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Lincoln National Corp. (LNC)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by, and welcome to the Lincoln Financial Third Quarter 2026 Earnings Webcast and Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I'd now like to turn the call over to John Muething, Head of Investor Relations. You may begin.

John Muething

Vice President-Financial Planning & Analysis & Head of Investor Relations, Lincoln National Corp.

Thank you. Good morning, everyone, and welcome to our third quarter earnings call. We appreciate your interest in Lincoln. Our quarterly earnings press release, earnings supplement, and statistical supplement can all be found on the investor relations page of our website, www.lincolnfinancial.com. These documents include reconciliations of the non-GAAP measures used on today's call including adjusted income from operation and adjusted income from operations available to common stockholders or adjusted operating income to their most comparable GAAP measures.

Before we begin I want to remind you that any statements made during today's call regarding expectations, future actions, trends in our businesses, prospective services or products, future performance or financial results, including those relating to deposits, expenses, income from operations, free cash flow or free cash flow conversion ratios, share repurchases, liquidity and capital resources are forward-looking statements under the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from our current expectations. These risks and uncertainties include those described in the cautionary statement disclosures in our earnings release issued earlier this morning as well as those detailed in our 2025 Annual Report on Form 10-K, most recent quarterly reports on Form 10-Q, and from time to time in our other

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filings with the SEC. These forward-looking statements are made only as of today and we undertake no obligation to correct or update any of them to reflect events or circumstances that occur after today.

In addition, please note that the reporting of risk-based capital or RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising, or promotional activities. Presenting this morning are Ellen Cooper, Chairman, President, and CEO; and Adam Cohen, Interim Chief Financial Officer.

After their prepared remarks, we'll address your questions. Let me now turn the call over to Ellen. Ellen?

Ellen Gail Cooper

Chairman, President & Chief Executive Officer, Lincoln National Corp.

Thank you, John, and good morning, everyone. We appreciate you joining us today. This was a solid quarter and an important one for Lincoln. In early 2024, we laid out a three-year outlook and longer-term objectives to guide the next stage of the transformation. This quarter, we substantially achieved the financial targets in that outlook and we are now preparing for the next phase of our strategy, our continuation toward the longer-term objectives.

For the quarter itself, adjusted operating income, excluding the impact of our Annual Assumption Review, increased 10% year-over-year, supported in part by very strong alternative investment returns. Underneath that, the quarter demonstrated what a diversified franchise is built to do. Growth in Life Insurance and Retirement Plan Services offset lower earnings in Group Protection, and the sources of our earnings are broader than they were a year ago.

Joining me this morning is Adam Cohen, our Interim Chief Financial Officer. Adam has been intricately involved in our financial transformation over the past several years, including our work to strengthen the balance sheet and capital position, and he has stepped into the role with confidence and credibility. He will take you through the quarter in detail.

Turning back to our transformation, we began a multi-year journey to rebuild Lincoln's financial strength, establishing the strategic priorities that would underpin the three-year outlook we introduced in early 2024. We have remained disciplined in executing against that plan, and this quarter marked the completion of several additional major milestones. On October 1, we closed the Talcott transaction. Together with the Fortitude Re transaction roughly 60% of our guaranteed universal Life reserves have now been transferred to reinsurance partners, another step in reshaping our liability mix and reducing the risk in this legacy block.

As we said earlier this year, addressing the preferred stock was one of the last remaining steps before returning additional capital to shareholders. This quarter, we retired more than 40% of the preferred through tender offers and fully funded the remainder about a year ahead of the first call date. With those steps complete, we were in a position to resume share repurchases this quarter.

When we laid out our three-year outlook, we established a roadmap of strategic objectives to fortify our capital foundation, including de-risking the balance sheet, optimize our operating model and drive profitable growth across our businesses to support more durable earnings and free cash flow. We have delivered on the large majority of the commitments in the three-year outlook, many of them ahead of schedule, and the quality and sustainability of our earnings and free cash flow have improved as a result.

Overall, we are pleased with the progress, but we are not done. Our longer-term objectives are still ahead of us. And there is more opportunity and work to do within each of our businesses. And that is the next phase. As we

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enter that phase, what is different from where we started is the foundation beneath us, a track record of execution, momentum across the enterprise, and the financial flexibility to invest in our businesses and return capital at the same time. The benefits of that stronger foundation are starting to show in each of our businesses, though at different stages. Some of the actions we have taken are still early, and we'll build from here. And we are confident in the direction of all four. In Annuities, our spread-based platform is scaling.

We now retain all of our fixed annuity sales and the account balances we have built over the past year are only beginning to contribute to earnings. In Life Insurance, the rebuild of the business is taking hold faster than we expected and the new policies we have been writing have yet to become a meaningful contributor to earnings. In Group Protection, even in a year of moderating margins, we have ample room to grow over time as we bring our capabilities to the fastest growing segments and products.

In Retirement Plan Services, the strategic realignment is underway and the business is being repositioned for more profitable growth over time. Across Lincoln, the strategic investments we have made to attract and retain customers and the efficiencies we have built into our operating model support that progress as well and there is more opportunity ahead.

Our priorities remain consistent with the strategy we have pursued over the last several years, now from a stronger position. We will continue to optimize our business and risk profile, shifting our mix toward steadier, less market-sensitive earnings. We will accelerate profitable growth where we can compete beyond price and earn attractive returns, drawing on the depth of our distribution relationships, the breadth of our product suite and our differentiated capabilities. We will continue to transform our operating model. The expense actions we have taken over the past three-years have supported our efficiency, and we see additional room to lower our cost base.

Technology and AI are central to that opportunity, and they also enable our employees to do their best work, deliver a more connected and integrated experience for the customers and partners we serve, and bring new products and services to market faster. We are also optimizing our investment strategy for better risk-adjusted returns and leveraging our Bermuda affiliate to enhance capital efficiency. We will continue to strengthen free cash flow generation and capital return.

Free cash flow has improved steadily as we have reshaped the business, reduced legacy risk, and lowered our leverage and financing costs. And we expect to continue deploying excess capital through share repurchases while also investing in our businesses. Across all of our capital decisions, the objective is sustainable long-term value for our shareholders.

As we look ahead, we will be deliberate in how we sequence these priorities, balancing growth, profitability, and capital return. We have made substantial progress against the commitments we laid out in our three-year outlook, and we are excited to step into the next chapter with the same discipline. We will provide more specifics on how we intend to build on what we have accomplished as part of our 2027 outlook on our fourth quarter call.

Looking at the quarter by business, our results reflected the benefit of a more diversified earnings mix. Life earnings more than doubled, supported by favorable mortality and higher alternative investment returns. RPS earnings grew on favorable equity markets and spread expansion. In Annuities, earnings were modestly lower than a year ago, driven by the previously disclosed reallocation of investment income, while sales rose sharply from the second quarter led by Fixed Annuities.

Group Protection fell short of our expectations, driven by volatility in claim severity and the continued moderation of disability results, although the underlying fundamentals of the business remained strong. I will now take a few

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minutes to discuss each of our businesses in more detail, starting with Annuities. As a holistic annuity provider, our competitive advantage lies in the breadth of our product portfolio and the depth of our distribution relationships.

We offer a full suite of solutions across RILA, fixed and variable annuities with and without living benefits, allowing us to meet customer needs in a wide range of market environments. Our strategy is to continue to build a more diversified mix within this business, and in particular, to grow spread-based earnings with more stable cash flows. Total annuity sales were $4.3 billion, up 21% sequentially, and spread-based products represented 67% of those sales.

Within this business, fixed annuities are our biggest growth opportunity and sales more than doubled sequentially to $1.4 billion with fixed indexed annuity sales up 29% year-over-year. That performance is supported by the capabilities we have built over the last several years. We have retained the full economics of this business for about a year now, expanded our investment sourcing, and continue to compete beyond price through differentiated crediting strategies and select distribution platforms. We expect the momentum in fixed annuity sales to carry into the fourth quarter.

RILA remains an important product category for us. Sales of $1.5 billion were relatively flat year-over-year, consistent with our expectation that 2026 sales would be broadly in line with the average of the past several years. In a competitive market, we distinguish ourselves in part through unique product features, while prioritizing profitability over volume.

Variable annuities continued to be a strong contributor to our free cash flow and meet an important need for our customers. Sales were $1.4 billion in the quarter, in line with the expectation we set at the beginning of the year that volumes would return to pre-2025 levels. Within that, variable annuities without living benefit guarantees made up more than half of sales for the second consecutive quarter, up 33% year-over-year.

Across the portfolio, we are intentional about how we grow. As our spread-based businesses scale, we expect them to contribute an increasing share of earnings and free cash flow, supporting a more balanced and predictable earnings profile.

Now, turning to Life Insurance, where we are rebuilding the earnings profile of the business. We have improved the performance of the in-force through the reinsurance transactions I described earlier and other actions, including the consolidation of our captives last year and ongoing in-force management, while shifting new business toward accumulation and limited guarantee products with more predictable cash flows.

Alongside that, our investments in product underwriting technology and distribution are strengthening our competitive position with the financial professionals and producers who sell our products. Total Life sales were $106 million, down compared with the prior year quarter that included several large executive benefits cases. As we have noted previously, that segment sales vary with the timing and size of individual cases.

Core Life sales, which exclude executive benefits, grew 3% year-over-year, led by indexed universal Life. Overall, Life is moving in the direction we intended. The actions across the in-force and the mix shift of new business we are writing have put this business on considerably stronger footing, and they reinforce our confidence in the contribution Life will make to Lincoln over time.

Turning to Group Protection, our targeted segment strategy continues to shape how we compete across the local, regional, and national markets. We tailor distribution, underwriting, technology, and service to the distinct needs of

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each segment, and we maintain pricing discipline on new business and renewals. We are deepening our presence in the local market and in supplemental health, the fastest growing parts of the business, and those with the most attractive long-term returns.

That strategy is visible in the premium mix. Premiums grew 3% year-over-year, with local market premium up 5%. Supplemental health premium grew more than 30%, and now represents 7% of in-force premium, up from 5% a year ago. Sales of $72 million were lower compared with the prior year quarter that included large case wins, and we are holding to our return requirements in a competitive market.

We are also modernizing our claims platform and expanding the use of AI and automation to improve efficiency and experience for the employers, brokers, and employees we serve. The business is operating from a far stronger position than a few years ago, and represents a larger share of Lincoln's earnings and we remain confident in our ability to grow Group Protection's contribution over time.

Now turning to Retirement Plan Services, where we are in the early stages of a strategic realignment applying a playbook we have run successfully in Group Protection. We have organized the business around three market segments and are increasingly focusing on the fastest growing higher return segments. As part of that work we are refreshing our value proposition, optimizing our distribution model to better serve customers, expanding revenue opportunities within our existing client base, and modernizing our service model and technology.

First-year sales were $749 million meaningfully down compared to the prior year quarter that included significant mid to large market activity and sales will remain uneven as the new model takes hold. While the realignment remains at an early stage, the actions we are taking are designed to strengthen the underlying economics of the business and to make the contribution of Retirement Plan Services to Lincoln more durable over the long term.

In closing we set out several years ago to rebuild Lincoln's financial strength and this quarter we largely completed the three-year outlook we laid out at that time. We are a more diversified company today with an improved business mix, a stronger capital position, and less legacy risk on the balance sheet, reflecting the progress we've made in our enterprise transformation and positioning us to drive further profitable growth across our businesses.

I am proud of what our employees and leaders have accomplished and grateful to the 17 million customers who place their trust in us every day. At the same time, make no mistake, the work ahead is substantial and so is the opportunity. We will keep executing with the same rigor that brought us here and we look forward to updating you on the next phase and the path toward our longer-term objectives when we report our fourth quarter results.

With that, let me turn the call over to Adam. Adam?

Adam M. Cohen

Senior Vice President and Interim Chief Financial Officer, Lincoln National Corp.

Thank you, Ellen, and good morning, everyone. Our third quarter results reflect continued progress in strengthening our financial position and improving the earnings profile of our businesses. We saw solid contributions across much of the company, supported by improved investment returns, favorable mortality experience, and the benefits of actions we've taken over the past several years. At the same time, results varied across our businesses this quarter and I'll spend some time discussing the key drivers of that performance and our expectations as we look towards year end. I'll also cover the outcome of our Annual Assumption Review, along with updates on expenses, our investment portfolio, and capital.

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Let's begin with a recap of the quarter. This morning we reported third quarter adjusted operating income available to common stockholders of $339 million or $1.72 per diluted share. This includes the impact of our Annual Assumption Review, which reduced adjusted operating income by $95 million or $0.48 per diluted share. Our alternative investments portfolio delivered an annualized return of 16.5% in the quarter above our 10% annualized target representing $55 million of after-tax of above target income from that portfolio.

Turning to net income. We reported net income available to common stockholders of $1.3 billion or $6.77 per diluted share. The difference from adjusted operating income was driven primarily by the change in market risk benefits, which was favorable given higher interest rates along with the change in the fair value of the embedded derivative related to our Fortitude Re transaction.

Our hedge program, which explicitly targets capital, continued to perform in line with our expectations. Reflecting the consistent execution of the program throughout the year, we were able to take a $100 million distribution from LNBAR this quarter, building on the $50 million distributions taken in each of the third quarters of 2024 and 2025. Before turning to our segment results, I want to briefly touch on our Annual Assumption Review.

As I noted earlier, the review reduced adjusted operating income by $95 million after tax. The review was comprehensive, reflects our discipline process, and we remain confident in our updated assumptions. I'll now discuss the breakdown of that total impact by business. Annuities earnings were lowered by $10 million, primarily reflecting updates to policyholder behavior for our variable annuity and RILA businesses.

Life earnings were lowered by $25 million, primarily driven by updates to policyholder behavior assumptions on our term business. Importantly, GUL policyholder behavior experience continues to be aligned with our expectations and assumptions. Group Protection earnings were reduced by $31 million this quarter, driven mainly by updated assumptions in our long-term disability line, reflecting a moderation in the favorable trends we have seen over the past few years. Other operations' earnings were reduced by $29 million, reflecting longer expected claim durations on a closed individual disability block.

Turning to segment results, starting with Annuities. Excluding the impacts of the Annual Assumption Review, Annuities reported operating income of $304 million and a return on average account balances, or ROA, of 67 basis points. Operating income was up $17 million sequentially. The improvement was driven by higher spread income, an additional fee day, and lower expenses, partially offset by continued variable annuity outflows.

On a year-over-year basis, the $14 million decline primarily reflected the change in classification of net investment income on our index credit hedging collateral to non-operating income that took effect at the beginning of the year, which represented about $12 million in the prior year result. Average account balances, net of reinsurance, were approximately $181 billion, up 6% from a year ago. Spread-based products accounted for approximately 32% of ending account balances, compared with 29% a year ago, demonstrating the continuation of the mix shift in this business toward more stable earnings over time.

Turning to flows, total net outflows were approximately $2.7 billion, driven by traditional variable annuities consistent with the pace of recent quarters. Fixed annuities generated net inflows of approximately $725 million. And to provide additional insight into underlying account balance trends, this quarter we added a new disclosure to our statistical supplement that separately identifies the market-linked adjustment component of RILA account balances. This provides greater transparency into underlying account balance growth and the profitability of our RILA business.

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On this basis, underlying RILA account balances grew again this quarter, up 11% from a year ago. As we continue to expand our spread-based businesses, we expect spread earnings to grow over time, with further growth in the fourth quarter. Partially offsetting the improvement is lower expected fee income driven by market impacts on account balances, higher DAC amortization reflecting the updated assumptions from this year's Annual Assumption Review, as well as higher expenses driven by the typical seasonal increase in the fourth quarter.

Taken together, we expect Annuities' earnings in the fourth quarter to be relatively flat to the third quarter, excluding the third quarter Annual Assumption Review impact. Looking beyond the fourth quarter, we expect the continued growth in spread-based balances and higher portfolio yields to support earnings growth over time.

Turning to Life Insurance. Excluding the impacts of the Annual Assumption Review, Life reported operating income of $130 million, compared with $54 million in the prior year quarter. The year-over-year improvement was driven primarily by stronger alternative investment income and more favorable mortality experience, along with the continued benefit of our captive consolidation.

Mortality was again favorable this quarter, consistent with the experience we've seen over the past several quarters and the broader improvement in US mortality trends. Favorable experience was driven primarily by lower claim incidence, with claim severity broadly in line with expectations. Alternative investments also contributed $53 million above our 10% annualized return target in the quarter.

I want to spend a little time putting Life's earnings performance into perspective, particularly relative to the outlook we first shared on our fourth quarter 2023 earnings call. We've made meaningful progress in strengthening the earnings profile of this business, and I think, it's helpful to distinguish that progress from some of the favorability we've experienced over the past year.

Starting with the third quarter, after adjusting for favorable mortality experience, above-target alternative investment returns, and other quarterly items, earnings were approximately $60 million. This provides a useful reference point as we look forward to the fourth quarter. Taking a broader view, over the past four quarters, Life has generated $305 million of operating income, excluding the Annual Assumption Review. That includes approximately $100 million of favorable mortality experience and $47 million of alternative investment income above our 10% annualized return target.

Excluding those two items, Life generated approximately $158 million over the past year. This represents meaningful progress from where we started in 2023. It reflects the actions we've taken to improve our in-force block and operating model, including captive consolidation and expense reductions, as well as the emerging earnings from new business, which we expect to come through over time. Separately, to help investors model the business going forward, we've provided additional detail in our investor supplement on the estimated earnings impacts following the closing of the Talcott reinsurance transaction, including the related refinement to our definition of adjusted operating income.

Together, we expect these changes to increase Life operating income by approximately $12 million to $17 million in the fourth quarter. The progress we've made since 2023 is increasingly evident in Life's earnings performance, and we believe the business is on considerably stronger footing today. We expect further improvement over time as the benefits of our in-force actions continue and earnings from new business build.

Now turning to Group, excluding the impact of the Annual Assumption Review, Group Protection operating earnings were $77 million compared with $110 million in the prior year record third quarter and the margin for the

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quarter was 5.5%, down 260 basis points year-over-year. The main driver of our result was an increase in our disability loss ratio, which rose 670 basis points year-over-year to 83.4% excluding the impacts of the Annual Assumption Review. This increase reflected elevated severity in our disability experience and a continuation of incidence moderation from the record favorable levels in the prior year. This was partially offset by continued favorability in Group Life.

Turning to the drivers within disability, I'll start with severity which was the more significant headwind this quarter accounting for roughly half of the increase in the disability loss ratio. Both LTD and STD were impacted by higher reserves on a relatively small subset of new claims with a greater mix of claims from higher salaried employees amplifying the overall impact. We view this as volatility and expect severity to moderate towards more typical levels going forward.

On incidence, which accounted for much of the remaining increase in the loss ratio, we experienced continued moderation from the favorable LTD incidence levels seen in recent years. As we messaged in the past, this is something we expected to eventually occur and we now believe the outsized benefit from this favorable experience is largely behind us.

Turning to Group Life, excluding the Assumption Review, results continue to be favorable with a loss ratio of 64.2% compared with 65.3% in the third quarter of 2025. While quarterly fluctuations in mortality outcomes are expected, this reflects the actions we have executed in this business coupled with broader mortality trends we have experienced in recent quarters. Looking to the fourth quarter, we expect earnings to improve sequentially as the severity experienced in our third quarter disability results moderates.

That said, we expect results to remain pressured year-over-year as we do not anticipate a repeat of the particularly favorable experience in the prior year quarter. With that framing in mind, we now expect to finish the year at or modestly below the low end of the 8% to 9% margin range we shared earlier this year. Despite the pressure this quarter, Group has delivered an 8% margin through the first three quarters and we remain confident in the underlying fundamentals of the business. We expect to continue to grow the earnings of this business as we expand in attractive market segments and maintain our focus on pricing discipline.

Lastly, touching on Retirement Plan Services, which delivered operating income of $55 million, up from $46 million in the prior year quarter. There were no impacts from the Annual Assumption Review. The increase reflects spread expansion in higher equity markets, partially offset by higher expenses. Results this quarter also included a one-time benefit of approximately $3 million from an administrative item, which we do not expect to recur. Base spreads were 124 basis points, up 17 basis points from the prior year quarter. Average account balances grew 9% year-over-year to $130 billion supported by equity market performance. Ending account balances were $128 billion, up 4% from a year ago. Ending balances were approximately $2 billion below the quarter's average, which is a small headwind as we enter the fourth quarter.

Turning to flows, we experienced net outflows of approximately $1.9 billion in the quarter with first year sales also lower than a particularly strong prior year quarter. Looking ahead, we expect approximately $3 billion of net outflows in the fourth quarter, primarily driven by one large plan termination. As we progress through the early stages of our strategic realignment, we expect flows to remain uneven in 2027. While this transition will take time, we expect to maintain and grow the underlying earnings power of the business as we execute, supporting more profitable growth over the long term. In the near term, we expect fourth quarter earnings to be in line with the prior year quarter, with the sequential decline reflecting the absence of the one-time benefit and the typical seasonal increase in expenses.

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Turning to expenses, third quarter G&A expenses, net of amounts capitalized, were $582 million, up approximately 2% year-over-year, and down approximately 4% from the second quarter. As we look to the fourth quarter, we expect G&A expenses to increase sequentially, reflecting normal seasonal patterns. More broadly, expense efficiency remains a strategic priority, and we will continue to take a rigorous and disciplined approach to managing our expense base.

Turning to investments, our portfolio remains high quality and well diversified. 97% of the portfolio is rated investment grade, with below investment grade holdings near historic lows, and ratings migrations remain modest in the quarter. Consistent with our ongoing general account optimization efforts, we continue to see opportunities to enhance investment income through new money deployment, active management of the existing portfolio and continued asset liability management, including the potential to reinvest proceeds from lower yielding assets at higher rates. Our ability to pursue these opportunities is supported by a disciplined risk management framework.

Our strategic asset allocation is aligned with the liabilities we support, with established limits across asset classes, credit ratings, industries, and individual issuers. We monitor exposures closely, maintain rigorous underwriting standards, and regularly stress test the portfolio across a range of economic scenarios, including the potential impact on capital. This framework allows us to pursue opportunities that improve risk-adjusted yield and diversification, while maintaining the quality and resilience of the portfolio. On alternatives, looking ahead to the fourth quarter, we expect our broad-based, well-diversified alternatives portfolio to be in line with or modestly below our target. As always, we remain confident in the portfolio's ability to meet our long-term return target.

Lastly, turning to capital, where we made meaningful progress on our priorities during the quarter, including the resumption of share repurchases. Our estimated RBC ratio remains well in excess of both our 400% target and additional 20 point buffer, and our leverage is at our 25% long-term target. We repurchased $50 million of common stock in the quarter, marking an important step as we shift more of our capital deployment toward returning capital to shareholders. This is a starting point and given our capital position and free cash flow generation, we are well-positioned to build on that activity in the fourth quarter. We also completed tender offers for our preferred stock, retiring $437 million, or over 40% of the outstanding balance ahead of its 2027 call date.

We used the proceeds from our subordinated debt issuance earlier this year to fund the tender offers, replacing higher-cost preferred stock with lower-cost tax-deductible debt. This transaction reduces financing costs and supports holding company free cash flow. Holding company available liquidity, net of pre-funding, increased approximately $100 million sequentially to $1 billion, even after share repurchases. That was supported by $410 million of subsidiary remittances in the quarter, including $100 million from LNBAR, bringing year-to-date remittances to $990 million and tracking towards the high end of our full year expectations.

Importantly, we've now completed building cash at the holding company earmarked for the redemption of the $563 million of remaining preferred stock on top of the $500 million of cash we target as a liquidity buffer. Building that liquidity has been a significant use of our remittances this year. And with that bill now behind us, we expect to have greater capacity to return capital to shareholders.

In closing, our third quarter results reflect continued progress in strengthening our financial position and improving the earnings profile of our businesses. We remain focused on building on that momentum as we finish the year and are confident in the opportunities to further improve our underlying earnings performance as we move into 2027. We look forward to providing more detail on our outlook when we report fourth quarter results.

With that, Ellen and I would be happy to take your questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We ask that you please limit yourself to one question and one follow-up. Your first question today comes from the line of Wes Carmichael from Wells Fargo. Your line is open.

Wes Carmichael
Analyst, Wells Fargo

Q

Hey, good morning. Thank you. Just had the first one on capital. So, it's good to see $50 million of repurchases in the quarter. And I don't want to front run your 2027 outlook next quarter, but could you just talk generally about capital flexibility from here? If you think that level of repurchases should accelerate into 2027, just any help on magnitude would be great since I think it's one of the bigger open questions on investors' minds.

Ellen Gail Cooper
Chairman, President & Chief Executive Officer, Lincoln National Corp.

A

Wes, good morning. And I'm going to start and then I'll hand it over to Adam to take you through some of the numbers. So, first of all, exactly as you said, we're really pleased to be returning capital to shareholders via buybacks. $50 million in the third quarter we view as a starting point.

And with the preferred funding, and so therefore no longer do we have to build holdco cash, we have the capacity to do more in the fourth quarter than we did in the third. And we're going to carry that posture into 2027. We'll obviously size it and give you more in our outlook in February. But importantly, also, we are going to keep investing in the businesses exactly as we have been alongside it. And I'm going to hand it over to Adam to provide a little bit more color.

Adam M. Cohen
Senior Vice President and Interim Chief Financial Officer, Lincoln National Corp.

A

Thanks, Ellen. And Wes, I agree with the comment up front. It's great to start with $50 million. That is the starting point. And that gives us room to grow from there into Q4 and beyond. So, I can start with just some general holdco math that I think should help you think about the pattern here. And then like you said, we'll get into more specificity in the fourth quarter.

Just from a balance sheet standpoint, we continue to be well in excess of the RBC target and our stated buffer levels and leverages at the 25% long-term target. The important thing is we're seeing free cash flow convert into strong subsidiary remittances. This quarter, we brought up $410 million to the holdco, that included $100 million from LNBAR, so that takes us to $990 million of remittances from subsidiaries through the first nine months.

So that has us tracking toward the high end of our $1.2 billion to $1.3 billion remittance outlook that we came out with at the start of the year. So when you look at the holdco, like Ellen mentioned, a significant use of the remittances this year was building up the cash that we have at the holdco that's earmarked for the second half of the preferred, now that's behind us. So with the $1 billion of liquidity at the holdco covering our liquidity buffer and that remaining half of the preferred, that frees up more capital to return to shareholders.

So in the fourth quarter, ultimately our capital return, it's going to be funded by the remittances that we bring up beyond the cash that we have there now. So the fact that we're tracking toward the high end of our remittance

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range, and when you look at typical holdco uses of cash, that would imply about double what we did this quarter. And that's a good way to think about the run rate headed into 2027. And of course, we'll come back with more specificity in our outlook. And one last point I would make, we may look to modestly grow the cash that we hold at the Holdco, but that's not going to be at odds with our ambition on shareholder return.

Wes Carmichael
Analyst, Wells Fargo

Q

No, thank you. That's super helpful. And secondly, just on disability, I think you mentioned an expectation for some moderation in severity. I think, that was about half of the increase in the loss ratio, but I just wanted to touch on incidence as well. Are you seeing higher claims submissions that you expect will continue to be kind of a pressure point into the fourth quarter or 2027? Any insight would be great.

Adam M. Cohen
Senior Vice President and Interim Chief Financial Officer, Lincoln National Corp.

A

Yeah, thanks, Wes. I can break down those components and what we're seeing. And first, I just want to make a point up front, and we said this in our prepared remarks, we're confident in the Group Protection business. It's on a very solid foundation and headed into 2027 we're going to continue to grow this business, including growing the earnings of the business. So, in terms of what we saw this quarter, there's a piece that we believe is trend and there's a piece that we believe is volatility. We've been saying for some time that we expected some level of moderation in the business.

Disability and Group Life have both been running at record levels the last couple of years. So, last year, we talked about within the Group margin, roughly 100 basis points of the margin coming from the macro backdrop and very low LTD incidence. So, when we talk about our overall margin expectation of 8% to 9%, the lower end of that range contemplates the moderation of what we view to be really historically low incidence.

So, for this quarter, one thing I would note is it's important to compare this quarter to the prior year quarter because there is seasonality in this business. So, when we look at the disability loss ratio versus the same quarter a year ago, we're up roughly 6%. Within that half of it and actually the bigger story this quarter was severity. And that's the portion that was elevated reserves on a relatively small subset of claims, bigger dollar, higher claims because it was higher salaried claimants.

That's the portion we believe to be volatility. And in fact, we already saw that trend moderate towards the end of the quarter and what we've seen so far headed into the start of the fourth quarter. And so, that is part of why we expect the result to improve sequentially period over period. The other piece is likely more durable. That's the increase in incidence. So, when we look at the year-to-date, we've seen an uptick in incidence throughout the year and really that accelerated this quarter.

So, when we look at this quarter's incidence result, that to us says, hey, that backdrop has now moderated and it is generally our expectation that the historically low incidence tailwinds are behind us. So, as we look forward, like I said up front, we expect to continue to grow the earnings power of this business and over time, we're going to continue to focus on our business mix and our pricing work, focusing on local markets and supplemental health together with some level of pricing actions we expect to offset that incidence moderation over time. So, more details specifically on what we expect when we get into the fourth quarter outlook, but that's a good way to think about just the breakdown of this quarter's result and the piece that we view to be volatility versus trend.

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Wes Carmichael
Analyst, Wells Fargo

Q

Thank you. Very helpful.

Operator: Your next question comes from a line of Ryan Krueger from KBW. Your line is open.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey, thanks. Good morning. I'll follow-up first quickly on the disability incidence. Are you also seeing the dynamic of higher behavioral health claims that several other life insurers have cited so far, and just at a higher level, is incidence now at a level that it's going to be in line with your longer-term expectation or is it either adverse or favorable still?

Adam M. Cohen
Senior Vice President and Interim Chief Financial Officer, Lincoln National Corp.

A

Thanks, Ryan. I'll cover both of those. On the incidence, we would not say that it's centered around a specific claim type. It's a general trend around incidence. Like we were saying up front, we've had that historically low incidence. This is the normalization of that. It's not really anchored around a particular claim type. We have really good insight into the detail of our claim types across our client base. And so that's really not the story of concentration of a particular type.

And on your second question, yes, that's generally right, like, when I talk about that 1% of margin that we've had driven by the low incidence, what we saw this quarter is really more in line with that longer term expectation. And it's the severity that we think was the volatility.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. And a question on individual life mortality. You cited $100 million of favorable mortality over the last year, and I think it's been favorable most quarters. Can you give any more detail on what you see as driving that? And are you getting any closer to the point of thinking this could be more of an ongoing trend that could benefit you beyond this year.

Adam M. Cohen
Senior Vice President and Interim Chief Financial Officer, Lincoln National Corp.

A

Ryan, a couple comments on mortality. And one, you don't have to go back very far to see adverse mortality. It was really a couple years ago that we had adverse mortality coming out of COVID. And the favorable mortality that we've had for the last year or so is a relatively recent trend. So, we're not the only ones experiencing that.

But ultimately, mortality, the way we think about it, whether that be when we set assumptions on our in-force or we're looking at pricing, it's a long-term assumption. So, it takes time for current experience to really be viewed as a trend. So, ultimately, when we talk about the underlying earnings power of Life, we're not relying on the continued favorable mortality backdrop. And if it does continue, ultimately that'll be a tailwind.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

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Operator: Your next question comes from a line of Alex Scott from Barclays. Your line is open.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Hey, good morning. I just wanted to probe a little bit more on the guidance you've given for 4Q on Group. I mean, from looking at our numbers, it seems like you're estimating a pretty full bounce back from the disability. Just want to make sure that that's correct or if there's adjustments that need to be considered. And what is giving you the confidence to assume that just given this seems like a new trend that is permeating through the industry?

Adam M. Cohen
Senior Vice President and Interim Chief Financial Officer, Lincoln National Corp.

A

Thanks, Alex. I'll hit on a couple concepts that are within your question there. So one is, when we think about the fourth quarter and we talk about what you're referring to as a bounce back, that is driven primarily by the normalization of the severity volatility that we experienced this quarter which was roughly half of the increase in the loss ratio year-over-year. And that's the piece where that's a Lincoln specific item where we can see detail into the claims.

We certainly track our claims experience day-to-day and week-to-week. And we saw that moderate already towards the end of the quarter and headed into the fourth quarter. We are not assuming that the incidence will normalize. That's the piece that when we look across the industry seems to be the constant. Severity is somewhat hit or miss across different companies and different client base. So, we're not assuming a full bounce-back on incidence.

So, when we talk about the fourth quarter, we're at an 8% margin through three quarters with our expectation on the fourth quarter, we'd be at or modestly below the 8% on the full year. So, like I said, we're assuming the normalization of severity, but we're not assuming a full return to the historically favorable backdrop on incidence.

Ellen Gail Cooper
Chairman, President & Chief Executive Officer, Lincoln National Corp.

A

And Alex, just to provide some additional color here and this was also in our upfront remarks. So, Adam also talked about the disability loss ratio year-over-year decline of about 670 basis points. And to this point, roughly about half of that was directly tied to the claim severity. And that piece in particular, we saw that normalize again back to its expected trend at the end of the third quarter and we continue to see that as we move into the fourth quarter. So, that piece we expect to bounce back and then the moderation piece which is much more aligned to longer term, we expect that to remain.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Got it. Okay. And then maybe switching over to Annuities. Can you talk about just the competitiveness in the marketplace, and I know it's been competitive for a while, but it does seem like some of the rate levels being offered in [indiscernible] (00:51:25) and fixed indexed annuities in particular, have gotten a bit more aggressive. How are you viewing that market? Does it still look good from an IRR perspective? Are you having to do anything different with the way you're investing behind that new business?

Ellen Gail Cooper
Chairman, President & Chief Executive Officer, Lincoln National Corp.

A

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Absolutely, Alex. So, from our perspective, and one of the things that you're going to continue to hear from us across all four of our businesses, including annuity, is that we remain disciplined in a competitive market. So, yes, it is a competitive market out there. It always has been. Broadly speaking, we see competitors that are rational, but also I would say to some extent the competitive market is intensifying and we continue to see that in Annuities as well. So, one of the things that is really critical and we'll talk about Annuities, since that's where your question is, is that there we really lean into our competitive advantages. So, we have got distribution breadth. We continue to expand our distribution shelf space.

The fact that we're a holistic annuity provider, for example, and we are leaning into fixed annuities. We've had the opportunity over the last 18 months to take places where we have historical distribution shelf space in variable and RILA and add our fixed annuities there. And then, also importantly, we really look to differentiate beyond price. So, that includes deep distribution relationships, it includes unique indexing, crediting rate features, it includes being on limited distribution partner shelves. And all of that is enabling us. We simply won't sell a product if we're not achieving our return. So, that is enabling us to compete on our terms and also for us to be able to achieve the return. So, you saw in particular, that fixed annuity where we said is our largest growth opportunity, our sales more than doubled sequentially.

We feel really good about that. RILA, where we've continued to see a pretty competitive landscape, they're consistent with our expectation. Sales were relatively flat and we said in line with the average of the past several years, that's exactly where we're tracking. So, again, we feel good about how we're competing and we're going to continue to prioritize profitability over volume.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Thank you. Your next question comes from a line of Suneet Kamath from Jefferies. Your line is open.

Suneet Kamath
Analyst, Jefferies LLC

Q

Great, thanks, good morning. I wanted to start with RPS. Ellen, in your comments, you've talked about realigning the business and that's going to take some time. I'm just wondering if you could provide a little bit more detail in terms of what you're doing there. Are there going to be any sort of costs associated with that that we should think about? And more specifically, some of your competitors are in the same business, are rolling out these sort of wealth management platforms to sort of, mine the customer base of their 401(k) defined contribution employer. Is that something that you're thinking about as well?

Ellen Gail Cooper
Chairman, President & Chief Executive Officer, Lincoln National Corp.

A

Sure. So, as it relates to RPS, and if you think about over the last several years, we have business by business entered into a strategic realignment where we really have repositioned the business to optimize and to be able to grow earnings, to be able to grow sustainable free cash flow.

And the last business of the four that we focused on, simply because it was the smallest from an overall earnings perspective, is RPS. So, here we are focused on leveraging the exact same playbook for Group, and we see lots of opportunity to optimize the current business. So, we don't see, to your specific question, any material costs that

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we haven't communicated to all of you. If we had one, we would let you know. But what we're doing here is, first of all, we are optimizing our retail distribution.

This is an area where we are leaning in and we are leveraging our retail distribution in our core markets to really be able to refresh the value proposition. So, that's one thing. The second thing is that there are opportunities within our existing client base where we have revenue opportunities, where we were providing services and we weren't necessarily charging for them. And so, that's an opportunity that we have added to our overall opportunity. And then the other piece is that we are strategically investing in modernizing our service and technology. This for us ultimately results in expense-based opportunities. We've talked about the fact that our cost per participant is higher than the overall peer group and we see continued opportunity there.

And then the final thing that I'll say is that in our core markets, which is one of the fastest growing markets where we're leaning in, we have been doing well in terms of overall sales of pooled employer plans. And so, that's an opportunity that we're going to continue to leverage. So, all-in right now, we expect that you're going to continue to see uneven sales and outflows as we're repositioning the business, but with an expectation that you're going to see better economics. We've seen so far year to date, but our expectation is that the earnings of this business will continue to grow.

Suneet Kamath
Analyst, Jefferies LLC

Q

Okay, that's helpful. And then maybe if I could go to strategy for a minute, a couple of years ago when you laid out the strategy, I think you talked about, I don't know whose office it was in, but there was a whiteboard with a bunch of ideas on it. And a lot of those things, I think, related to things like the captive consolidation and risk transfer and it felt – feels like you've done a lot of that stuff. So, if that's true is it fair to conclude that I guess most of the work from here is at the sort of the business unit level and just kind of growing the core businesses or there's still some of these sort of extracurricular types of things that you could do to improve earnings or free cash flow. Thanks.

Ellen Gail Cooper
Chairman, President & Chief Executive Officer, Lincoln National Corp.

A

So, Suneet, we will be providing a lot more color during our fourth quarter earnings call. We're going to roll out our 2027 outlook. Importantly as you think about go forward strategy, it's a continuation of everything that we have been doing and if you think about the original three-year outlook that we provided, we also provided as part of that a longer-term overall objective of our earnings mix and of our financial objectives. And we have work to do to get to those longer-term objectives. So, what you're going to see when we share with you our fourth quarter 2027 outlook is our focus on acceleration and how we really demonstrate that we move from recovery to sustainable and durable growth and higher quality growth.

So, you can expect that as part of that you're going to see us continue to optimize our businesses and our overall risk profile. We believe that we have a lot of levers internally. And just like we did over the last three years, if there is an opportunistic – opportunity to do something externally, of course, we would also focus on that. You're going to see us within the businesses, to your point, really accelerating profitable growth. We have the foundations underneath of us.

We've got the momentum. We have done an awful lot to strategically invest in our businesses and to be able to support our customers, both in terms of new business and retention. So, you're going to see us really look to accelerate there. We have further opportunity to transform our operating model. So, you're going to hear more from us on that.

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And then the final thing is to continue to strengthen our free cash flow generation and our capital return. And importantly, while we continue to invest in our businesses, we also expect to continue to deploying excess capital through share repurchases. So, you'll hear more. We're going to continue to stay disciplined. Importantly, we're going to sequence priorities across growth, profitability, and capital return. More specifics when we roll out our 2027 outlook in February.

Suneet Kamath

Analyst, Jefferies LLC

Q

Okay, got it. Thanks.

Operator: And we have reached the end of our question-and-answer session. I will now turn the call back over to John Muething for closing remarks.

John Muething

Vice President-Financial Planning & Analysis & Head of Investor Relations, Lincoln National Corp.

Thank you for joining us this morning. We're happy to address any follow-up questions you may have. Please email us at investorrelations@lfg.com.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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