provide premiums for a vehicle with important tax advantages: a life insurance policy.

Interest credited to life insurance values is not taxed at the time it is credited and may never be subject to income tax. Furthermore, life insurance owned by a third party or an Irrevocable Life Insurance Trust is not subject to estate tax at the insured's death.

Lincoln *LifeLINC*® client profile

A good client for Lincoln *LifeLINC* has assets such as annuities, IRAs, or CDs that they wish to pass to their heirs, and that are not needed for current and future income or for emergencies. They have ample retirement income and emergency funds through their pension and profit-sharing plans, Social Security, and other sources.

In addition,
Lincoln *LifeLINC* candidates

- Are insurable — they are ages 50 to 85 and generally in good health. (It is rare that people under age 50 would be able to identify assets that they would not need for retirement or emergencies.)
- Have savings of $50,000 or more that they do not plan to use for income or emergencies.
- Want to pass as much of their wealth to their heirs as possible.

Restrictions to
Lincoln *LifeLINC* include

- Clients who are under age 59½ should not use annuities or IRAs, which would be subject to a 10% federal penalty tax if withdrawals are made prior to age 59½.
- Annuities and IRAs that are subject to substantial surrender charges are generally inappropriate for the Lincoln *LifeLINC* program.
- Roth IRAs are generally inappropriate for the Lincoln *LifeLINC* program, as they are already income tax free.

Understand the impact of taxes

Example: annuities

Consider a hypothetical client, Sara, age 61. She is in the preferred nontobacco underwriting class and owns a $100,000 deferred annuity with a basis of $50,000. Her son is the designated beneficiary. At Sara's death, her son will be taxed at his income tax rate of 35% on the value of the annuity in excess of Sara's original $50,000 basis.

If we assume Sara dies tomorrow, her son will pay $17,500 in income tax ($50,000 x .35) on the earnings in the annuity, leaving a net of $82,500. If Sara lives another 15 years and the annuity grows at an annual rate of 4% to $180,094, her son could lose $45,533 to income taxes ($180,094 – $50,000 x .35). At Sara's death, her son will receive net proceeds after income taxes of $134,561 ($180,094 – $45,533).

How life insurance changes the picture

But suppose Sara cashes in her annuity, pays $17,500 of income taxes on the gain ($50,000 gain x .35 = $17,500), and takes the $82,500 net proceeds to purchase a single-premium universal life insurance policy of $378,409.

If we assume Sara's death occurs at age 85 (24 years later at her life expectancy), her son will receive the full life insurance death benefit amount of $378,409 (assuming Sara took no policy loans or withdrawals) as opposed to the $184,114 net proceeds from the annuity at age 85 ($256,330 – 50,000 x .35), for an advantage of $194,295 in additional wealth transferred. Furthermore, the life insurance policy provides immediate insurance protection in an amount greater than the current value of the annuity.

Lincoln *LifeLINC*® comparison using a $100,000 annuity					
End of year	Annuity at 4%	Income tax due on annuity	Net to heirs	Insurance	Lincoln *LifeLINC*® Advantage
1	$104,000	$18,900	$85,100	$378,409	$293,309
5	$121,665	$25,083	$96,582	$378,409	$281,827
10	$148,024	$34,309	$113,716	$378,409	$264,693
15	$180,094	$45,533	$134,561	$378,409	$243,848
24 (Life expectancy)	$256,330	$72,216	$184,115	$378,409	$223,964

Assumptions:

- Annuity current value is $100,000 growing at 4% interest
- Female, age 61, preferred nontobacco
- Annuity owner and beneficiary tax bracket is 35%
- After-tax proceeds used to purchase the life policy of $82,500
- Death benefit is $378,409
- No federal estate taxes are due (third-party ownership of life policy)

Example: certificates of deposit

Let's take the case of a CD holder, Bill Bankman. Bill's in a 35% tax bracket with a CD earning 4.5% annual interest that will realize a net annual return of 2.92% after income taxes. If Bill plans to leave his CD at his death, taxation of interest earnings will diminish the amount that the heirs receive. For instance, a $50,000 CD earning $2,250 annually in interest at 4.5% would lose $788 of that interest in the first year to income taxes (remember, Bill's in a 35% tax bracket). Compound this loss over 15 years and the impact may be significant.

For taxable assets, such as CDs, the income tax effect is felt annually when the client pays annual income taxes on the interest earnings.

Summary of tax consequences in estate planning

In both of the above examples, assets will have their values reduced by income taxes either during the clients' lives and/or at their deaths.

Estate taxes may also cause assets to shrink at the owner's death. For example, if your clients have estates that are worth more than the federal applicable exemption amount,[1] their estates will be subject to estate taxes.

[1] The federal applicable exemption amount is $2,000,000 in 2007 and 2008, and $3,500,000 in 2009. There will be no estate tax in 2010, but the estate tax is currently scheduled to be reinstated in 2011 for estates over $1,000,000.

These numbers are for illustrative purposes only. Numbers demonstrate the purchase of a universal life policy with the maximize coverage protected face. The actual benefit amounts will vary depending upon the underwriting company selected, product choice, client's underwriting classification, and current annuity interest rates. Must be insurable to qualify.

Putting the Lincoln *LifeLINC*® program into action

To implement a Lincoln *LifeLINC* program, here's what you and your clients need to do:

1 Complete the Lincoln *LifeLINC* Dataguide Worksheet with your client.

2 Identify any taxable assets your clients currently own that they believe will not be needed for income or emergencies during their lifetime, and that they want to pass on to heirs at death.

3 Determine the amount of life insurance these after-tax funds will purchase using a lump sum or multiple annual premium payment method.

Please note: Verify whether there are surrender or early withdrawal penalties on the asset selected. If there are surrender or early withdrawal penalties on the asset selected, the asset may be inappropriate for the Lincoln *LifeLINC* program. Remember, do not request surrender, cancellation, or transfer of any asset used in the Lincoln *LifeLINC* program until the life insurance application has been approved.

4 Determine what their current assets may ultimately grow to in value (if left intact). To determine the amount their intended beneficiaries may receive, show them the income taxes and estate taxes (if applicable) that will be due at their death, i.e., at life expectancy, that will be deducted from their annuity, IRA, or CD. Compare the net amount of these assets to the amount of life insurance that can be purchased with them.

5 Determine which alternative shows the most money going to their heirs, recognizing any risks that are associated with the asset and the use of life insurance.

6 Identify a life insurance policy that will meet your client's liquidity, risk tolerance, and long-term planning needs. Please refer to Risk Tolerance and Policy Selection in this Advisor Guide for additional information.

7 If an Irrevocable Life Insurance Trust (ILIT) will own the policy, your client's attorney should draft the trust before applying for the policy.

8 Complete a life insurance application and qualify for coverage. If a single premium immediate annuity is funding the life insurance policy, complete an application for the annuity as well.

Once the life insurance application has been approved, premiums can be paid with money from the annuity, IRA, or CD.

Disclosure and suitability

Keep in mind that there are no hard and fast numerical rules that establish whether someone is a suitable candidate for the Lincoln *LifeLINC*® program. You should exercise due care and not try to fit the Lincoln *LifeLINC* program into a situation in which it does not belong. In general, clients who have excess taxable assets but are uncomfortable liquidating, annuitizing, or surrendering those assets to pay the premium(s) for a life insurance policy are not good candidates for the Lincoln *LifeLINC* program. The same is true for clients who clearly need all their assets as income or emergency funding sources, but who may not realize it. It is also critical that your clients fully understand they are purchasing life insurance.

The Lincoln *LifeLINC* Disclosure and Suitability Statement will help you identify prospects who may or may not be good candidates. The Statement is required for each sale in the Lincoln *LifeLINC* program and must be signed by you and the client. It is important that your client reads the Lincoln *LifeLINC* Disclosure and Suitability Statement and understands it before signing it.

Risk tolerance and policy selection

Once you and your clients have determined that the Lincoln *LifeLINC* program may be right for them, you must help your clients decide which life insurance policies best meet their objectives and needs. It is very important that you and your clients consider their risk tolerances when making product and premium decisions.

Income tax implications

Lincoln *LifeLINC*® prospects should be advised to consult their attorney and/or tax advisor on the specifics of their individual situation. The following information summarizes, in general, the income tax consequences that should be considered for each of the assets in the wealth transfer program.

Note: Your client should not initiate surrender, cancellation, or transfer of any asset used in the Lincoln *LifeLINC* program until your client's life insurance application has been approved.

Nonqualified Annuities—during the owner's life

Annuity contractowners pay no income tax on interest earnings until money is withdrawn. When an annuity is surrendered for cash, the contractowner will pay income taxes on the interest earnings in the annuity. If the annuity is still in the surrender period, the contractowner will also incur surrender charges on the annuity values if he or she surrenders it for cash. Annuities that are still in a high surrender charge period usually should not be used for the Lincoln *LifeLINC* program.

Nonqualified Annuities—at the owner's death

Generally, at the death of an annuity contractowner, gain in nonqualified annuities is income taxable to the beneficiary at the beneficiary's tax rate. An exception occurs when the spouse is the annuity beneficiary. For all other beneficiaries, income tax is due, either in a lump sum or spread over a period of years, depending upon how payments are received by the beneficiary.

Individual Retirement Accounts (IRAs)—during the owner's life

IRA owners pay no income tax on the interest earned while the assets remain in the IRA. In addition, assets used to fund the traditional IRA are pretax dollars. Therefore, when distributions are made from the traditional IRA, the owner will generally pay income taxes on the entire distribution. If the IRA is a Roth IRA or a traditional IRA funded with after-tax contributions, part or all of the distribution may not be subject to income tax.

Individual Retirement Accounts (IRAs)—at the owner's death

At the death of the IRA owner, the total amount paid from traditional IRAs (but not Roth IRAs) is income taxable to the beneficiary. The spouse may be able to defer the tax (possibly by rolling it into a spousal IRA), but for all other beneficiaries, income tax is due.

Traditional IRAs (funded with pretax dollars) often work well for the Lincoln *LifeLINC*® program because they are taxable at the owner's death.

Certificates of Deposit (CDs)—during the owner's life

The interest earnings in CDs are income taxable to the owner each year. These assets do not provide the advantage of tax deferral during the client's lifetime. Tax deferral allows interest to compound at a faster rate. Thus, all other factors being the same, CDs increase in value at a slower rate than a tax-deferred asset. A person who has one or more sizable CDs may be an excellent prospect for Lincoln *LifeLINC*.

Certificates of Deposit (CDs)—at the owner's death

Because income taxes were paid annually on the interest earned in the CD, the only income taxes due at the owner's death will be on interest that has accrued during the calendar year in which the owner died.

Reminder about estate taxes

All of the above assets will be included in the deceased's estate for estate tax purposes if at death, they possess any incidents of ownership in the asset. Life insurance trusts can be set up to keep the life insurance policy out of the insured's estate for estate tax purposes. Your clients should discuss their specific situations with their attorneys and/or tax advisors.

Funding the Lincoln *LifeLINC*® program

You and your client can choose from a variety of funding options with the Lincoln *LifeLINC* program. Depending on the funding level, actual interest rates credited, and cost of insurance charges deducted, coverage may terminate prior to death unless additional premiums are paid. Your client may:

- Pay the money into the life insurance policy in a lump sum premium (this will create a Modified Endowment Contract).[1]
- Pay the money into a Lincoln single premium immediate annuity (SPIA) that will pay premiums into the life insurance policy for a specific, predetermined number of years.
- Select a settlement option from an existing annuity or IRA that will pay premiums for a specific, predetermined number of years or for your client's lifetime. Periods certain with survivor benefits are also available. Payments from an annuity can be made automatically to the life insurance policy.
- Receive funds from an annuity or SPIA from another insurance company.

[1] Single-premium life insurance funding in the Lincoln *LifeLINC*® program, as well as certain multiple-pay premium payment plans of less than seven years, will make the life insurance policy a modified endowment contract (MEC). If the policyowner takes loans or withdrawals during the life of a MEC policy or surrenders it for cash, he or she will be taxed on the gain on a last-in, first-out (LIFO) basis—interest first, principal last. If the policyowner is younger than age 59½ when a loan or withdrawal is made, an additional 10% federal penalty tax is added to the income tax on the interest withdrawn from the life insurance policy.

How to approach your clients with the Lincoln *LifeLINC*® program

Lincoln *LifeLINC* represents another important way you bring value to your clients. Here are a few simple things you can do to introduce them to the program:

- Compile a list of clients ages 50 to 85 who have money invested in annuities, IRAs, or CDs and schedule a meeting with them.
- Follow the step-by-step process outlined in the Lincoln *LifeLINC* Dataguide Worksheet, which covers the information needed to run a proposal for your client.
- Invite selected clients to a seminar where you can explain estate shrinkage due to income and estate taxes, and how Lincoln *LifeLINC* can help solve that problem.

A tradition of integrity

At Lincoln Financial Group, we have a 100-year heritage of helping people find solutions to their financial challenges—with the same honesty, integrity, and responsibility that you'd expect from our namesake. It's a legacy that we proudly and respectfully continue each day. We believe our continued commitment to strength and stability is indispensable to who we are and critical to your confidence in us. We are a proven industry leader in identifying and delivering sophisticated financial strategies and product solutions for the creation, protection, and enjoyment of wealth. We are committed to helping clients redefine their retirement because we don't believe retirement is an end—it's an opportunity for everyone to start doing what they were meant for all along.

The strength of Lincoln Financial Group® affiliates

A company's promises are only as strong as its reputation, integrity, and financial strength. Lincoln Financial Group® affiliates have consistently received high marks from independent evaluators including: A.M. Best, Fitch, Moody's, and Standard & Poor's.

	The Lincoln National Life Insurance Company	Lincoln Life & Annuity Company of New York
A.M. Best	**A+** (2nd highest of 16)	**A+** (2nd highest of 16)
Fitch	**AA** (3rd highest of 24)	**AA** (3rd highest of 24)
Moody's	**Aa3** (4th highest of 21)	**Aa3** (4th highest of 21)
Standard & Poor's	**AA** (3rd highest of 21)	**AA** (3rd highest of 21)

These ratings apply only to the company's claims-paying ability. Ratings current as of January 31, 2007. Individual issuing companies are separately responsible for satisfying their own financial and contractual obligations.

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