Lincoln individual fixed indexed annuities

Determining Renewal Rates – Frequently Asked Questions

General information on Lincoln's renewal rate setting process; rates are declared at Lincoln's discretion.

1. *What are the drivers of indexed account renewal rates?*

Renewal rates are a function of:

- Asset yields at the time the contract was issued,
- Current option pricing, and
- Lincoln's rate setting methodology.

A number of other factors can impact renewal rates such as the interest rate environment, maturity dates of the purchased bonds/prepayments, increased expenses, persistency or capital changes.

2. *How does the short term interest rate impact indexed account renewal rates?*

Lincoln uses call options to support the index interest credited. A call option is the right to buy something at a set price. In option pricing, the short term interest rate is a driver of the future growth rate.

- If the short term interest rate rises, the future growth rate is higher, which makes the call option more valuable. Therefore the call option is more expensive to buy – which lowers the renewal rate.
- If the short term interest rate falls – the future growth rate is lower, and options will become less valuable. This may have a positive impact on indexed account renewal rates.

3. *What other factors can impact renewal rates on the indexed accounts?*

Another factor that contributes significantly to the price of the indexed interest is implied volatility. "Implied volatility" is the estimated volatility of a security's price. Implied volatility can have very large impacts on the cost of indexed interest. Unlike a change in short-term borrowing costs where an increase in short-term interest rates makes all options more expensive, a change in implied volatility affects the various indexed accounts in different ways.

For example, for the point-to-point cap indexed accounts, we look at the volatility skew which is the difference in the implied volatility of a call option and an out of the money call option. If the difference between these two options increases, the cost of the cap increases which will bring the rate down.

4. *Why is my client's Fixed Account renewal rate different than the rate currently being offered for a new contract?*

At the time of contract issue, Lincoln purchases assets with longer durations to provide a higher yield opportunity for the client. Because Lincoln purchases assets with longer durations, new money rates should never be used as an indicator of where renewal rates will be. This investment strategy enables us to protect clients from significant downturns in the interest rate environment, but also means that Fixed Account renewal rates will not be at the same level as new money rates if there is a significant increase in interest rates.

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May go down in value

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PDF **7/23 Z01**
Order code: FA-RRFAQ-FLI001

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