Internal Replacement Guidelines

Lincoln Life and *MoneyGuard®* Solutions

Product Policies and Procedures

Revised April 2024

This document provides the guidelines currently in effect for internal replacements from The Lincoln National Life Insurance Company[1] and its affiliates into a new Lincoln product. These guidelines are at the discretion of Lincoln and are subject to change at any time.

This cover memo is an integral part of these guidelines and must accompany any communication of the attached pages.

Highlight of Changes

- Wording tweaks for readability

1.The Lincoln National Life Insurance Company refers to policies issued by Lincoln companies and business obtained through previous acquisitions and administrative agreements, included but not limited to; First Penn Pacific Life, Connecticut General Life Insurance, CIGNA Life Insurance, Voya Retirement Insurance and Annuity Company formerly ING Life and Annuity Company of New York/Aetna Life Insurance, Mass Mutual Life Insurance, UNUM Life Insurance, Lincoln Life & Annuity Company of New York, Jefferson Standard Life Insurance, Pilot Life Insurance, Kentucky Central Life Insurance, Jefferson Pilot Financial Insurance Company, Chubb Life, Alexander Hamilton Life Insurance Company, Guarantee Life Insurance Company, Westfield Life Insurance Company, American Guardian Life, Jefferson Pilot Life America and First Alexander Hamilton Life Insurance.

~~LCN-5664141-050223~~

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Lincoln's Replacement Position

~~Internal Replacements are not always in the best interest of the policy owner and~~ Careful consideration must be given to the client's needs and objectives when considering an Internal Replacement. There may be times where it is appropriate to offer the benefits that a different life insurance product may bring to existing policy owners. In keeping with Lincoln's strong desire for exemplary market conduct practices, The Lincoln companies (Lincoln) will maintain a strong policy regarding internal replacements and have implemented procedures designed to discourage inappropriate internal replacements. Clients should be fully educated on the advantages and disadvantages of a policy replacement to have the knowledge necessary to make an informed decision.

~~A replacement should only occur in the best interest of the client. Therefore,~~ Lincoln expects each agent or broker selling Lincoln products to determine the appropriateness of each replacement prior to submitting an application. Appropriateness is commonly defined as "what is in the best interest of the client". Due to the individual nature of each case and the client's circumstances, there is no set rule to determine what is appropriate in every situation. Rather, there are questions that need to be answered in every case to establish appropriateness.

Before issuing a replacement policy, Lincoln must be reasonably satisfied that the client:

- Is shown a product meeting their needs and objectives
- Was fully educated on the advantages and disadvantages of a policy replacement and has the knowledge necessary to make an informed decision. A signed point-in-time illustration or re-proposal of the existing policy may be required prior to placing the new contract.
- Received complete and accurate replacement forms, as required by the state regulations and Company policy.

Lincoln will actively monitor replacement activities and will take the necessary action to enforce these guidelines.

The internal replacement rules are at the discretion of Lincoln and are subject to change at any time. For replacements involving significant face decreases, Lincoln reserves the right to financially review the case and to disallow the transaction or modify these procedures when necessary.

For regulatory purposes, a "replacement" which necessitates certain paperwork will be defined based on the regulation adopted by the particular state of policy issue. The "replacement" definition may differ under certain circumstances from the Lincoln Product Management Internal Replacement Definition used in establishing and enforcing the guidelines for compensation and treatment of policy charges (See Questions and Answers section in this document). See the Lincoln Product Management Internal Replacement Definition in the following section for more information.

Further special requirements and restrictions apply for business in the State of New York, issued by Lincoln Life & Annuity Company of New York (LLANY), due to NY Reg. 60 which may alter the rules published here. Details on this regulation are available from the Compliance department (See the Compliance section of the Lincoln website).

In addition to the rules documented here, all Company and state replacement disclosure requirements must be adhered to at all times, for all policy replacements. For further information, reference Lincoln's Life and Annuity Position Statement regarding the Appropriateness of Replacements.

For any questions regarding these guidelines, please contact your Sales Support resource.

Lincoln's Internal Replacement Definition

This document contains guidelines established for handling internal requirements of Company life products regarding underwriting, policy level charges, and compensation.

An Internal Replacement for these purposes is defined as:

- Any life insurance coverage on the life of an insured, originally issued by Lincoln or Jefferson Pilot (or their affiliates) that had a face amount reduction or terminated (lapsed or surrendered) and is replaced with any other form of Lincoln life coverage on the same insured for an equal, lower, or increased face amount. If a withdrawal surrender or loan of the policy values from an existing policy is used to pay premiums on the new policy on the same insured within four months before the issuance of the new policy, or 13 months after the issuance of the new policy, i.e., a "financial purchase", it will be considered an internal replacement and compensation will be adjusted accordingly. Refer to the Compensation on Financial Transactions examples. For policies with the Supplemental Term Insurance Rider (both Primary and Other Insured versions), if the base policy lapses within four months before the rider conversion or 13 months after the rider conversion, the Rider conversion will be treated as an internal replacement.
- The definition encompasses both 1035 (tax advantaged) and non-1035 exchanges.
- This definition encompasses replacements involving both single life and survivorship policies, including a single life policy being replaced by a survivorship policy.
- If the policy owner changes (including cases involving Trusts) but at least one of the insured remains the same, the transaction will be handled as an internal replacement.
- If different agents/brokers are involved in the transaction, but the insured(s) remain the same, the transaction will be handled as an internal replacement.

Lincoln periodically monitors its business to determine if there are any patterns of undisclosed replacements. If there is a pattern of discontinuing premium payments on an existing policy shortly before or after a new policy is issued, or an existing policy is surrendered, partially surrendered, has a loan initiated or has a reduction in benefits shortly before or after a new policy is issued, Lincoln will deem such activities as prima facie evidence of replacement activity. Lincoln reserves the right to adjust compensation accordingly. The state replacement regulations do not restrict the time period under which a new policy could or could not be a replacement of an existing policy. The primary definition of a replacement is a transaction where a new policy is issued and it is known or should be known to the agent or broker that an existing policy will be replaced.

Special Legal Entity and Product Line Considerations

Lincoln's administrative service agreements applicable to certain policies issued by Connecticut General Life Insurance and CIGNA Life Insurance ("CG") and Voya Retirement Insurance and Annuity Company, formerly Aetna Life Insurance and ING Life and Annuity Company of New York, involve unique regulatory and compliance requirements for these replacement cases:

> Any current CG, Voya Retirement Insurance and Annuity Company, formerly Aetna/ING, as well as First Penn Pacific (FPP) individual life products being replaced by a Lincoln product, will be included in these rules as an internal replacement for management reporting and compensation purposes, but will require external replacement paperwork due to the legal change of Company paper.

Product Restrictions

- No internal replacements will be allowed into any policies that do not have surrender charges or that have riders and/or benefits that waive surrender charges or enhance surrender values, such as the Exec Rider, Enhanced Surrender Value Rider, Surrender Value Enhancement Endorsement, Return of Premium Rider, etc. Excludes Lincoln *MoneyGuard*®.
- No internal replacements of a fully-underwritten product, including *Lincoln LifeElements*® Level Term into *Lincoln TermAccel*®, are allowed within 12 months of contract date.
- No internal replacements or conversions will be allowed between Lincoln one-year level term and Lincoln one-year level term products.
- No internal replacements will be allowed between Lifestyle Select UL on either Lincoln or First Penn Pacific paper and other Lincoln products.
- No internal replacements will be allowed into *Lincoln LifeGoals*®.

Life Product Internal Replacements – Policies and Procedures

Underwriting

- All internal replacements, even those of equal or lower face amounts, may be subject to full underwriting. The circumstances that may require additional underwriting are referenced on the following page.
- All policies issued over five years ago will require full age/amount underwriting evidence.
- Policies issued with underwriting evidence within five years will be subject to "modified" underwriting requirements. See next page for details regarding these "modified" requirements.
- Replacements from any UL/SUL/IUL/SIUL/VUL/SVUL/WL/SWL product to Lincoln *MoneyGuard*® with the Long-Term Care or accelerated benefits and/or riders will be fully underwritten.
- Term-to-Term and Permanent-to-Term replacements will always require full underwriting.
- Increases in face amount will always require full underwriting evidence on the increased portion of the face amount. The addition of a second insured (single-to-joint life coverage) will also require full underwriting evidence.
- All policies applied for with the Long-Term Care Rider, *Lincoln Care Coverage*®, *Lincoln LifeEnhance*® or *Lincoln LifeAssure*® Accelerated Benefits Rider will require full age/amount underwriting evidence.
- Policies to be replaced must complete a new Part 1 application. See New Business and Underwriting Requirements Guide for additional details on required paperwork and evidence.

Suicide and Incontestability (S&I)

Credit for Suicide and Incontestability (S&I) time elapsed will be recognized only on internal replacements in states that have adopted the NAIC's Life Insurance and Annuities Replacement Model Regulation and states that have specific requirements regarding S&I periods, such as Kansas. For internal replacements within these states, credit will be extended up to the face amount of the existing policy. Therefore, if there is any increase in face amount, a new S&I period will apply to the increased amount. For transactions in the model states that are comprised of a combination of internal and external replacements, these transactions will receive S&I credit only for the internal replacement portion. For states that have not adopted the NAIC's Life Insurance and Annuities Replacement Model Regulation, a new S&I period will be imposed.

Replacements involving non-Lincoln paper

Internal replacements of administered business such as CIGNA, Connecticut General Life Insurance Company, Voya Retirement Insurance and Annuity Company, formerly Aetna/ING, and Unum, etc. do **NOT** receive credit for S&I time elapsed. These blocks of business were all issued by different insurance companies other than Lincoln. As such, the regulations requiring the crediting of the S&I do not apply.
[Note: not all states have adopted the NAIC model regulation, but they may still place restrictions on S&I.]

Medical Underwriting Guidelines

Face-to-Face or Decreasing Internal Replacement Requirements for *Permanent* products only
(not for Term-to-Term or Permanent-to-Term)

Original Policy Issued with *full* underwriting evidence within five years

Age	Face Amount	Requirements
1-70	Up to 4,999,999	Non-med Interim APS Additional requirements at underwriter discretion depending on the quality of medical information received, case specifics and elapsed time since last underwritten.
1-80	5,000,000 and up	Full Age / Amount Requirements
71-80	Up to 2,500,000	Non-med Interim APS Additional requirements at underwriter discretion depending on the quality of medical information received, case specifics and elapsed time since last underwritten
71-80	2,500,001 to 4,999,999	Paramed with Senior Supplement Blood/HOS Interim APS Older Age PHI If complete exam and blood results are available within 6 – 12 months from personal MD, consider waiving paramed and Blood/HOS
81+	All Amounts	Full Age / Amount Requirements

Special Situations

Condition	Requirements
Replaced policy issued **over** 5 years all ages and amounts	Full Age/Amount Requirement
Replacements involving a face increase	Full Age/Amount Requirements should be obtained for the additional coverage amount
Table Reduction Program (TRP) Automatic Reduction to Standard Program (ARTS) on replaced policy	Full Age/Amount Requirements. TRP available on new policy only if full age/amount requirements are received and meets eligibility requirements
Accidental Death Benefit (ADB) and Waiver of Premium (WP)	Non-med Interim APS
Facultative Reinsurance	Interim APS Facultative reinsurance required on the new policy if reason for prior facultative submission still exists Can retain or autobind if reason for prior facultative submission no longer
VUL to VUL Exchange	A VUL to VUL appropriateness (Lincoln in house representative) review must be completed; this is in addition to the suitability review. The case cannot be placed in a quote status until the review has been completed. ~~and it is determined that the requested exchange is in the insured's best interest.~~ This includes *MoneyGuard Market Advantage*®.
Long Term Care Rider*, Lincoln Care Coverage, LifeEnhance* or *LifeAssure* Accelerated Benefits Rider for Chronic Illness	Full Age/Amount Requirements Accelerated Benefits Rider for Chronic Illness Supplement

Additional medical and non-medical requirements may be ordered on a case-by-case basis for medical or non-medical reasons, at the discretion of the Underwriter.

Premium Loads

- The determination to waive all or a portion of the premium load is made at the time of pricing on a product-by-product basis and is subject to change. The appropriate premium load will be reflected in the client's illustrated values based on the product selected as an internal replacement.

- Please remember that due to state insurance regulation, no premium loads will be waived on Florida, Nevada, New York, and Texas business.

- For replacements of policies that are 16+ years old:
  - If the new policy is *Lincoln VUL*^{ONE}, a percentage of the premium load will be waived; in the illustration, the rollover amount should be input as an internal exchange.
  - For all other policies, the premium load will not be waived; in the illustration, the rollover amount should be input as an external exchange.

- Any additional (out-of-pocket) new premium deposits being paid into any policy as part of a replacement transaction will be assessed with the regular full premium load for all products. All other normal year one and subsequent expense charges apply to all products.

- Upon surrender/exchange, "unearned" premium may be generated on Term, Permanent and Whole Life policies. It is Lincoln's policy that this unearned premium is actual premium going into the new policy and should not be included in the "rollover" cash values. In effect, any unearned premium will be treated as new premium in the calculation of commission on an internal replacement and full loads will be charged on this money.

Replacements into Lincoln *MoneyGuard*® Product Series

- No premium loads will be waived on internal replacements into *MoneyGuard*® products.

Surrender Charges

In most situations, surrender charges on the old policy will be waived up to the amount of the first-year surrender charges on the new policy. In no instance should the policy owner realize an immediate increase in cash surrender value due to the exchange. It is important to understand how to calculate the rollover cash value for illustration purposes.

Surrender Charge Comparison Example:

Old Policy Surrender Charge	$ 43,200.00
New Policy Surrender Charge	$ - 45,000.00
Partial Surrender Charge	**($1,800.00)**
Surrender Change assessed on rollover	$0

Note: If the result is positive, a partial surrender charge will be assessed against the gross cash value before it is rolled over. If the result is negative, no additional partial surrender charge is required.

- **Full surrender charges** will be assessed on any of the following Lincoln products:
    - life insurance that is exchanged to a Lincoln annuity product
    - annuity product that is exchanged to a Lincoln life insurance product
    - permanent life insurance product that is exchanged to a Lincoln term insurance product

- No surrender charges/penalties will be waived if any portion of the proceeds is to be distributed to the policy owner. The entire cash value must be applied to the new policy. Income tax withholding elected as part of the full surrender is allowed. If the face amount or cash value of the original policy being replaced is reduced by a loan or withdrawal within 90 days of when the new policy is settled, and this amount is not rolled to a new Lincoln policy, the transaction will be treated as if a portion of the proceeds have been distributed to the policy owner. Lincoln will apply a prorated amount of surrender charges/penalties, as applicable.

- A full schedule of new surrender charges, including partial surrender charges, if applicable, will begin again in the new policy.

Replacements into *MoneyGuard®* Product Series

For internal replacements into *MoneyGuard®* products, surrender charges on the old policy will be waived up to the amount of the first-year surrender charge on the new policy. The Policy Expense Analysis Report will be required to confirm first-year surrender charges on the new policy.

Policy Dating

Lincoln New Business/Customer Service has harmonized the dating procedure* for fixed and variable life internal exchanges. To avoid duplicate Cost of Insurance (COI) charges, the effective date of the new policy equals the prior month-a-versary day of the replaced policy.

If the application signature and receipt date of the internal exchange request is after the month-a-versary date of the old policy, Lincoln will hold and place the new policy on or after the next month-a-versary day.

Example #1 **New Policy effective date equals prior month-a-versary**	Old policy month-a-versary: 1st of the month Internal exchange signature date: September 30 Internal exchange request receipt date: October 14 New policy is prepared for placement: October 28 New policy effective date: October 1 Policy would be placed no earlier than October 28 with an October 1 effective date.**
Example #2 **New policy effective date equals next month-a-versary**	Old policy month-a-versary: 15th of the month Internal exchange signature date: September 16 Internal exchange request receipt date: September 19 New policy is prepared for placement: September 29 New policy effective date: October 15 Policy would be placed no earlier than October 15 with an October 15 effective date.**
Example #3 **New policy effective date equals closest & prior month-a-versary**	Three old policies are being replaced with the following month-a-versaries: 2nd, 11th and 15th of the month Internal exchange signature date: September 12 Internal exchange request receipt date: September 14 New policy is prepared for placement: September 20 New policy effective date: September 15 Policy would be placed no earlier than September 20 with a September 15 effective date.**

*Backdating the internal exchange effective date up to six months will be permitted only in situations where it is necessary to save insurance issue age. *MoneyGuard* allows one month backdating from signature date of Part I Application. The “Backdating Letter – Internal Exchange” [Form LF06969] discloses to the client the costs of backdating to save age when an internal exchange is involved.

**A policy is considered placed when the new policy is active on the system and commissions are paid.

The premium effective date for any internal premiums would be effective the new policy date. Any additional premiums will be the current date all requirements, including premium, are confirmed in good order.

VUL Specific Guidelines:

- Policy will be reviewed for placement within two business days from the date when the final issue/placement restrictive requirements are received in good order.
- If the requirements are not received by 4:00 p.m., the policy cannot be placed until the following business day (including, but not limited to, premium payment).

Commissions

Commission Estimate Request Form for Internal Replacements

Lincoln's Producer Solutions Team provides commission estimates when the following request form is submitted.

Once the information below is completed, please send to:
PSRetailCompResearch@lfg.com (for Retail) or Commissions@LFG.com (for Wholesale)

Replaced Policy Information			
Policy Number			
Insured's Name			
Original Product Name			
Original Death Benefit			
Original Target			
Duration of Original Policy			
Cash Value Rollover Amount			
Loan Rollover Amount			

Note: If more than three old policies are being replaced, contact Producer Solutions

New Policy Information	
Policy Number	
State of Issue	
Insured's Name	
New Product Name	
New Face Amount	
New Target	
Total First Year Premiums*	

*External 1035 exchange money is the only money that can be used to fund the policy besides additional premiums paid by the policy owner. Cash value from the replaced policy is paid separately and will NOT be used toward first year premiums.

Writing Agent	
Distribution Channel	
Producer ID	

Disclaimer

This document or communication may contain calculations with respect to compensation that may arise out of certain policy transactions (i.e. purchases, exchanges, face amount, increases/decreases). Any amounts shown are based on the information provided and are not deemed "guaranteed", "final" or a "promise to pay". They are meant to be illustrative only. The published policies, procedures, and compensation schedules provide the rules under which compensation is calculated and paid.

Commission Calculations for the Current Internal Replacement Rules

General Information

- If a new policy is issued without underwriting, as part of a contractually-guaranteed exchange provision in a policy, no first-year compensation will be paid on the new policy.
- If the internal replacement includes a loan rollover, then only the net amount receives any compensation except as noted below. Please note that loans cannot be rolled over into the *MoneyGuard®* series.
- If the old policy is replaced at any time within its commission recall period, **100% chargeback** will be applied to the old policy, **regardless of the regular product chargeback schedule**. Full compensation will be paid on the new policy. Refer to the Commission Recall (Chargeback) Guidelines for information on the commission recall period since it varies by product type.
- If a policy is replacing a policy that is 16 or more years old, full compensation on rollover and new money will be paid and it will be treated as new business by the Inforce Underwriting team (formally known as TCXN); however, replacement paperwork will be required. Rollover loans will be fully compensated.
- If the internal replacement involves more than one policy with a duration less than 16 years and another with a duration more than 16 years, please refer to the example.
- If a transaction is considered to be part of an internal replacement, the rules consider the combined target amount being replaced, no matter how many new policies are involved. However, replacement paperwork (based on regulatory requirements) would only need to be submitted for any policy actually receiving replacement money.
- See Life Product Internal Replacement Compensation Examples for sample calculations.

Single Life Internal Replacement to a Single Life UL/IUL or VUL and Survivorship Life Replacement to Survivorship Life UL/IUL or VUL

New Money

- Full first-year compensation will be paid on the increase in target premium up to the total new money received (for products with rolling targets); the excess compensation rate will be applied to any additional new money. Note that there are products that do not provide excess compensation.
    - Increase in target is the difference between the original target on the replaced policy (or combined target for multiple policies) and the target of the new policy.

Rollover Money

- A percentage of full compensation will be paid on the rollover amount based on the duration of the replaced policy in the following chart.
- A replacement during the first policy year falls within the commission recall period; therefore, a 100% chargeback will be applied to the old policy and full compensation will be paid on the new policy.
- If a replacement occurs during policy years two through ten, no commission will be paid on the rollover cash value.
- Full first-year compensation should be calculated using the target premium level from the replaced policy that has rollover money (or the target of the new policy, if lower) and then the duration factor should be applied.
    - The duration factor is applied to both the target and excess portions of the calculation.

Duration of Replaced Policy	% of Full Compensation
2-10	0%
11	50%
12	60%
13	70%
14	80%
15	90%
16+	100%

Note: For Duration 1, Commission Recall guidelines apply – see Commission Calculations General Information section

Example of the calculation of the rollover compensation:

New Policy Target Premium Level	7,000
Replaced Policy Target Premium Level	3,000
Replaced Policy Duration	12
Duration Factor	60%
First Year Commission Rate	50%
Excess Commission Rate	3%
Rollover Amount (net of loan)	50,000
FY Commission Rate x Replaced Target Premium Level = 50% x 3,000 = 1,500	
Excess Commission Rate x Excess Rollover = 3% x (50,000 – 3,000) = 3% x 47,000 = 1,410	
Rollover compensation = Duration factor x Compensation = 60% x (1,500 + 1,410) = 60% x 2,910 = 1,746	

Single Life Internal Replacement to Survivorship UL and Survivorship VUL

Note: These transactions DO NOT qualify as a 1035 exchange under the IRS code. The appropriateness of this transaction and potential tax consequences should be carefully discussed with the client.

Conceptually, the new survivorship policy is split into two policies for purposes of applying the internal replacement rules with respect to the rollover and the new money. If there is existing insurance on only one insured, half of the new survivorship policy is treated as replacing existing insurance and half of the replacement is treated as a new sale.

- Full first-year compensation will be paid on new money up to the increase in target premium as defined as the difference between the target for the original insured and one-half of the new survivorship target. The excess compensation rate will be applied to any additional new money. There are products that do not provide excess compensation.
- Reduced compensation will be paid on rollover cash value if the replaced policy for the original insured was in force for more than 10 years. Refer to the previous table for the percentage of full compensation based on duration.
- If two single-life policies (with two different insureds) are being exchanged to a survivorship, both insureds count as original insureds.

Survivorship Life Internal Replacement to Single Life UL/IUL and VUL

Note: These transactions DO NOT qualify as a 1035 exchange under the IRS code. The appropriateness of this transaction and potential tax consequences should be carefully discussed with the client.

- Full first-year compensation will be paid on new money on the increase in target premium (determined by comparing the new single life target to one-half of the survivorship target). The excess compensation rate will be applied to any additional new money. There are products that do not provide excess compensation.
- Reduced compensation will be paid on rollover cash value if the survivorship policy was inforce for more than 10 years. Refer to the previous table for the percentage of full compensation based on duration.
- One exception to this rule is if there is a survivorship policy and one insured is deceased, the remaining insured can replace the policy with a single life policy; it will qualify as a 1035 exchange. Additionally, in this scenario, the commission would be modified based upon the survivorship to single life rules (splitting the original target in half).

Permanent-to-Term Replacements

- A replacement during the first policy year falls within the commission recall period; therefore, a 100% chargeback will be applied to the old policy and full compensation will be paid on the new policy.
- A percentage of full compensation will be paid on the new term policy premium (net of policy fee) up to the old policy target based on duration of the replaced policy in the following chart:

Duration of Replaced Policy	% of Full Compensation**
2-10*	0%
11	50%
12	60%
13	70%
14	80%
15	90%
16+	100%

*Commission Recall guidelines apply – see Commission Calculations General Information section of the Internal Replacement Guidelines
**The full first-year compensation calculation uses the target premium level from the replaced policy (or the target premium level of the new policy, if lower).

Full first-year compensation will be paid on the excess of term premium (net of policy fee) over the old policy target premium.

Term-to-Term Replacements

A term policy replaced with a term policy:

- In the first 18 months: Falls within the commission recall period; therefore, a 100% chargeback will be applied to the old policy and full compensation will be paid on the new policy.
- From 19 months through policy year six: Will pay full first-year compensation on increases in premium, if any.
- In policy year 7+: Will pay full first-year compensation.

Term-to Permanent-Replacements
(outside of any contractual conversion provision)

Full compensation will be paid on new permanent policies that replace term policies outside of any contractual conversion provision.

Compensation for *MoneyGuard Market Advantage®*

Internal Replacements into *MoneyGuard Market Advantage®* will pay compensation based on Target and Excess. This method differs from the UL *MoneyGuard®* calculation. See explanation and example below.

New Money

- Full first-year compensation will be paid on the increase in target premium up to the total new money received (for products with rolling targets); the excess compensation rate will be applied to any additional new money. Note that there may be some *MoneyGuard Market Advantage®* configurations that do not provide excess compensation.
  - Increase in target is the difference between the original target on the replaced policy (or combined target for multiple policies) and the target of the new policy.

Rollover Money

- A percentage of full compensation will be paid on rollover amount based on the duration of the replaced policy in the following chart.
- A replacement during the first policy year (or first two years if coming from an existing MoneyGuard) falls within the commission recall period; therefore, a chargeback will be applied to the old policy and full compensation will be paid on the new policy.
- If a replacement occurs during policy years three through ten from an existing MoneyGuard policy, no commission will be paid on the rollover cash value.
- Full first-year compensation should be calculated using the target premium level from the replaced policy that has rollover money (or the target of the new policy, if lower) and then the duration factor should be applied.
- The duration factor is applied to both the target and excess portions of the calculation.

For Rollovers from an existing *MoneyGuard* policy:

Duration of Replaced Policy	% of Full Compensation
3-10*	0%
11	50%
12	60%
13	70%
14	80%
15	90%
16+	100%

***Commission Recall guidelines apply – see Commission Calculations General Information section of the Internal Replacement Guidelines

For Rollovers from a non-*MoneyGuard* policy:

Duration of Replaced Policy	% of Full Compensation
2-11*	50%
12	60%
13	70%
14	80%
15	90%
16+	100%

***Commission Recall guidelines apply – see Commission Calculations General Information section of the Internal Replacement Guidelines

Note: Loans cannot be rolled over to *MoneyGuard* products. Please reference the commission schedule provided with the contract and/or selling agreement for details of *MoneyGuard Market Advantage®* commission rates.

Example | Replacement into Lincoln *MoneyGuard Market Advantage®*

Compensation Percentages = 70% on Target and 0% on Excess
Durational Factor = 50% (policy is in year 11 for a MG to MMA exchange)

Old Policy: Non-*MoneyGuard* UL	
Duration	11
Duration Factor	50%
Cash Value Rollover Amount	$30,000
Old Target	$10,000

New Policy: Lincoln *MoneyGuard Market Advantage*SM	
New Target	$ 25,000
New Money Initially Paid	$ 70,000
First-Year Comp Rate	70%

Rollover Compensation

Lesser of Old and New Target is Old Target = $10,000
Rollover Target = $10,000 x 70% = $7,000
Rollover Excess = ($30,000 - $10,000) x 0% = 0
Durational Factor Impact on Rollover = (7,000 + 0) x 50% = $3,500
Rollover Compensation = $3,500

New Money Compensation

Increase in Target = $15,000
New Money Target = 70% x 15,000 = $10,500
New Money Excess = $55,000 x 0 = 0
New Money Compensation = $10,500 + 0 = $10,500

Total Compensation

Rollover comp + New money comp = 3,500 +10,500 = $14,000

Replacement into *MoneyGuard®* II or *MoneyGuard Fixed Advantage®*

Internal Replacements into *MoneyGuard* II or *MoneyGuard Fixed Advantage* will pay compensation using the Commissionable Premium approach that was put in place for *MoneyGuard* II or *MoneyGuard Fixed Advantage*, respectively. The comparison of the target from the old policy and the new policy will not be used in this internal replacement compensation calculation.

Rollover Money

- The rollover money will be applied first towards the commissionable premium amount. The commission on the rollover amount will be adjusted by applying the applicable percentage based on duration of the old policy. Note that there are two different schedules – one for rollovers from an existing *MoneyGuard* policy and one for rollovers from a non-*MoneyGuard* policy.

For Rollovers from an existing *MoneyGuard* policy:

Duration of Replaced Policy	% of Full Compensation
3-10*	0%
11	50%
12	60%
13	70%
14	80%
15	90%
16+	100%

*****Commission Recall guidelines apply – see Commission Calculations General Information section of the Internal Replacement Guidelines

For Rollovers from a non-*MoneyGuard* policy:

Duration of Replaced Policy	% of Full Compensation
2-11*	50%
12	60%
13	70%
14	80%
15	90%
16+	100%

*****Commission Recall guidelines apply – see Commission Calculations General Information section of the Internal Replacement Guidelines

New Money

- New money will be applied towards the remaining commissionable premium amount on the *MoneyGuard* II or *MoneyGuard Fixed Advantage* policy after subtracting the rollover amount. The balance of the commissionable premium will receive full first-year commissions; however, the timing of the payment will depend on the amount of the new money paid initially.

The target premium for new money is determined by taking the full Commissionable premium less the rollover money and multiplying by 1/10. If the amount of the initial new money is equal to or greater than the new money target, the remainder of the commissionable premium will receive full commissions. If the new money target is not met with the initial new money, compensation will be paid at the rate of 10 times the commission rate on the premium received until the new money target is met.

Note: Loans cannot be rolled over to *MoneyGuard* products. Please reference the commission schedule provided with the contract and/or selling agreement for details of *MoneyGuard* II and *MoneyGuard Fixed Advantage* commission rates.

Example 1 | Replacement into *MoneyGuard*® II or *MoneyGuard* Fixed Advantage®

Old Policy: Non-*MoneyGuard* UL	
Duration	9
Duration Factor	50%
Cash Value Rollover Amount	$ 8,000

New Policy: Lincoln *MoneyGuard* II	
New Target	$ 10,000
New Money Initially Paid	$ 92,000
Commissionable Premium*	$100,000
First-Year Comp Rate	8%

*Commissionable Premium = 10 x Target

Rollover Compensation
Rollover Amount x FY Comp Rate x Duration Factor = 8,000 x 8% x 50% = 320

New Money Compensation
Remainder of Commissionable Premium:
Commissionable Premium – Rollover Amount = 100,000 – 8,000 = $ 92,000
New Money Target = 92,000 x 1/10 = 9,200
Since the New Money initially paid (92,000) exceeds the New Money Target (9,200), full first-year commission will be paid on the Remainder of the Commissionable Premium:
First-year commission: 92,000 x 8% = $ 7,360

Total Compensation
Rollover comp + New money comp = 320 + 7,360 = $ 7,680

Example 2 | Replacement into *MoneyGuard*® II or *MoneyGuard* Fixed Advantage®

Old Policy: Non-*MoneyGuard* UL	
Duration	9
Duration Factor	50%
Cash Value Rollover Amount	$ 8,000

New Policy: Lincoln *MoneyGuard* II	
New Target	$ 10,000
New Money Initially Paid	$ 5,000
Commissionable Premium*	$100,000
First-Year Comp Rate	8%

*Commissionable Premium = 10 x Target

Rollover Compensation
Rollover Amount x FY Comp Rate x Duration Factor = 8,000 x 8% x 50% = 320

New Money Compensation
Remainder of Commissionable Premium:
Commissionable Premium – Rollover Amount = 100,000 – 8,000 = $ 92,000
New Money Target = 92,000 x 1/10 = $ 9,200
Since the New Money initially paid (5,000) is less than the New Money Target (9,200), full first-year commission will be paid on the initially new money at a rate of 10 times the first commission year rate:
First-year commission: 5,000 x 8% x 10 = $ 4,000

Total Compensation Paid at Issue
Rollover comp + New money comp = 320 + 4,000 = $ 4,320

Remaining first-year commission due: (9,200 – 5,000) x 8% x 10 = $ 3,360

(All remaining first-year commission will be paid after New Money Target is reached)

Non-Rollover Replacements

***Note:** It is usually more advantageous to the policy owner to roll the value of the old policy into the new policy due to potentially waived surrender charges on the old policy and waived premium loads on the new policy.*

Compensation will be adjusted if a policy is surrendered, and the cash value is not rolled over into the new policy. New money received in the first policy year up to the cash surrender value of the old policy will be treated as rollover for purposes of determining compensation. New money rules will apply to funds received in the first policy year in excess of the old policy cash surrender value.

ProComp

ProComp commissions are handled under the current internal replacement guidelines. Refer to the channel guidelines for ProComp bonus commission adjustment guidelines.

Annuity to Life Replacements

Full compensation will be paid on money exchanged or transferred from an existing Lincoln annuity contract to the new Lincoln life insurance policy.

Life-to-Annuity and Annuity-to-Annuity replacements are calculated differently than life-to-life replacements. Review the Annuity Internal Replacement Guidelines for more information.

Questions and Answers

What is Lincoln's philosophy with respect to internal replacement guidelines?

In an effort to best service the desires of agents and policy owners, through competitive products and customer service, Lincoln continually reviews the replacement policies and procedures. The overall objectives are to:

- Develop balanced guidelines that provide equity to all parties involved in a potential internal replacement;
- Create policies and procedures that do not encourage excessive replacement activity;
- Provide guidelines that can be consistently applied across all distribution sources; and
- Develop guidelines that are consistent with general industry practices.

What is the regulatory definition of a replacement?

Back in 2000, the NAIC adopted a revised Replacement Model Regulation, which has been adopted in many of the states. The regulation required insurance companies to publish a position statement on replacements and to provide guidelines on the appropriateness of replacements. This information can be found at the beginning section of this document. Lincoln will actively monitor replacement activities to identify inappropriate transactions and will take necessary action to enforce these guidelines.

NAIC Model Regulation Definition

A new sale is considered a replacement when an existing policy/contract:

- Lapses, is forfeited, surrendered or otherwise terminated;
- Converts to reduced paid-up insurance or otherwise reduces in value;
- Reduces benefits or the term for which coverage would otherwise remain in-force;
- Reissues with a reduction in cash value; or
- Is used in a financed transaction (financed purchase). A financed transaction or purchase is defined as the actual or intended use of funds obtained from an existing policy by withdrawal, surrender, or borrowing to pay any part of a premium due on a new policy or contract issued by the same insurer.

Why do you pay reduced compensation for internal replacements?
There are two main reasons:

- First, replacements are transactions that should only be considered when there is a true need and/or value to the insured. By paying as much for an internal replacement as for a new sale, there is the potential to generate more interest in replacing policies than driving new sales. This raises market conduct concerns and goes against the nature of Lincoln's business, which is to increase assets under management and death benefit placed.
- Second, when Lincoln prices products, it includes assumptions on the replacement of certain products and how much money will be spent on compensation for those activities, as opposed to new sales. If Lincoln increased compensation on internal replacements, it would have a direct impact on the compensation and performance offered for new sales. Lincoln has an obligation to its stockholders to increase premiums and death benefits through product practices.

Since the compensation on rollover (and replacements into Term) is based on the duration of the original policy, how is "duration" determined?
The duration is the interval of time from the policy date (the date from which monthly anniversary days, policy anniversaries, policy months, policy years, and premium due dates are determined) to its surrender date.

> **Example:** Policy date is April 1, 1998, and the policy is surrendered June 15, 2016. The policy has been in force for 18 years and two months; therefore, the duration would be 19 years

If a new agent is servicing an existing orphan client and determines that a replacement is appropriate, will the agent be paid first-year compensation on the new policy?
No, an internal replacement, under these guidelines, is defined as the replaced coverage of an existing insured. Therefore, the new policy will be subject to the reduced compensation scale as detailed in this communication.

I'm putting my client into a new policy that is completely different from the old one. There is a documented need for the new coverage and/or new owner. Is this still subject to reduced compensation?
Yes, this example would be subject to reduced compensation. Transactions involving the same insured fall under these internal replacement guidelines.

Why is 100% of my commission being recalled when my client replaces their policy within 12-18 months on non-*MoneyGuard* cases and 24 months on *MoneyGuard* cases?
Lincoln recalls 100% of commission on the original policy if being replaced within our Commission Recall Guidelines because full compensation is paid on the newly-issued policy.

I just spent a lot of time and energy conserving this business and if I took it elsewhere, another company would pay me full compensation. The original policy is over 10 years old. Why can't I get full compensation from you?
Yes, another company would pay full compensation, mainly because they are getting this cash value and death benefit for the first time. Lincoln's internal replacement rules were developed to strike a balance between policy owner, producer and company value.

- By staying with Lincoln, the policy owner is saving the surrender charges that would have been lost switching to another carrier, as well as having a portion of the premium loads in some cases waived on the rolled cash value; that represents tremendous value to the client. The savings in premium loads and surrender charges should be considered when evaluating ~~whether~~ the exchange.~~ is in client's best interest.~~
- Even if the prior policy was old and had exhausted all its surrender charges, it results in expending resources re-underwriting (which is mandatory) and reissuing a policy that is already on the books. Paying additional compensation beyond internal replacement compensation would decrease profitability.

Generally speaking, when are surrender charges waived?

No surrender charges will be levied against the policy being replaced if the following conditions are met:

- The surrender charge for the new policy are greater than or equal to the total current surrender charge at the time of the replacement, including surrender charges associated with any riders; and
- All values are transferred from the old policy to the new policy.

Are variable universal life to variable universal life replacements allowed?

The Lincoln National Life Insurance Company **does not** encourage or have a plan to facilitate VUL-to-VUL internal replacements. However, Lincoln will review **client-initiated** requests on a case-by-case basis provided the necessary information is submitted for an appropriateness review. Questions on the appropriateness review should be directed through the exchange team contact. If the VUL-to-VUL internal replacement is deemed appropriate, the internal replacement policy and procedures for universal life products outlined in this document will be applied. This includes *MoneyGuard Market Advantage®*. ***Please note:*** *There are requirements which must be fulfilled prior to submitting the application.*

How will a combination term conversion and internal replacement be handled?

If this type of combination case is submitted, the term conversion will be processed first. This means that the face amount and any out-of-pocket money will be processed first as outlined in the Term Conversion Guidelines.

How far into the policy will Lincoln allow 1035 money to come in at a tax advantage status and still waive a portion of the premium load and surrender charges of the original policy?

To accommodate backdated cases, money must be applied during the first policy year. Length of available backdating on a policy is wholly dependent upon state guidelines and, in their absence, Lincoln guidelines.

What will be the expected turnaround time for processing an internal replacement for Administrative Processing?

Expected turnaround times from approval to placement on internal exchanges are longer than a case not involving an internal exchange. Depending on the nature of the case, Lincoln may need to calculate exchange values, coordinate the surrender of the old policy and obtain cost basis information before issuing/placing the new policy. Please allow an *additional five business days* for processing.

What will be the expected turnaround time for processing an internal replacement for compensation processing?

If the policy information is received and in good order, this turnaround time should be minimal. Depending on the date the policy is issued in relation to the pay cycle cut-off date, it is possible that there may be a delay in receipt of the internal replacement commissions by one pay cycle. This would be the exception. To make the weekly pay cycles, the last process day for LFA producers is Wednesday of each week. With all others, the last process day is Thursday. Please note, compensation is calculated manually and may be delayed on the statement.

For questions regarding commission payments, please call 800-238-6252, option 1, option 1.

Change Log | Life Product Internal Replacements Guidelines

Date	Change
04/01/24 v18	Wording tweaks for readability
04/27/23, v17	*MoneyGuard* Fixed Advantage is the next generation of the MoneyGuard fixed product offering and has replaced *MoneyGuard* III
03/28/22, v16	Remove reference to Jefferson Pilot companies in the lead paragraph on this page Added no internal replacements will be allowed into *Lincoln LifeGoals* Removed all reference to special rules for first 12-months of the policy for replacements from MoneyGuard into MoneyGuard Market Advantage. Those special rules have expired. Removed all references to MoneyGuard New York (product offering removed as of 03/25/22)
02/16/21, v15	Added new product Lincoln *MoneyGuard Market Advantage*SM Added wording regarding Survivorship to Single Life replacements when one of the insureds is deceased Updates to Policy Dating section for clarity
04/20/20, v14	Clarification on Lincoln's Internal Replacement Definition Single Life Internal Replacement to Single Life UL/IUL with Exec Rider (with Bucket Compensation) Added Lincoln *MoneyGuard* II NY
11/1/19, v13	Added *Lincoln Care Coverage* ABR Added Lincoln *MoneyGuard III*
10/1/18, v12	Added Product Restriction for IR into *Lincoln TermAccel* Added *LifeAssure* ABR for chronic illness to Medical Underwriting Guidelines – Special Situations Updated Premiums Loads to reflect replacements of policies that are <u>16+</u> years old Updated Commission Calculations general information to reference policies <u>16+</u> years old Updated all charts to reflect the new durational compensation schedules
10/12/16, v11	Incorporating clarifications on existing rules Replacements into *MoneyGuard* II have been clarified within the guidelines
6/23/16, v10	Added Voya Retirement Insurance and Annuity Company formerly ING Life and Annuity Company of New York/Aetna Life Insurance
2/10/14, v9	Added *Lincoln LifeEnhance*® ABR Underwriting Clarification Added *MoneyGuard*® II Clarification Added FAQ regarding PAP payment
3/30/12, v8	Added Commission Request Form Added Survivorship to Survivorship Clarification Added STIR clarification to the definition page
10/19/11, v7	Clarification around excess compensation rates Clarification added to explain compensation when a policy is internally replaced within the commission recall guideline timeframes Added *LifeReserve*® Indexed UL 2011 with Exec Rider as a product restricted from internal exchanges Added a new Q & A, question #7
4/29/11, v6	Revised Clarification for Replacements to *MoneyGuard*®, premium loads, Single Premium *MoneyGuard*®, compensation tables under *MoneyGuard*® compensation section Changes made to Q&A #9, 13 & added #14 Changed "Backdating" to "Policy Dating" Added Term to Permanent Process change for replacement of policies that are 20+ years old
4/1/10, v5a	Revised compensation explanation for *MoneyGuard*® to *MoneyGuard*® single- premium scenarios Added clarification to Q&A #8
3/15/10, v5	Revised compensation on Term to Term replacements Revised guidelines for Permanent to Term replacements Revised compensation on replacements into *MoneyGuard*® single-premium Added clarification about how surrender charges are handled for replacements into *MoneyGuard*®
3/23/09, v4	Added Backdating section Revised Medical Underwriting Guidelines Revised Suicide and Incontestability (S&I) section to include handling for contracts administered by Lincoln Revised Term to Term Replacements to include compensation based on a modified duration when within the initial level period Added to the Commission section - Single Life Internal Replacement to Single Life UL and IUL with Exec Rider Removed line to: Gross Cash Value for Illustration – Calculation Tool
4/07/08, v3	Revised Durational Factor chart

	Revised examples for Compensation on Non-Rollover Replacements and Compensation on Financed Transactions

Important Information

Information is from public sources deemed reliable; its accuracy cannot be guaranteed. Product features and benefits, expenses, loads and charges will vary by company and will affect the values shown. Each client's use of specific features will affect long-term policy performance. Please note that this information does not include all product details. For information regarding all of the contract charges and fees, including applicable surrender charges, contract fees and other details, refer to the product prospectus. Show your clients a basic illustration showing the impact of 0% and maximum sales charges on policy cash values and death benefits. Guarantees are subject to the claims- paying ability of the issuing insurance company.

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