

# Lincoln Investment

## Investor Agreement and Disclosure Handbook

This document is intended to provide you, the investor, with important information regarding your agreement to terms and policies established by Lincoln Investment Planning, Inc. ("Lincoln") as broker/dealer, as well as those required by other regulatory bodies. Please read this information carefully as it pertains to your current investments, and may also be relevant to future investments. Retain this document for your records.

Where noted, additional details about a policy are available at:  
[www.lincolninvestment.com](http://www.lincolninvestment.com).

If you have any questions regarding the information found within this document, please contact your Lincoln Investment financial representative ("FR").

**Information contained in this guide supersedes prior disclosures or Handbooks you may have received.**

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The following outlines various terms and conditions, provides disclosures and offers a general education that is designed to help you, the investor, understand the products and services available to you.

## TERMS AND CONDITIONS

### I. PRE-DISPUTE ARBITRATION AGREEMENT

You hereby agree that any and all controversies that may arise between you and Lincoln Investment Planning, Inc ("Lincoln") and/or between you and your Financial Representative ("FR"), shall be determined and settled by utilizing the arbitration forum provided by the Financial Industry Regulatory Authority (FINRA) and in accordance with their rules then in effect. By signing the Confidential Investor Profile and/or any of the Retirement SOLUTIONS ("RS")/Investor SOLUTIONS ("IS") and/or Retirement SOLUTIONS PREMIER ("RSP")/Investor SOLUTIONS PREMIER ("ISP") applications, you have agreed to the following:

- (A) **All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.**
- (B) **Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.**
- (C) **The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.**
- (D) **The arbitrators do not have to explain the reason(s) for their award.**
- (E) **The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.**
- (F) **The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.**
- (G) **The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.**

No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action, or who is a member of a putative class action who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein.

### II. NATURE OF THE RELATIONSHIP

Lincoln is both a broker-dealer and a federally registered investment advisor. The nature of the relationship that we have with you depends on the products and services you select at Lincoln. When you purchase advisory services from Lincoln, you will sign an Investment Advisory Agreement or Financial Planning Agreement, pay an asset-based or flat fee, and receive an advisory disclosure statement (or Form ADV Part II). This disclosure statement contains important information related to the advisory services and potential conflicts of interest that may exist in offering these services to you. In the area of these advisory services, Lincoln and your FR act as registered investment advisor and investment advisory representative respectively, and as such, are fiduciaries on your behalf. In this capacity, Lincoln and your FR will have an ongoing responsibility,

while you are paying us a fee, to act in your best interests. When you select individual products and services on a periodic transactional basis, for which Lincoln and your FR may receive a sales commission rather than an advisory fee, Lincoln and your FR are acting as Broker-Dealer/Agent or Registered Representative/Agent. In these scenarios, Lincoln and your FR are responsible for the suitability of the transaction at the time of the transaction but are not legally responsible for the ongoing monitoring of the investment, product, or any changes in your personal financial situation in order to continue to meet your best interests. In the event of a controversy, this distinction may be relevant as to the responsibilities of Lincoln and as to the rights and remedies available to you. As a general rule, all relationships established by Lincoln and your FR are in our capacity of Broker-Dealer/Agent and Registered Representative/Agent unless you have specifically signed an Investment Advisory Agreement or Financial Planning Agreement with us. Any questions with regard to this matter may be directed to your FR or Lincoln's Compliance Department at (800)242-1421 Ext. 4300.

### III. CONSENT TO ELECTRONIC DELIVERY

Lincoln has access to technology that can deliver certain information and documents to you via the Internet rather than U.S. Mail. Electronic delivery provides you with quick, easy access to your account information and eliminates the need for storing documents in paper form. In order to deliver documents to you in an electronic format we need your informed consent. This section describes the scope of the consent we are requesting from you.

For those who consent to electronic delivery when signing your Confidential Investor Profile and/or any of the SOLUTIONS or PREMIER applications, you are consenting to electronic delivery of any and all documents which Lincoln has the ability to deliver electronically. Lincoln will, at its discretion, determine which documents are eligible to be delivered electronically versus delivered via U.S. mail. Documents may include: prospectuses, confirmations of transactions, SOLUTIONS and/or PREMIER quarterly statements, advisory agreements, disclosure brochures, custodial agreements, confidential investor profile information, product applications, product issuer information, and any other agreements, addendums or documents that may be required to be delivered to you. Lincoln cannot be responsible for the timely receipt or execution of time-sensitive or action-oriented messages delivered to Lincoln and/or its FR via electronic mail, including authorization to "buy" or "sell" a security or instructions to conduct any other financial transaction. Only those who indicate their consent, by providing an email address, will have future documents delivered electronically.

#### Right to Revoke

This consent is indefinite and extends to any document that Lincoln determines is in your best interest to deliver electronically. You maintain the right to revoke this Consent at any time and receive some or all covered documents in paper format. To revoke, please log on to our secure website at [www.lincolninvestment.com](http://www.lincolninvestment.com) and update your Delivery Notification Preferences or send an e-mail to: [service@lincolninvestment.com](mailto:service@lincolninvestment.com) or send a letter to: Lincoln Investment Planning, Inc., 218 Glenside Avenue, Wyncote, PA 19095, Attn: Electronic Delivery.

For technical assistance regarding electronic document delivery, please call Lincoln's Technology Department at (888)508-4780 between 8:30 A.M. and 5:00 P.M. EST. To request a paper copy of a document, please call your FR, or notify us via the e-mail address or U.S. mail address above.

## Delivery Mediums

Lincoln intends to deliver these documents to you via an Internet website and electronic mail. At some time, we may also use CD ROM to facilitate the delivery of a large document file, if necessary. You must have access to all of these mediums in order to provide your Consent to Electronic Delivery. In addition, many documents will be delivered in a PDF format, which requires special software in order to access and read a PDF document. The system requirements necessary for receipt of electronic documents are listed below:

- A computer that is e-mail ready
- An e-mail account capable of receiving attachments
- Adobe Acrobat Reader software in order to read PDF documents - A free copy of Adobe Acrobat Reader is available at <http://www.adobe.com>.

The costs to you in accepting electronic medium delivery may be additional on-line time costs and printing costs, as well as the potential for system outages that may delay delivery. **You are responsible to notify Lincoln immediately should your e-mail address change.** If Lincoln is unable to deliver a document electronically, we will send, via U.S. mail, a hard copy to you.

Any delivery of personal financial information, such as information on an investment application or investor profile information, will be encrypted in transmission and password protected so as to protect your privacy.

## IV. ERROR NOTIFICATION AND CORRECTION POLICY

Lincoln makes every effort to ensure the integrity of the personal and financial information we maintain on your behalf. You, your FR and Lincoln share this responsibility equally. While Lincoln agrees to maintain a consistent and accurate level of quality in the processing of your transactions, you have a separate responsibility to ensure that all instructions have been carried out properly. Should you discover an error, omission, exception or you fail to receive a confirmation following an anticipated or requested transaction, you must notify Lincoln or your FR immediately and re-confirm any oral communication in writing. Lincoln will assume that your confirmations and statements are correct, unless you notify us within ninety (90) calendar days of the transaction date. Neither Lincoln nor your FR will assume financial liability if an error is not reported to us within 90 calendar days of the transaction date. After 90 calendar days, Lincoln will correct the error, but neither Lincoln nor your FR can accept responsibility for market fluctuations or other related expenses incurred due to the error.

## V. ANTI-MONEY LAUNDERING

To help the government fight the funding of terrorism and money laundering, federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. Therefore, Lincoln will verify your personal financial information, such as name, address, date of birth and other information for identification purposes, with an independent consumer reporting agency. Lincoln may refuse or restrict transactions or request further information or evidentiary documentation during the verification process.

## VI. ADMINISTRATIVE FEES FOR SALARY REDUCTION/DEDUCTION

Lincoln may charge an administrative fee of up to 2.5% per transaction (minimum \$1, maximum \$50) for processing payroll salary reductions or deductions on your behalf. This administrative fee will only be charged if you purchase mutual funds or insurance

products from which Lincoln receives compensation (e.g., concessions, commissions, distribution fees, 12(b)(1) fees, service fees and/or advisory fees) of less than 0.25%. If the advisory service is discontinued, the administrative fee may be charged on future investments.

## Authorization to deduct Third Party Administration ("TPA") fees:

Lincoln Investment Planning, Inc., on behalf of UMB Bank, n.a., or its successors, may deduct TPA fees from your account. Such fees were negotiated between your Employer and the TPA (the amount of the fee is available through the Employer/TPA). As such, these fees are deemed reasonable in light of the services provided by the TPA. This authorization is in effect for the duration of time that this account is held through Lincoln. Any fees deducted will appear on your SOLUTIONS and/or PREMIER quarterly statement.

## VII. COMPLAINTS

Almost all investor complaints are resolved quickly as a result of discussions with your FR or other Lincoln personnel. However, experience indicates that some misunderstandings can and will occur. Your first communication should be directed to your FR. In the event that you do not receive satisfaction at that level, you should then contact the FR's Branch Manager. If you are still dissatisfied, please contact Lincoln's Compliance Department at 218 Glenside Avenue, Wyncote, PA 19095, (800) 242-1421, extension 4300.

## DISCLOSURES

### VIII. PRIVACY POLICY

#### What We Collect

Lincoln and its affiliates are committed to safeguarding customer personal and financial information in the strictest confidence. In order to provide you with individualized service, we collect certain public and nonpublic personal information about you that you provide on applications or other forms, whether in writing, in person, by telephone, electronically or by any other means, as well as information about your account. This may include your name, address, phone number, date of birth, Social Security number, assets, income, purchases, sales and account balances.

#### How Your Personal Information Will Be Handled

We collect this data in hopes that we may continue to offer you the products and services you need to help meet your investment objectives and to effect, administer or enforce transactions you authorize. We do not sell your information to anyone.

To better serve you, we may disclose your information to:

- Our independent contractor representatives, their affiliated businesses, clearing firms, insurance companies, mutual funds, third-party administrators, brokers/dealers and investment advisors that provide services to you on our behalf, and subsidiary affiliates that have been organized to assist in the conduct of our business, and as otherwise permitted by law.

Furthermore, we may disclose the data we collect to companies that perform administrative or marketing services on our behalf, such as transfer agents or printers. These companies will use this data only for the services for which we hired them and are not permitted to share or use this information for any other purpose.

- Your employer with respect to employer retirement plan assets only, as applicable.

- Your FR upon leaving Lincoln to join another firm, as described below:

We recognize that you have elected to open accounts with us due to your relationship with your FR. If he/she elects to leave Lincoln for another registered broker/dealer or registered investment advisor, we may allow your FR to take your information to the new firm, subject to the requirements or limitations of applicable law.

In the future, should your FR decide to leave Lincoln for another firm, we will notify you at that time in writing so that you may determine whether to opt out or opt in\* to allow your FR to take your information to the new firm.

\*If you reside in the state of Alaska, California, Illinois, Maine, Massachusetts, Missouri, New Hampshire, North Dakota or Vermont, we are required to obtain your written approval to allow your FR to take your information to a new firm.

Personally identifiable information about you will be maintained, by Lincoln, during the time you are our investor and for any additional time thereafter as required by federal and state laws. Lincoln reserves the right to disclose your nonpublic personal information to other third parties not exempt by law and not described above provided we give you 30 days prior written notice, giving you the ability to opt out/opt in at that time.

#### **How We Safeguard Your Information**

With regard to our internal security procedures, we restrict access to your personal and account information to those employees and FRs who need to know. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information.

#### **How We Protect You Online**

Our concern for the privacy of our investors also extends to those who utilize our website. Lincoln is the sole owner of the information collected on this site. We will not sell, share or rent this information to others in ways not disclosed in this statement.

#### **What You Can Do**

For your protection, we recommend that you do not provide your account information to anyone. If you become aware of any suspicious activity relating to your account, please contact us immediately. **If you have questions about our policy or require additional copies of this notice, please call your FR. You can also print a text-only version of this privacy notice from our website at [www.lincolninvestment.com](http://www.lincolninvestment.com).**

### **IX. BUSINESS CONTINUITY PLANNING**

Lincoln has established emergency preparedness plans and procedures that address the possibility of a significant business disruption that could result from power outages, natural disasters and other events. This business continuity plan is reviewed, updated and tested on a regular basis and provides for continuation of investor services in the event of a disruption. A few examples of what might occur if Lincoln were to experience a business disruption of varying magnitudes includes, but is not limited to (1) If telephone service became unavailable, Lincoln would re-route calls to an alternate company office for the duration of the outage; (2) If utility electric power were to be lost to Lincoln's home office, a backup power generator is in place to support all critical investor services, and would be operational within seconds of the power loss; (3) In the event Lincoln's home office facilities became unavailable, Lincoln

would continue to provide critical investor services by relocating personnel and resources to another company office.

While no contingency plan can eliminate all risk of service interruption or temporarily impede account access, Lincoln will assess and update the firm's plans to mitigate all reasonable risk. Lincoln's business continuity plan is subject to modification. Any modifications to this disclosure will be promptly posted to Lincoln's website ([www.lincolninvestment.com](http://www.lincolninvestment.com)). Investors may at any time request an updated written copy by mail.

### **X. FINRA BROKERCHECK PROGRAM and SIPC INFORMATION**

FINRA BrokerCheck provides investors with an easy, free way to learn about the professional background, registration/license statuses and conduct of FINRA registered firms and their brokers. To request information under this program visit the FINRA website at [www.finra.org](http://www.finra.org) or call (800) 289-9999. A brochure that includes information describing the BrokerCheck Program may be obtained.

The primary role of the Securities Investor Protection Corporation (SIPC) is to return funds and securities to investors if the broker/dealer holding these assets becomes insolvent. Information, including the SIPC brochure, may be obtained by contacting SIPC at [www.sipc.org](http://www.sipc.org) or at (202) 371-8300.

### **XI. ADDITIONAL COMPENSATION**

At Lincoln Investment Planning, Inc. ("Lincoln"), we strive to provide to you objective investment advice to assist you in retiring well. There are inherent in any recommendations, however, the potential for conflicts of interest. This conflict can come from the compensation our Financial Representatives ("FRs") may receive on specific investments or advisory services, or it may come from the compensation that Lincoln may receive from third party providers as a result of your purchase of products, advisory or retirement plan services. It is important for you to understand these conflicts of interest so that you may make an informed decision to permit Lincoln to serve your investment needs. Below are some of the compensation factors that may affect your FR's recommendations or Lincoln's decision as to the products and services that we offer. Should you have any questions about this information, please contact your FR.

**Product and Pricing Choice.** Lincoln's Product Sponsors have been chosen based on their ability to offer products that meet the financial needs of our investors. With the ever expanding array of products and services and the complexity associated with many of today's product choices, it is important for investors to work with a FR. Lincoln FRs are dedicated to assisting you in finding the right investment product. Lincoln has limited the product choices and product sponsors available to you and our FRs so that we can better prepare our FRs with product knowledge and information to better serve you.

**Products and Services Compensation.** As a registered broker dealer, Lincoln receives compensation in the form of commissions or concessions as described in a prospectus for the sale of securities, such as mutual funds, variable annuities, stocks and bonds. As a registered investment adviser, Lincoln retains a portion of the advisory fees paid by the investor for Lincoln's advisory services, and may also share in the advisory fee (a solicitor fee) paid by the investor to outside advisory services. As a general insurance agency, Lincoln receives compensation for the sale of insurance products, such as, life, health, disability, long term care, and fixed annuity products. Overall compensation to your Lincoln FR, as a result of your investments with Lincoln, may be in the form of commissions, concessions, advisory fees,

distribution fees (also referred to as servicing or 12b-1 fees) and persistency fees.

**Additional Compensation.** Lincoln receives from certain Product Sponsors compensation over and above published commission schedules, advisory fees and concessions as described in a prospectus. This compensation may be paid for services we provide to the Product Sponsor or they may be paid to Lincoln in order to provide sales and marketing support. Lincoln agrees to permit Compensating Sponsors to provide marketing support services to its FRs. These include, but are not limited to, introduction and promotion of products approved for sale by Lincoln Investment Planning, Inc. to Lincoln's FRs; inclusion of such products or services on Lincoln's platforms (if applicable); due diligence conferences and educational sessions (hosted by either Lincoln and/or the Compensating Sponsor for FRs, investors, or both) for which attending FRs may be reimbursed for their out of pocket travel expenses; facilitation of product training and communication of policies and procedures of Compensating Sponsors through resources and materials which may include in-person training, webcasts, intranet, and hyperlinks from the Lincoln website to that of the Compensating Sponsor; newsletters; co-branding; speakers and sponsorship at Lincoln sponsored conferences; access to Lincoln's marketing staff, etc. Sponsorship events may include investor appreciation events, educational or product seminars, Lincoln educational or social events for its FRs. Lincoln maintains control of the agenda and attendees; sponsorship by a Compensating Sponsor is at the discretion of the Product Sponsor and is not conditional on sales targets. This "Additional Compensation" may be received as a flat dollar amount or an amount based on sales or total dollar amount of investors' assets. Product Sponsors who pay Lincoln Additional Compensation are considered Lincoln's "Compensating Sponsors."

**Source of Compensation.** Most Additional Compensation payments are paid to Lincoln out of the revenues of the sponsoring investment company or insurance company and are NOT paid out of fund assets. Certain insurance companies or entities through which Lincoln places insurance business pay compensation that is based in part on factors such as total deposits, assets or premium volume and persistency or profitability of the business sold by Lincoln's FRs. The cost of this compensation may be directly or indirectly reflected in the premium or fee for the product.

Because Additional Compensation received by Lincoln may benefit Lincoln or its FRs financially, it may be deemed a potential financial conflict of interest when working with our investors.

**Compensating Sponsors.** Lincoln received Additional Compensation from the following product sponsors, investment advisors, and insurance companies and insurance general agencies in 2008:

Absolute Capital Management; Advanced Asset Management Advisors, Inc.; Advisor One; AIG Valic; Alger Fund; Alliance Capital; American Funds; Genworth Financial Wealth Management, Inc. (formerly AssetMark Investment); Calvert Asset Management Company; Clark Capital Management Group; Co; Commonwealth Life and Annuity; Evergreen Funds; Federated Investors; Franklin/Templeton Distributors; Goldman Sachs & Company; Great American Financial Resources/Annuity Investor Life Insurance Co.; The Hartford; ICON Advisors, Inc.; Individual Commercial Brokerage; ING Security Life of Denver Insurance Company; Invesco AIM, Jackson National Life Insurance Company; Lincoln Financial Group; Meeder Asset Management; MetLife Investors, MFS Investment Management & Subsidiaries; Nationwide; Northstar, Ohio National Life Insurance Company; Oppenheimer

Funds, Inc.; Pacific Life; Pioneer Investments; Portfolio Strategies, Inc.; Principal Life; Prudential Financial; Putnam Investments; Russell Investment Group; Scudder Kemper; Security Benefit Group; Seligman Group; Sentinel Funds; T. Rowe Price, US Allianz Life Insurance Company of North America, Van Kampen Investments, Inc.; and Waddell and Reed

**Types and Amounts of Additional Compensation.** The types and amounts of Additional Compensation received last year varied by Compensating Sponsor. A total of Additional Compensation received in 2008, by type, is reflected below:

- Administrative fees for such services as record-keeping or networking arrangements, which were paid by Product Sponsors on the value of assets or number of accounts totaled \$2,413,704;
- Sponsorship Fees paid by Product Sponsors and Investment Advisors for Lincoln sponsored sales events, paid in the form of cash or expense reimbursement, for sales meetings, seminars and conferences to which the Compensating Sponsor is invited totaled \$179,000;
- Additional Marketing and Sales Support Compensation received either in the form of a flat dollar amount, total sales transacted, or total assets held on behalf of Lincoln investors was \$1,094,344;
- Reimbursement of approved expenses incurred by FRs or Lincoln employees for attendance at educational meetings held by the Compensating Sponsor at pre-approved locations, or reimbursement of general mailings, investor or prospective investor appreciation meetings or seminars where the Compensating Sponsor has agreed to contribute toward the expense totaled \$93,032;
- Lincoln Financial Group pays a quarterly bonus fee to Lincoln for annuity business outside of a surrender period that remains in force (Persistency Bonus). Lincoln can also be charged back from Lincoln Financial for annuity contracts that are cancelled. For 2008, the net bonus less charge backs received by Lincoln was \$17,140.

Additional Compensation may also include brokerage commissions received by Lincoln resulting from the execution of portfolio transactions on behalf of an investment company. There is no written or verbal agreement or arrangement whereby a sponsor is required to direct a certain amount of brokerage to Lincoln based upon the assets invested in a sponsor's products. Consequently, Lincoln cannot anticipate if sponsors will place trades through Lincoln in the future. During 2008, Lincoln executed no trades for Compensating Sponsors' portfolios.

Additional Compensation is not shared directly with FRs, their Managers or Designated Supervisors, other than reimbursement of expenses from attendance at educational meetings sponsored by the product providers. Only Lincoln benefits financially from this Additional Compensation which is utilized to offset the cost of the services performed on behalf of the Product Sponsor or the marketing and operational expenses of the company.

Overall, in 2008, Additional Compensation based on sales or assets received by Lincoln represented 0.0207% of the total average aggregate value of our investors' asset holdings or \$2.07 on an account value of \$10,000.

**2008 Compensating Product Sponsors who compensated Lincoln based on Sales or Assets or Sponsorship of Lincoln Events**

Product Sponsor	Annual Compensation Arrangements for every \$10,000 in Investor Assets	Annual Compensation Arrangements for every \$10,000 of Investor Sales	Total Event Sponsorship and Compensation Arrangements Received
ICON Advisors, Inc.	\$10 <sup>a</sup>	-	\$314,948
Franklin/Templeton Investments	-	\$20 <sup>b</sup>	\$182,679
Federated Investors	\$10	-	\$150,987
Invesco AIM	\$2.50	-	\$102,625
US Allianz	-	\$25	\$75,153
Putnam Investments	-	-	\$67,500
Security Benefit Group, Inc.	\$3.00 <sup>c</sup>	-	\$63,908
Oppenheimer Funds	-	-	\$60,000
Jackson National Life	-	\$25	\$58,260
MetLife Investors	-	\$25 <sup>d</sup>	\$47,573
Prudential	-	\$20	\$36,802
Commonwealth Life and Annuity	-	-	\$27,500
Van Kampen Investments, Inc.	-	\$15	\$25,752
Great American Financial Resources/ Annuity Investor Life Insurance Co.	-	-	\$15,000
The Hartford	-	\$10	\$14,157
Advanced Asset Management Advisors, Inc.	-	-	\$11,500
Advisor One	-	-	\$5,000
Meeder Asset Management	-	-	\$5,000
Russell Investment Group	-	\$5 <sup>e</sup>	\$5,000
Clark Capital Management	-	-	\$2,500
AIG Valic	-	\$20 <sup>f</sup>	\$1,500

<sup>a</sup> Lincoln receives \$10 per \$10,000 when total assets are greater than \$250 million; for assets below \$250 million, Lincoln receives \$8 per \$10,000. Lincoln could receive as much as \$15 per \$10,000 if total assets exceed \$1 billion

<sup>b</sup> Lincoln receives \$20 on equity fund sales per \$10,000 invested and \$10 on bond fund sales per \$10,000 invested. For 2009, Lincoln will receive \$15 on equity fund sales per \$10,000 invested and \$10 on bond fund sales per \$10,000 invested.

<sup>c</sup> Lincoln receives \$1.50 per \$10,000 on assets annually with the potential to receive another \$1.50 per \$10,000 if positive net deposits occur each year.

<sup>d</sup> For 2009, Lincoln will receive \$15 based on a \$10,000 investment.

<sup>e</sup> For 2009, Lincoln will receive \$5 per a \$10,000 invested. In 2008, there was no asset or sales based compensation.

<sup>f</sup> Lincoln receives \$20 per \$10,000 for annuity contracts with issue ages of less than 75; Lincoln receives \$10 per \$10,000 for annuity contracts with issue ages of 75 and older.

**OTHER POTENTIAL CONFLICTS OF INTEREST**

**Differential Compensation.** Commissions received by Lincoln on transactions vary, generally ranging from 1.0% to 6.0% of amount invested, and advisory fees generally range from .60% – 2.0% of the assets under management. With respect to commissions and advisory fees received, Lincoln pays each FR an assigned payout rate that has been determined based upon the branch office that the FR is assigned, his/her total level of production, and the type of product being sold. Lincoln does not offer differential commission payouts based upon the specific product, or the Sponsor of the Product. Lincoln may, at its discretion, support its representatives by subsidizing the FR's marketing efforts. For advisory services offered by Lincoln on its platforms, there is no financial incentive to the FR to offer one program over another. Regardless of the advisory service offered, the FR receives the same percentage of the advisory fee paid by the investor. This allows the FR to make objective recommendations to the investor. Lincoln retains the remainder of the advisory fee paid by the investor to pay for such services as the administration, and management fee to the Strategists, when applicable.

With respect to distribution and servicing fees paid by product sponsors, the fees received by Lincoln generally range from 0.10% to 1.00% annually of the net asset value of the investors' assets. This fee is typically an ongoing fee that is paid to Lincoln in addition to the commission and/or advisory fee received. Lincoln's policy as to which FR shares in the distribution and servicing fees varies based on such factors as: whether the FR is in a company agency or independent agency branch office; whether the FR qualifies for Lincoln's achievement clubs by meeting certain production criteria (Honor Club or President's Club); whether the product paying the distribution fees is a Compensating Sponsor and/or whether the product issuing the distribution or servicing fees maintains an electronic relationship with Lincoln for the sharing of investor information. This may create a financial incentive for the FR to offer to the investor only those products for which he/she does qualify to share in distribution and servicing fees paid to Lincoln. Only a small number of Lincoln's FRs do not share in certain products' distribution and servicing fees paid to Lincoln. Lincoln shares, with its FRs, more than 77% of the distribution and servicing fees it receives. As an investor, you should ask your FR if he/she receives or shares in the distribution or servicing fees associated with his/her product recommendation to you.

**Sales Contests.** Lincoln also offers sales contests to its FRs that provide additional incentives to FRs. Lincoln may offer contests throughout the year that will be limited to those accounts on Lincoln's custodial retirement plan platform, **Retirement SOLUTIONS/Retirement SOLUTIONS<sup>PREMIER</sup>**, and Lincoln's mutual fund platform for non-retirement accounts, **Investor SOLUTIONS/Investor SOLUTIONS<sup>PREMIER</sup>**. In offering a contest only on sales on these platforms, Lincoln may offer sales contests that may provide the FR with an incentive to offer the products or services of only those product sponsors that are approved for sale on these platforms. As of December 31, 2008 there were over 520 approved product sponsors at Lincoln, 54 of which were on **the Retirement SOLUTIONS/Retirement SOLUTIONS<sup>PREMIER</sup>** and **Investor SOLUTIONS/Investor SOLUTIONS<sup>PREMIER</sup>** platforms and 26 of the 54 which are Compensating Sponsors. Lincoln includes in the contest all approved products on the platform and does not restrict these contests to Compensating Sponsors only. Top achievers in these contests may receive Lincoln sponsored trips, cash prizes, bonus commissions, extra club points, monetary donations in their name to a charity of their choice or other nominal prizes. All contests are across the entire product line available on the platforms. No contest is offered which will award the FR based upon a specific investment

product or on a specific product sponsor. Lincoln will not accept any business that is not deemed suitable for the investor.

**Endorsements.** From time to time, Lincoln makes lump sum payments to education-based associations and not-for-profit organizations with a large constituency of employees who are eligible to invest in 403(b) retirement plans, (hereinafter, "Associations"). In some cases, Lincoln voluntarily makes such payments to reimburse the Associations for certain marketing expenses (e.g. newsletter advertisements) in connection with Lincoln's products and services. Certain Associations require Lincoln to reimburse them for marketing expenses, or the use of their facilities used to meet with their employees, or to obtain their explicit endorsement. Others request our assistance in covering their administrative cost of processing the payroll contributions. Through December 2008, payments ranged from \$300 to \$20,000 per Association.

**Retirement Plan Custodial Services.** Lincoln collects, on behalf of UMB Bank, n.a., the custodial fee for all **Retirement SOLUTIONS and Retirement SOLUTIONS<sup>PREMIER</sup>** accounts. As the authorized agent for the custodian, Lincoln performs most of the administrative and custodial duties for UMB Bank, n.a. and retains the majority of the custodial fee collected as payment for these services. Therefore, Lincoln may have an incentive to encourage its FRs to utilize **Retirement SOLUTIONS and Retirement SOLUTIONS<sup>PREMIER</sup>** accounts over other retirement plan custodial services.

## XII. ACCOUNT INVESTMENT OBJECTIVE

The investment objective you select is the primary objective for each account tax type. This objective, along with other factors, will help determine a suitable investment strategy. If your account is a Retirement Account [such as an IRA, 403(b), 457, 401(k)], Lincoln shall assume your primary investment objective is Retirement Accumulation (RA). If your account is a 529 College Savings Plan or Coverdell Education Savings Account, Lincoln shall assume your primary investment objective is Educational Savings (ES). If at any time you would like to revise your account's investment objective, please contact your FR. The objectives are defined as follows:

**Retirement Accumulation (RA):** Seeking account appreciation to satisfy your retirement needs.

**Educational Savings (ES):** Seeking account appreciation to satisfy educational needs for your children or other family members.

**Current Income (CI):** Seeking a stream of current income for immediate financial needs.

**Asset Accumulation (AA):** Seeking account appreciation to add wealth.

**Speculation (SP):** Seeking to maximize account appreciation and are willing to accept above average market volatility and losses.

## XIII. TAX AND LEGAL ADVICE

Lincoln does not provide tax or legal advisory services and no one associated with Lincoln is authorized to render such advice as a service provided through Lincoln. Investors are encouraged to consult their tax and/or legal advisor to determine the appropriate tax treatment of their transactions.

## EDUCATION

### XIV. DOLLAR COST AVERAGING

Dollar cost averaging is an investment strategy designed to help reduce volatility in which securities are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving. Thus, as prices of securities rise, fewer shares/units are bought, and as prices fall, more share/units are bought. A plan of regular investing does not assure a profit or protect against loss in a

declining market. You should consider your financial ability to continue your purchase through periods of fluctuating price levels.

## XV. DIVERSIFICATION

Diversification is a portfolio strategy designed to help reduce exposure to market risk by combining a variety of investments which are unlikely to all move in the same direction. Diversification helps reduce both the upside and downside swings within the portfolio and allows for more consistent performance under a wide range of economic conditions. In an effort to meet diversification needs and goals, you may not qualify for breakpoint sales charge reductions that may otherwise be available. Furthermore, you should understand that there is no assurance that a diversified portfolio will produce better returns than an undiversified portfolio, nor does diversification assure against market loss.

## XVI. MUTUAL FUND CHARGES, DISCOUNTS & EXPENSES

Before investing in mutual funds, it is important that you understand the sales charges, expenses, and management fees that you will be charged, as well as the breakpoint discounts to which you may be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you reduce the cost of your investment. The information herein is intended to give you general background information about these charges and discounts. However, sales charges, expenses, management fees, and breakpoint discounts vary from mutual fund to mutual fund. Therefore, you should discuss these issues with your FR and review each mutual fund's prospectus and statement of additional information, which are available from your FR, to get the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

### Sales Charges

Purchasing mutual funds involves making certain choices, including which funds to purchase and which share class is most advantageous. Each mutual fund has a specified investment strategy. You need to consider whether the mutual fund's investment strategy is compatible with your investment objectives. Additionally, most mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund's portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class.

### Class "A" Shares

Class A shares are sold with an up-front sales charge. When anticipating a long-term holding period (6+ years), Class A shares are considered most appropriate for investments of \$100,000 or more. Volume discounts ("breakpoints") are available on the sales charge as the size of your account and any related account holdings increase. Class A shares have a lower internal expense relative to Class B and Class C shares; therefore, when investing \$50,000 or more, Class A shares will start to outperform the "B" and "C" share alternatives between the 5th and 10th year. The standard Class A share maximum sales charge is 5.75%.

**Discounts:** If choosing Class A shares, you must also complete Lincoln's L-15 or the applicable fund family's application form to receive eligible sales charge discounts.

### Class "B" Shares

Class B shares are available for investments up to a maximum of \$99,999.99 in the aggregate, both in any one fund family and across families. Class B shares have no up-front sales charge but instead will charge a contingent deferred sales charge ("CDSC") that declines over time if the investment is redeemed within a stated time period.

Class B share purchases do not have the benefit of breakpoint/volume discounts; therefore, they are not appropriate for investments over \$100,000. **The industry average expense ratio for Class B shares exceeds that of Class A shares by approximately 0.74%. Typically the higher internal cost and the CDSC will affect the performance of the fund relative to the Class A share alternative until the Class B shares convert to Class A shares.** Class B shares will convert to Class A shares typically 6-8 years after purchase without an additional sales charge.

**Class “C” Shares**

Class C shares are available for investments up to \$500,000 to \$1 million, depending upon the fund family in which you are investing and at what investment level the fund provides Class A share with a sales charge waiver. **With a few exceptions, Class C shares typically do not convert to Class A shares and the industry average expense ratio is typically higher than that of Class A shares by approximately 0.74%; therefore, for account sizes of \$100,000 or more, Class C shares will typically under-perform relative to Class A shares starting in the 5th year.** For this reason, Class C shares are considered most appropriate for short holding periods or if you are seeking the flexibility of transferring assets across mutual fund families. No sales charge discounts are available and Class C shares may charge a CDSC if the investment is redeemed within a certain time period.

**SUMMARY OF TYPICAL SHARE CLASS DIFFERENCES**  
(as of 5/1/09)

Share Class	A	B	C
Initial Up-Front Sales Charge Paid by Investor (maximum 5.75%)	Yes	No	Some
Contingent Deferred Sales Charge	No	Yes (typically charged first 6 yrs. after purchase)	Yes (typically charged 12-18 mos. after purchase)
Industry Average Mutual Fund Internal Expense Ratio	1.26%	2.00% (0.74% higher expense than Class A)	2.00% (0.74% higher expense than Class A)
Shares Convert to Class A Shares After a Stated Time Period	N/A	Yes (typically after 8 years after purchase date)	Mostly Never (with few exceptions)
Sales Charge Volume Discounts Available	Yes	No	No
Average Sales Charge Paid to Broker/Dealer	4.00%	4.00%	1.00%
Annual Asset-Based Service Fee Paid to Broker/Dealer on Assets	Average 0.25%	Average 0.25%	Average 1.00%

**Breakpoint Discounts**

In general, most mutual funds provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales charge decreases. In fact, the entire sales charge may be

waived for investors that make very large purchases of Class A shares (typically \$1 million or more). Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which breakpoint discounts apply. Additionally, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases through "Rights of Accumulation," and future purchases, based upon "Letters of Intent." However, mutual funds have different rules regarding the availability of Rights of Accumulation and Letters of Intent. Therefore, you should discuss these issues with your FR and review the mutual fund prospectus to determine the specific terms upon which a mutual fund offers Rights of Accumulation or Letters of Intent.

**• Rights of Accumulation** - Many mutual funds allow investors to count the value of previous purchases of the same fund, or another fund within the same fund family, with the value of the current purchase, to qualify for breakpoint discounts. Moreover, mutual funds allow investors to count existing holdings in multiple accounts, such as IRAs or accounts at other broker-dealers, to qualify for breakpoint discounts. Therefore, if you have accounts at other broker-dealers and wish to take advantage of those balances to qualify for a breakpoint discount, you must advise your FR and provide documentation of these holdings.

In addition, many mutual funds allow investors to count the value of holdings in accounts of certain related parties, such as a spouse or children, to qualify for breakpoint discounts. Each mutual fund has different rules that govern when relatives may rely upon each other's holdings to qualify for breakpoint discounts. You should consult with your FR or review the mutual fund's prospectus or statement of additional information to determine what these rules are for the fund family in which you are investing. If you wish to rely upon the holdings of related parties to qualify for a breakpoint discount, you should advise your FR and provide the necessary documentation.

Mutual funds also follow different rules to determine the value of existing holdings. Some funds use the current net asset value (NAV) of existing investments and some use public offering price (POP) in determining whether an investor qualifies for a breakpoint discount. However, a small number of funds use the historical cost, which is the cost of the initial purchase, to determine eligibility for breakpoint discounts. If the mutual fund uses historical costs, you may need to provide account records, such as confirmation statements or monthly statements, to qualify for a breakpoint discount based upon previous purchases. You should consult with your FR and review the mutual fund's prospectus to determine whether the mutual fund uses either NAV, POP or historical costs to determine breakpoint eligibility.

**•Letters of Intent** - Most mutual funds allow investors to qualify for breakpoint discounts by signing a Letter of Intent, which commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. For example, if an investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign a Letter of Intent at the time of the first purchase and receive the breakpoint discount associated with the \$50,000 investment on the first and all subsequent purchases. Additionally, some funds offer retroactive Letters of Intent that allow investors to include purchases in the past 90 days to qualify for a breakpoint discount; however, if an investor fails to invest the amount required by the Letter of Intent, the fund is entitled to retroactively deduct the correct sales charge based upon the amount that the investor actually invested. If you intend to make several purchases within a 13-month period, you should consult your

FR and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

**•Other Sales Charge Waivers** - Most fund families also offer a right to exchange their holdings of a fund within the fund family for another fund within the fund family, without an additional sales charge. Various conditions and restrictions may apply, depending on the fund family. The prospectus will outline the terms governing whether an investor can avoid paying a sales charge on an exchange. Some of those conditions and restrictions relate to:

- time frame (e.g., shares must be held for a specific time period prior to the exchange);
- exchanges may be limited to the same share class;
- exchanges may be limited to a maximum number per year;
- fees may be charged for certain exchanges.

In addition, some families of funds offer a reinstatement feature. This permits an investor that previously owned shares in a mutual fund to repurchase shares in the same fund (or in another fund within the same fund family) without paying a sales load. Some restrictions may apply; for instance, there may be a time limit (e.g., six months or a year from the date of the initial sale) within which the reinstatement feature must be exercised or it is lost. Funds may also limit the use of their reinstatement feature by an investor to one time for any given group of shares. Contingent deferred sales charges, paid by an investor at the time of sale, may be reimbursed upon reinstatement, depending upon the terms stated in the prospectus. Additionally, some fund families permit reinstatement at net asset value if the monies being reinstated are coming from the sale of shares from a different fund family where the investor previously paid a sales charge.

As you can see, understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price. The availability of breakpoint discounts may save you money and affect your decision regarding the appropriate share class in which to invest. Therefore, you should discuss the availability of breakpoint discounts with your FR and carefully review the mutual fund prospectus and its statement of additional information. If you wish to learn more about mutual fund share classes or mutual fund breakpoints, you may wish to review the investor alerts available on the FINRA web site. See [www.finra.org](http://www.finra.org) or visit the many mutual fund web sites available to the public.

**Expense Ratio of the Fund**

Another factor that should be considered before investing in a mutual fund is the underlying costs associated with your anticipated investment, or the fund's Expense Ratio. The fund's Expense Ratio, the length of time you expect to hold the investment and how much you intend to invest, will all directly affect the performance of the fund relative to the share class decision. Overall, equity funds have a higher Expense Ratio relative to bond funds. The share class chosen also affects the expense ratio. Class A shares of a fund have a lower Expense Ratio relative to Class B and Class C shares. The expense differential averages approximately 0.74% higher expense for B and C shares. A higher underlying management cost of the fund can affect the performance of the fund. Typically, when an investment is held for six or more years, Class A shares will outperform the Class B and Class C shares of the same fund due to the lower internal expense. Let's look at an example.

**How the Hypothetical Results Compare**

The tables below show the values of hypothetical investments with a hypothetical 8% annual rate of growth using different share classes. Actual results will vary.

As you will note, the share class decision, the length of time you expect to hold the investment and how much you intend to invest, will all directly affect the

Values of hypothetical \$10,000 investment: Shading indicates best performing share class for time period.

Hold Period	1 year	5 years	10 years
Class A shares (with 5.75% up-front sales charge)	\$10,179	\$13,848	\$20,347
Class B shares	\$10,720/\$10,220*	\$14,157/\$13,957*	\$20,343
Class C shares	\$10,720/\$10,620*	\$14,157	\$20,043

Values of hypothetical \$50,000 investment: Shading indicates best performing share class for time period.

Hold Period	1 year	5 years	10 years
Class A shares (with 4.50% up-front sales charge)	\$51,570	\$70,160	\$103,088
Class B shares	\$53,600/\$51,100*	\$70,788/\$68,288*	\$101,718
Class C shares	\$53,600/ 53,100*	\$70,788	\$100,219

Values of hypothetical \$100,000 investment: Shading indicates best performing share class for time period.

Hold Period	1 year	5 years	10 years
Class A shares (with 3.50% up-front sales charge)	\$104,220	\$141,790	\$208,336
Class B shares	\$107,200/\$102,200*	\$141,576/\$139,576*	\$203,437
Class C shares	\$107,200/\$106,200*	\$141,576	\$200,438

As of 5/1/09

*\*Where appropriate, these hypothetical tables show both account value and redemption value of Class B and Class C shares (contingent deferred sales charge is subtracted for years 1 and 5). Investors should review carefully the investment objectives, risks, charges, expenses and other important information that is contained in the prospectus or Statement of Additional Information, which can be obtained from your FR and should be read carefully before investing.*

*These tables compare hypothetical investments in an equity fund with all distributions reinvested and are not meant to illustrate actual results. Class A share results were calculated using a net return of 8% (after all fees and expenses deducted) and reflect payment of appropriate front-end sales charges. Class B share results were calculated using a 7.26% return over the first eight years, which represents an 8% A share return (after expenses) adjusted for typical additional expenses of 0.74%. In years 9 and 10, an 8% return was used since B shares convert to A shares typically after eight years.*

*Class C share results were calculated using a 7.26% return which represents an 8% A share return (after expenses) adjusted for typical additional expenses of 0.74%.*

### **Replacing Investments**

It is not the policy of Lincoln to recommend replacing investments unless, having considered all fees involved, you believe that your investment or personal objectives will be better served. Be sure your FR has informed you of the costs and conditions that may be involved with replacing investments. Be sure to review the investment options of both the current and the proposed investment and understand that an exchange within the existing fund family into a different fund may be completed without incurring the costs involved in a replacement.

### **Share Values Fluctuate**

Shares, when redeemed, may be worth more or less than the total invested, depending on the market value of the securities in the investment at that time. While redemptions may be made at any time, because of the costs and charges, mutual funds may not be considered appropriate for short-term needs. Yields and returns change and are not guaranteed. These securities are not FDIC insured.

This information is intended to educate you as to the material differences between mutual fund share classes. You should consider this information whenever you make mutual fund purchases. Your Lincoln FR can assist you in understanding this information and will answer any questions you may have.

### **XVII. BOND FUNDS**

A bond fund is comprised of debt securities issued by governments and government agencies, corporations and municipalities. Bond fund investments are essentially lending money (principal) to that entity (issuer) for a certain period of time (term). In exchange, the issuer promises to repay the principal on the maturity date and in exchange you receive interest on your investment. Bond funds market value may rise or fall depending on economic conditions. Although bond funds may pay higher yields than other fixed income investments (sometimes due to the fact that it may contain a high proportion of less-than-investment grade bonds [so called "junk bonds"]), it does not negate the fact that the market value of all bonds fluctuate. Their net asset values are sensitive to interest rate movements (a rise in interest rates can result in a decline in value of the investment) and other factors. Therefore, upon redemption, your share value may be worth more or less than your original investment.

### **XVIII. SMALL AND MID-CAP FUNDS**

Small and mid-cap funds are classified by the underlying company's market capitalization (the "cap" in Small and Mid-Cap), but generally can be defined by a company's annual revenue. Small and mid-cap funds may be subject to a higher degree of risk than larger, more established companies, including higher risk of failure and higher volatility. The illiquidity of the small and mid-cap markets may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost.

### **XIX. SECTOR FUNDS**

A sector fund is a mutual fund which invests entirely or predominantly in the securities of a single sector, or broad industry group, to which it belongs (For example: communication services, energy, health care and technology). Investing in a particular sector means you are concentrating your investments in one specific area of the market. An investment concentrated in sectors and certain industries may involve greater risk and volatility than a more diversified investment.

### **XX. INTERNATIONAL INVESTING**

International investing includes stocks and bonds of companies outside the U.S. International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties.

### **XXI. TREASURY BILLS/NOTES**

Treasury bills/notes are negotiable debt obligations issued by the U.S. government and backed by its full faith and credit. Treasury bills have a maturity of one year or less; Treasury notes have a maturity between 1 and 10 years. If not held to maturity, principal will fluctuate and may be worth more or less. Guarantee only applies to the timely payment of principal and interest and does not pertain to the portfolio, mutual fund, or variable annuity holding such securities.

### **XXII. MONEY MARKET FUNDS**

A money market fund is an open-end mutual fund. These funds invest in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The main goal is preservation of principal, accompanied by modest dividends. The fund's net asset value strives to remain a constant \$1.00 per share to simplify accounting, but the interest rate does fluctuate. Money market funds are very liquid investments. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

### **XXIII. SECTION 529 COLLEGE SAVINGS PLANS**

529 College Savings Plans (529 Plans) allow you to contribute to an investment account set up specifically to pay your beneficiary's qualified higher education expenses, such as tuition, fees, books supplies, and room and board. Participation in a 529 Plan does not guarantee that contributions and investment return, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals. Depending upon the laws of the home state of the contributor or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 Plans may be available only if the contributor invests in the home state's 529 Plan. Any state-based benefit offered with respect to a particular 529 Plan should be one of many appropriately weighted factors to be considered in making an investment decision.

Assets in a 529 Plan can potentially reduce the beneficiary's ability to qualify for some forms of college financial aid. You should consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances and you also may wish to contact your home state or any other 529 Plan to learn more about the features, benefits and limitations of your state's 529 Plan.

Information about the designated beneficiary selected for the 529 Plan, including (among other things) information regarding the age of the beneficiary and the number of years until funds will be needed to pay qualified higher education expenses of the beneficiary, are important to consider. In many cases, the same investment options in a 529 Plan are available with different commission structures. For example, an A share may have a front-end load, a B share may have a contingent deferred sales charge or back-end load that reduces in amount depending upon the number of years that the investment is held, and a C share may have an annual asset-based charge.

Therefore, the account's investment objective - particularly, the number of years until withdrawals are expected to be made - can be a significant factor in determining which share class would be suitable for this investment. In addition, breakpoint discounts on A share purchases are often available and should be an additional consideration when determining the appropriate share class.

Although, on the surface, it may appear that a transfer from a Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) account to a 529 Plan could only be a "win-win" situation (e.g., no longer need to pay current taxes on earnings; higher contribution limits, etc.), there are significant tax and legal considerations that you should review before making this type of transfer.

- Because the custodian of a UGMA/UTMA must first sell the assets in the UGMA/UTMA account, the sale of the UGMA/UTMA assets will be taxable.
- When the custodian invests the proceeds of a UGMA/UTMA, the beneficiary of the 529 Plan account must be the same as the beneficiary of the UGMA/UTMA account and cannot be changed.
- Upon receipt of notification that the beneficiary has reached the age of majority (18 or 21 in most states), the beneficiary of the 529 Plan will become the account owner. Be aware that financial aid may be impacted due to the fact that this becomes an asset of the beneficiary.

We encourage you to go to the College Savings Plan Network website at [www.collegesavings.org](http://www.collegesavings.org) to view information on all fifty states' college savings plans, including links to each state's 529 Plan issuer's website.

Consider the place of various education planning vehicles in the context of the overall financial plan with the appropriate professional(s). For more complete information, including a description of fees, expenses and risks, see the 529 Plan issuer's offering statement or program description.

#### **XXIV. VARIABLE ANNUITIES**

Before you invest in a variable annuity, it is important that you understand the following material features: (1) the surrender period; (2) potential surrender charge; (3) potential tax penalty if you sell or redeem the variable annuity before you reach the age of 59 ½; (4) mortality and expense fees; (5) asset management fees; (6) charges for and features of enhanced riders, if any; (7) the insurance and investment components of the variable annuity; and (8) market risk. Understanding these issues will assist you in identifying whether or not a variable annuity and/or a particular type of variable annuity is right for your particular needs.

The information below is intended to give you general background information about various variable annuity features; however, these features will vary from variable annuity to variable annuity. Therefore, you should discuss these issues with your FR and review each variable annuity's prospectus and statement of additional information regarding the specific costs and conditions associated with a particular variable annuity.

#### **Variable Annuity Features**

A variable annuity is a contract that offers the following basic features not commonly found in mutual funds:

- Annuity payout options that can provide guaranteed income for life (annuitization).
- Guaranteed death benefit (may not be available on all contracts or after a certain age).

- Tax deferred treatment of earnings. If your annuity is a tax-qualified retirement plan (e.g., 403(b), IRA, etc.), this tax-deferred accrual feature is already provided by the tax-qualified retirement plan; therefore, is not a benefit of the annuity.
- Many, but not all, insurance companies provide for limited withdrawals that are free of surrender penalties. Please be aware that these withdrawals will reduce the contract value and the value of any income and death benefit. Withdrawals may be included in taxable income and subject to a 10% federal tax penalty.
- Additional features, including living benefit guarantees, differ by product.
- Free look period whereby you may terminate the contract without surrender charge. This free look period begins the day you receive your contract; the period varies by insurance company and state, but generally the average is 10 days.

#### **Comparison to Mutual Fund Investing**

- Sub-accounts, found on all variable products, are a series of investment choices similar, but not the same as, mutual funds.
- Costs of annuities are typically higher than mutual funds; therefore, will have an impact on the long-term performance of your investment.
- While a sub-account may have a name similar to a mutual fund, it is not the same pool of funds and may experience different performance than the mutual fund of the same or similar name.

#### **Non-Qualified Account Issues**

- Annuity withdrawals (earnings but not principal) are taxed at ordinary income rates, rather than the lower capital gain rates.
- Earnings withdrawn prior to age 59 ½ are subject to 10% tax penalty.
- Most variable annuities do not receive a "step-up" in cost basis when the owner dies.
- Residents of certain states are subject to state premium tax (e.g., CA, FL, ME, NV, PA, SD, WV, WY).

#### **Insurance Company Financial Ratings**

- Insurance company guarantees are subject to the claims paying ability of the issuing insurance company; therefore, the ongoing financial strength of the insurance company plays an important role in your investment. The financial ratings of the issuing insurance company do not apply to any non-guaranteed sub-accounts that will fluctuate in response to market conditions and other factors.

#### **Long Term Investment/Illiquidity**

- Variable annuities are considered illiquid and are generally designed to be a long-term investment. You should ensure that you have sufficient funds from other sources to meet your liquidity needs in excess of the unrestricted withdrawals offered by the contract.
- Withdrawals, in excess of any free withdrawals, may subject you to charges.
- Earnings withdrawn prior to age 59 ½ may be subject to a 10% tax penalty.

- Early withdrawals (including liquidations free of withdrawal charges) may affect your guaranteed benefits.

### Replacing Investments

- It is not the policy of Lincoln to recommend replacing investments unless, having considered all fees involved, you believe that your investment or personal objectives will be better served. Be sure your FR has informed you of the costs that may be involved with replacing investments. Be sure to review the investment options of both the current and the proposed investment and understand that an exchange within the existing variable annuity into a different sub-account may be completed without incurring the costs involved in a replacement.

### Risk of Investing--Unit Value of Sub-Accounts Fluctuate

- Investments in sub-accounts are subject to market risk. Please ensure that the sub-accounts you have selected are in alignment with your risk tolerance. When you redeem, you may receive more or less than what you invested, depending on the market value less any withdrawal charges at that time. Yields and returns fluctuate and are not guaranteed; therefore, sub-account values will also fluctuate accordingly and are not guaranteed.

### Special Benefits (Living Benefits, Enhanced Death Benefits, Bonus Benefits, etc.)

- The availability and conditions of these benefits may be different with each variable annuity contract. With some contracts, the features are optional, while with others, the features are not available or are built into the basic costs. **All require that certain conditions are met prior to receiving the benefit (e.g., require annuitization, only payable as a death benefit, available after investment is held for a specified period, payout required over a specified period, etc.).** Please review the prospectus for the specific conditions and costs of each feature.
- Variable annuities with bonus credits generally carry higher expenses and surrender charges, and typically have longer surrender charge periods, which may outweigh the benefit of the bonus credit offered. A bonus may only apply to the initial premium payment, or to premium payments you make within the first year of the annuity contract. Further, under certain circumstances, some annuity contracts may reduce or eliminate bonus payments made to you.
- The long-term advantage of the optional benefits will vary due to the investment performance and length of time the annuity is held.

### Fixed Account Option

- Most insurance companies hold the assets deposited in the fixed account option in a general account. The guaranteed return is backed by the financial strength of the insurance company. The ability for the insurance company to meet this guarantee depends on its continued financial strength.

## XXV. EQUITY INDEXED ANNUITIES

An equity-indexed annuity (EIA), may also be referred to as a fixed-income annuity, is an insurance contract between you and an insurance company that combines the features of traditional insurance products (guaranteed minimum return) and traditional securities

(return linked to equity markets). Returns vary more than a fixed annuity, but not as much as a variable annuity. Therefore, EIAs impart more risk (but more potential return) than a fixed annuity but less risk (and less potential return) than a variable annuity. Depending on the features offered, an EIA may or may not be a security. During the accumulation period, you may make either a lump sum payment or a series of payments to fund your annuity. The insurance company credits you with a return that is based on changes in an equity market index, such as the S&P 500 Composite Stock Price Index. The insurance company typically guarantees a minimum return regardless of the index's performance. The guaranteed minimum return usually ranges between 1.5% to 3% and in most contracts is applied to 90% of the initial premium deposit. It is possible to lose money in an EIA if there is not a gain in the index and/or the policy is surrendered before its maturity.

Features used to compute an EIA's interest rate:

- Participation Rates determine how much of the index's increase will be used to compute the index-linked interest rate. For example, if the participation rate is 80% and the index increases 10%, the return credited to your account would be 8%.
- Interest Rate Caps set a maximum rate of interest that the EIA can earn. If a contract has an upper limit, or cap, of 7% and the index linked to the annuity gained 7.2%, only 7% would be credited to the annuity.
- Margin/Spread/Administrative Fee is determined by subtracting a percentage from any gain in the index. In the case of an EIA with a "spread" of 3%, if the index gained 9%, the return credited to the EIA would be 6% (9% - 3% = 6%).

Another feature that can have a dramatic impact on an EIA's return is its indexing method (or how the amount of change in the relevant index is determined).

**Consideration:** One interest crediting method is not necessarily better than another, and results will vary under different market conditions. Consider how the EIA's crediting methodology works in various market conditions. The index crediting method is how the EIA calculates the contract's index-linked interest. Methods used to measure index performance vary from company to company and from product to product.

Some common indexing calculation methods include:

- **Annual Reset (or Ratchet).** This method credits index-linked interest annually based on any change in the index value from anniversary date to anniversary date, each year.
- **Point-to-Point.** This method credits index-linked interest based on any increase in index value from the start to the end of the selected term.
- **High Water Mark.** This method credits index-linked interest based on any increase in index value from the index level at the beginning of the contract's term to the highest index value at various points during the contract's term, often annual anniversaries of when you purchased the annuity.
- **Averaging.** This method is used to protect the EIA owner from sharp increases or decreases in earnings caused by index volatility. Instead of using the index value on a single date, the ending value is determined by using an average of daily, weekly or monthly values over a period of time, such as one year.

Before investing in an EIA, you should ask your FR how the interest rate is calculated and what indexing method is used. The issuing insurance company reserves the right to change the participation rates, interest rate caps, and margin/spread/administrative fee after the first contract year. Guarantees are subject to the claims paying ability of the issuing insurance company. Therefore, financial ratings of the issuing insurance company are a critical factor when choosing an EIA. EIAs are not suitable for all individuals and are considered long-term illiquid investments. Withdrawals in excess of the free withdrawal privilege may incur surrender penalties and may negatively affect how interest is credited to your contract. There may be a potential tax penalty if you redeem or withdraw from your annuity before you reach age 59 ½. Interest on many EIAs is credited retroactively depending on the index calculation method. Death prior to an upcoming index calculation date may result in a payout equal only to the value on the previous index calculation date. Death benefits vary depending on the issuing insurance company; however, the insurance company will usually pay the full accumulation value to the beneficiary upon the death of the owner or annuitant. EIAs do not participate in dividends distributed from stocks of their respective index. You should discuss these issues with your FR and review each EIA to decide which meets your specific needs. Past performance of the index is no guarantee of future changes in the index or of future indexed earnings.

## **XXVI. FIXED ANNUITIES**

Fixed deferred annuities are not securities. Instead, a fixed deferred annuity is an insurance contract between you and an insurance company in which you pay a sum of money, either in a lump sum or through periodic contributions. Fixed deferred annuities pay a fixed rate of interest for a certain period, usually one to five years. Interest payments are contractual obligations of the insurance company. Refer to the policy for specifics regarding when interest is credited and how it is calculated. In reference to general account obligations and guarantees, the ability for the insurance company to meet these obligations to policyholders are subject to sufficient capital, liquidity, cash flow and other resources of the insurance company. Therefore you will want to pay attention to the financial strength of the insurance company.