Goldman Sachs U.S. Financial Services Conference
Voya Financial Presentation Transcript

Voya Financial Participants:
Mike Smith, Chief Financial Officer
Alain Karaoglan, Chief Operating Officer

Host:
Mike Kovac, Goldman Sachs

Mike Kovac: Okay, we're going to get started here. I'm Mike Kovac, the life insurance analyst at Goldman Sachs, and it's our pleasure to welcome Voya to the stage with us. Voya is a domestically focused, $8 billion market cap retirement, annuity, life, and asset management business. And joining me from Voya on stage is Alain Karaoglan, Voya's Chief Operating Officer, and Mike Smith, the firm's CFO. Alain is responsible for Voya's Ongoing Business, and Mike recently became CFO in November. Prior to becoming CFO, Mike served as Chief Executive of the Insurance Solutions business at Voya, and since 2009, has overseen Voya's legacy variable annuity business, the CBVA.

So we're going to do today's forum in a fireside chat model. I want to start with Alain, maybe. Over the past several years, since becoming a public company, Voya's focused on repricing, ring-fencing risk, and then outlining a strategy for growth to achieve a 13.5 to 14.5 percent ROE by 2018. I wanted to know if you could discuss balancing some of these priorities and the drivers of it, as it relates to reaching those ROE targets.

Alain Karaoglan: Thank you, Mike. Good morning everyone, and thank you for having us. You know, at Voya, we've been on a transformation journey that is really continuing. What we talked about when we first came public in the IPO, which has only been three and a half years ago, is about a legacy of companies that was brought in through acquisitions that weren't integrated and were punching below their weight. We laid out plans to improve the ROE by 400 basis points to 12 to 13 percent by 2016. We've achieved that by 2014, and we laid out new plans in 2015 to achieve targeted return on equity of 13.5 to 14.5 percent by 2018.

The first step was about getting these existing businesses that were fantastic, that were punching below their weight, to punch at their weight, by focusing really on three financial metrics: risk-adjusted return on equity, distributable cash flow, and sales at or above our internal rates of return. And these three financial metrics are still in place today. This is how we judge our progress going forward.

In 2015, we announced a strategic investment program of $350 million over four years, really focused on three things: IT simplification, digital and analytics, and cross-enterprise initiatives. And it's to continue the journey to simplify the company, and to reduce the silos. IT simplification is about reducing costs, but more importantly, enabling the continuing of our digital and analytics, and cross-enterprise initiatives. And in the third quarter this year, we've announced our simplicity efforts, which is to take away the complexity within our businesses that has occurred over the years. And what we've announced is we expect to achieve at least $100 million of cost savings by 2018. Last year, we had talked about $30 to $40 million of cost savings by 2018. So it's really a continuation of the journey.

You would expect us to constantly get better and better at what we achieve. And we have maintained our targets of 13.5 to 14.5 percent ROE by 2018, in spite of the very significant interest rate pressure that we've had over the past few years up to our earnings call, which actually was going to cost us another 140 basis points of return relative of headwinds, because interest rates were lower than what we had expected when we laid out the plan.

Mike Kovac: That's helpful. And actually, on your last point there, interest rates have clearly been a headwind over the last several years to some of the ROE targets, not just at Voya, but across the industry. How should we think about the recent rise in rates relieving pressure on earnings, balance sheet as it flows through the businesses, maybe from both Mike and Alain?

Alain Karaoglan: The interest rate pressure has been real. So the 140 basis points of additional headwinds have been from interest rates, and actually, equity markets, as well. Because if you recall, in 2015, the equity market didn't appreciate as one would have assumed, on average, would appreciate. The recent increase in interest rates has been meaningful. The spot rate is where rates actually were at the end of 2015, but the forward curve over the past year has been at lower levels. So if interest rates were to maintain at these levels and continue, that will be very beneficial to our plan. We're not changing our returns, if anybody's going to ask, given the interest rate, our return on expectation. We still have a couple of years to go. We'll see where interest rates will end up. It's going to be helpful to our Retirement business, which had a very meaningful headwind from interest rates. But generally, it's going to be very helpful to all of our businesses, both Ongoing and Closed Block.

Mike Smith: I think the only thing I'd just add is just on the Closed Block in particular. It's very interest sensitive, and certainly perceived to be, and I think a lot of the change in the recent stock price that you've seen is driven by perceptions of the VA business. So we have a significant amount of interest rate hedging position to protect, in case interest rates go back down. We have substantial resources to cover the liability in total, and we manage the hedge program to offset changes due to market shocks in those values of the liability. So overall, I think the new interest environment, if it persists, is going to be very favorable and positive for the organization.

Mike Kovac: And I want to dive into that a little bit more sort of later on the segment level basis, but there's a lot more going on that just sort of the macro here. And Alain, you mentioned earlier your comments on cost savings programs expected, you know, by 2018 to drive $100 million of potential savings. Can you walk us through where these savings are coming from in terms of why now in the business, as opposed to in prior periods?

Alain Karaoglan: And I think that's a very important thought. The macro environment, none of us can control, and things are going to go up and down, but there are certain things that we can control. Our expenses, what we do every day, where we focus our energies every day, we can control. Our IT simplification effort is an effort that's going to continue to help us reduce our unit cost, but also deliver us capabilities in digital and analytics that will further reduce our cost, but also help us to provide a customer with an effortless customer experience. So we're continuing to focus on these elements that we can control.

What we've learned over the year-and-a-half as we were accelerating our IT simplification is we've learned a lot about our infrastructure, what's possible in the new environment, in the cloud environment, and so we're further expecting to accelerate what we wanted to do two years ago through the learnings over the past two years, through the continued simplification over the last couple of years. We're bringing our Annuities and Life Insurance business together from a management point of view. That's going to lead to synergies between the two segments. And also, it's going to allow us better leverage with distributors, having more heft with them as we're talking to them about the opportunities there. On the Retirement side, we're expanding. We're still expanding our salesforce and our retirement opportunity to continue to grow going forward.

So what's very important is we're not slaves to the macro environment. We recognize it. We take account into it. And our job as management is to constantly figure out what we can do to continue to improve our unit costs, to continue to provide the right customer outcomes and the right customer experience going forward. And what I love about our plan, and I loved it since we went public, is it really depends on us. It's about execution. It's a self-help story, with the macro environment being helpful if things continue to turn positive on the interest rate environment.

Mike Kovac: Any thoughts on the costs in sort of the early years of that at this point, or still too early to tell in terms of the cost of the ultimate savings?

Alain Karaoglan: We announced restructuring costs of $30 million in the fourth quarter. We don't have any new updates on that, but we'll make sure we'll inform you as soon as we can.

Mike Kovac: And one of the other big elements for Voya is a capital return story, and so wanted to spend a minute on that with Mike if we could here. You know, at the end of the third quarter, excess capital stood at almost $1 billion, as you determine it, and you announced $200 million of buybacks in the fourth quarter, another $600 million in 2017. You know, despite the recent value, the stock's still trading at 70 percent of book value. What are your thoughts on accelerating this deployment or sort of finding other sources of additional capital?

Mike Smith: So first, let me frame up the $1 billion of excess capital. I think it's important to understand the timing of that. So about $380 million is currently in the holding company. The balance of the $600 million is actually in the operating companies and can be dividended up to the holding company sometime in the second quarter. So, we don't comment on the timing of share repurchases. I think our commitment throughout under Ewout, and certainly under me, is that we're going to be very prudent in managing our excess capital, but we do view shareholder stock buyback as probably one of our better uses of excess capital, particularly when we see the value of the stock below its intrinsic value. So we're continuing down the path that we've been on, and I think we'll see how things develop.

Mike Kovac: Thanks. And you know, another key area of interest since the election has been on regulatory issues, and sort of a number of them, as they pertain to the life insurance industry. The first one is on really the Department of Labor update to the fiduciary standard. Can you provide us any thoughts on either conversations you're having with the industry, with distribution partners, as it relates to where the DOL heads under a new presidential administration?

Alain Karaoglan: So we hear the same noise and rumors that all of you here. There's definitely, with the new administration, there's a different view on regulation, and there might be a desire to roll back the DOL fiduciary rule. Practically speaking, how they do it might take some time and they need to figure it out. There's talk about delaying the rule, and then there's a process in order to do that; how do you delay the rule, et cetera. So we don't know where it's going to end up, ultimately.

On our end, we're working as if that rule is going to be in place in April and by year-end, and we're working internally with our distributors, and internally to make sure that we can comply by the rule. If the rule gets changed, we'll deal with it at that time, and we'll address it at that time. And the cost of addressing it will be incremental in terms of complying with the rule.

Mike Kovac: If we were in a position where we got to April of 2017 and there was either a delay or a revocation of the rule, is there anything you would change in terms of how you're managing your business today?

Alain Karaoglan: Not really, and if we step back and think about the impact of the rule on us, where does it impact us in our overall business? So if you think about our Retirement business, we're in the large corporate market, which doesn't affect it, the tax-exempt markets, which largely doesn't get affected. What gets affected a little bit is the small-mid corporate market. But the way we've been going to market, we've been going to market in a way that's already compliant with the rules. So the area where we really get affected is our broker dealer. We have our own distribution. These are the individuals that have to become a fiduciary or avail themself of best – of the BIC clause and exemption. But beyond that, our business, we weren't getting that affected by it before, and we're not going to be that much affected by it going forward.

On the Fixed Index Annuity, which was swept under the rule at the last minute, when we look at our distribution, one of the issues is that a lot of the fixed index annuities are sold through independent agents. And in order to avail yourself of the BIC rule, you need to get affiliated with a financial institution, which is either an insurance company, bank, broker dealer. We sell 65 percent of our business through a financial institution. Another 15 percent is through agents that are registered reps, and they can affiliate themself with institution. So only 20 percent of our business is sold through pure independent agents.

So what happens in the Fixed Index Annuity business overall market, and for those who sell through independent agents, these independent agents are really disenfranchised from their ability to sell fixed index annuity. Now, they can get relief from the Department of Labor in order to be able to continue to. So, to put it back in context, before the rule, we weren't that affected by it. And so, to the extent that it changes, we won't be that affected by it, as well.

Mike Kovac: Makes sense. The other key area that comes up most frequently is tax reform, and wanted to get your thoughts there as it relates to Voya, knowing that one of the other sources of value at Voya is the large deferred tax asset. How are you thinking about that under potentially corporate tax reform?

Mike Smith: Sure. So, certainly a lot yet to be learned about what the tax reform will actually look like. But if you imagine, as some of the proposals have started to outline just a lower flat overall rate, that would have two direct impacts. First, the deferred tax asset would drop roughly, pro rata, to the decline in interest rate. That's just simply a –

Mike Kovac: Tax rate.

Mike Smith: The tax rate; excuse me. That's just sort of a mechanical process. And then the second would be an overall improvement in after-tax operating earnings. I think you can do the math and come up with your own sense of what the relative value of that is. But we think, overall, a decline in tax rate is going to be a favorable development for us.

Mike Kovac: And are there tools at your disposal if we see something coming down the pipe, where you could accelerate some of the utilization of the DTA? Do you see things internally, or not really?

Mike Smith: It's a good question. I don't think at this point we're able to give you a lot of guidance on what those things are. We have a pretty significant team that's focused on tax planning and managing our tax position. And so, as we get better information about where things are going, we'll certainly take advantage of the opportunities that are in front of us.

Mike Kovac: That makes sense. So maybe shifting back to the segments a little bit on an underlying basis, Retirement is the one operating segment that was outlined in the third quarter as maybe not quite hitting the ROC targets that you'd originally outlined. Can you walk us through what's happening there, how maybe the macro environment might actually be helping that today, or tools that you have to continue to improve the return on capital there?

Alain Karaoglan: So let's step back and think about what has hurt us when we reported our earnings, and laid out our new targets on the Retirement business of 9.5 to 10.5 percent. It's really three things. It's the interest rate environment that was lower, the equity markets that was lower, on an absolute basis, than we expected, and the guaranteed minimum interest rate that we have on our contract, where policyholders can transfer from variable accounts to the fixed account. And given the guaranteed rates and the lower interest rate environment, more were transferring than we had planned for.

But the most significant impact is the interest rate impact on its own, and the overall impact of these headwinds were going to cost us 250 basis points of return on capital in our Retirement business. So what are we doing to offset that? We have a team focusing on the guaranteed minimum interest rates to try and address these issues in the contracts, specifically. All of the cost savings, IT simplification – a good portion of that will go to the Retirement business. We're still expanding. We expect our revenue to grow in the Retirement business. We're expanding in that market. And so, we're working on it; we believe we can get to the target that we have in '18.

And very importantly, we have heard that said before, is 2018 a point in time? Life does not end after 2018. We expect to continue to improve all of our business, and we continue to make up some of these headwinds in 2019 and '20.

Mike Kovac: And so, to key on one of the things you mentioned there, expecting to grow revenue over that period of time. Obviously, a competitive environment in the retirement space, but maybe you could give us some thoughts on how the competitive dynamics are shaping up, specifically in the markets that Voya wants to grow in today.

Alain Karaoglan: The environment has been competitive throughout, and has continued to be competitive, but no more or less so. We have good competitors in the marketplace. What we find is the reason – and you saw it in some of the net flows in the last year, that we're able to win our fair shares, and our expectation is to continue to win. And the reason is because we provide very good value for our customers, both the participants and the employee sponsors, because we focus on what the outcomes are for both the participant and the sponsor. Because ultimately, what we're trying to do is get people to retire better, is to be retirement ready, to be able to deal with that anxiety of retirement.

And we have some capabilities in terms of both digital and phone-based access to planning. We have, also, nationwide individual advisors that are available to participants, if they need it, to be helpful. So ultimately, what we can show sponsors and we can show participants is you started at X percent, and by being with us, and by being your retirement provider, both the participants and the overall population will be better off over time. So the competitive environment is still there. Good competitors, competitive, but we're having very good dialogues with both the employee sponsors and the participant in terms of achieving the right outcomes.

Mike Kovac: And maybe another market, sort of shifting to the Investment Management side, where – obviously a high margin business for Voya today. Broadly speaking, how are you navigating fee pressure that we broadly see in the markets, and move to passive in others, sort of your thoughts there?

Alain Karaoglan: So on our Investment Management, it is quite a profitable business. Our target margin is 33 to 35 percent by 2018. We've had very strong investment performance in our Investment Management business through all the categories, on fixed income, equity, senior bank loan. And what we said on the third quarter earnings call is continuing. We're having good flows with the CLO that we put in place in the fourth quarter, a private equity fund that we raised. We still find quite good appetite for our capabilities that we have, whether it's private placements, whether it's Mortgage-Backed Securities – we have good Mortgage-Backed Securities capabilities – whether it's commercial mortgage loans. And we have great performance on our fixed income side, as well, so we're seeing very good demand for it.

What you're seeing on the institutional side, also, is a bar belling approach, where for the vanilla stuff, they're willing to go to indexed or something like that. But for the categories that require active management and capabilities, like the ones that I just mentioned, they're willing to pay the appropriate fees for that, because they're looking at total return after fees, and we have great capabilities for that. And if you remember, Mike, a couple of years ago, we started an effort to offer our capabilities and our services to other insurance companies. That has been very successful, and continues to be quite successful.

Mike Kovac: Makes sense. You know, the other two segments that you discussed early on in terms of the merging as part of the general sort of cost savings was in the life and the annuity segment. I wanted to dive into that a little bit more in terms of what you see as the benefits of merging those two segments today.

Alain Karaoglan: So by merging the Annuities and the Individual Life business, of course, you're getting some opportunities for synergies from an efficiency and ability to reduce our unit costs in both of the segments. In addition, it does give us more leverage and more presence with distributors. If you're going at distributors, you might have the same distributor, but they're going with Individual, Life, and Annuities separately, as opposed to going all at once. It gives us more leverage in that. And it allows us to focus on the businesses that we want to focus in, the less capital-intensive businesses, selling more of these products, and then avoid some of the products that are less attractive. And we stopped selling term insurance, for example, in that.

And ultimately, we still have both segments. We're going to report Individual Life and Annuities separately. We're going to be able to execute and achieve our plans better, more seamlessly, and with more confidence, being together.

Mike Kovac: One of the other tools in the life segment was improving returns through reducing capital in that segment, through reinsurance and through refinancing some of the redundant reserves. Can you provide us any update that you have on either of those, and potentially, how a rising rate environment might either make that easier or more expensive in some of those cases?

Mike Smith: So, I think just to recap what we've done, we've done two major reinsurance transactions in 2014 and 2015, releasing in total about $400 million of capital and with minimal earnings impact, give or take $5 million run rate. So those were the – if you remember, there was a paradigm that I introduced at our investor day: fix it, sell it, or improve it. This is the sell it piece. The fix it piece is the refinancing that we just announced in our second quarter call, where we're able to take the overall financing cost for about half of our outstanding redundant reserve financing and significantly improve it to the ultimate impact to the life business of 150 to 200 basis points improvement in its ROC, and translating into about 50 to 60 basis points of ROC improvement for the overall company. So that last one is still in process. We expect to get that primarily done this quarter, and you'll start to see the impact flow through in 2017, and then potentially increasing in 2018.

So interest rates don't have a lot of impact to that specific component. I think it's more about the refinancing market and the level of refinancing cost. So I think there are still some opportunities for us to make that more efficient, but I think we're predominantly done with the sell it and fix it thing, unless the market conditions change.

Mike Kovac: And then shifting to one of the businesses we haven't talked about today, the Employee Benefits side. You know, been pretty strong returns in that business. Year-end renewals is a big – you know, we're approaching within the next couple of weeks. What is happening, from a competitive dynamic, there? How should we expect returns in 2017 for the industry broadly, versus '16, and maybe Voya specifically?

Alain Karaoglan: The Employee Benefits business has been a great story for us, right? We've achieved 20-plus percent return on capital, and we've been able to grow that business quite meaningfully in the past few years. Now, we benefitted from a tailwind, right? Medical costs have been lower than we expected in our pricing, led to a loss ratio that were better than we expected.

We've always highlighted that our loss ratio expectations are higher than whatever we were achieving, so we were expecting the return on capital to decline. And what you're seeing a little bit this year is a return to what we would consider more normal range of loss ratios.

The marketplace is being more competitive than it was a year ago. We're still finding quite good opportunities. And we're going to be disciplined. If we have the opportunity to write the business at the loss ratios and the return that we want, we'll write it. If we don't have the opportunity, we'll let it go. And we're patient. We're able to do it the right way. But the great story is we've been able to do both in the past few years, but we're getting to a level now that is more normalized.

So we're in the middle of the renewal season in the fourth quarter. We'll see how we turn out. But the market is a little bit more competitive. Mike, from your vantage point?

Mike Smith: No, I think that's right. Look, the outside world observes the loss ratios that the companies are seeing, and so they know we've had a couple of good years in '14 and '15 in particular, and so that's part of the dynamic that's entering into the pricing considerations. But I would say yes, the market's more competitive, but it's not irrational. I think we're very comfortable with the levels of rate that we're generally seeing overall. There are always one-off situations where we walk away and say yeah, I just don't know – how they got there, we don't know. But generally, the pricing levels are fine.

The Employee Benefit business also has a growing voluntary book and a fairly stable Group Life book, and those are I think additional sources of return that we're excited about, particularly the growth in voluntary and the rates that we're seeing there.

Mike Kovac: I'm going to shift and spend a couple of minutes here on the CBVA, on the Closed Block Variable Annuities. And so, Mike, having spent a considerable amount of your time looking at that, maybe for you, how has the current environment, maybe even over the last month or so, potentially shifted the way that you're thinking about that block on a go-forward basis? Maybe start at a high level, and then we can dig into some additional thoughts. But some of the things we definitely want to think about are capital within it, and potential capital releases down the road.

Mike Smith: So, broadly speaking, we've got significant resources supporting this block. As we announced on the last call, we're actually – while we target CTE 95 at a rating agency basis, we're at CTE 98. Our hedging strategy is aimed at protecting that level against market movements, both interest rate and equity markets. So we've been very comfortable, ever since the IPO. We've consistently reported solid hedge performance, and we think that's going to continue to perform well for us.

At the same time that we've been managing the block and we're comfortable to manage it for as long as we need to, given the resources that we have, we've been looking at ways to run the business off more quickly. That's come through a variety of enhancement offers, where we've gone to customers and said would you like to take your income stream sooner and we'll give you a little bit extra to do that. We've also recently filed a buyout opportunity. That's still in process, but that would ultimately allow someone to surrender for the entire value of their account, plus some extra that's still to be determined. And as I said, we're in the midst of the registration process, so that's not – I can't comment a whole lot further on that.

As it relates to the current environment, we certainly welcome the increase in interest rates. It's a positive development for us. We're adjusting our hedges accordingly. As the markets move, the sensitivity of the various metrics does change, and so we'll make modest adjustments to our hedges, but nothing too significant – normal course.

And then finally, as it relates to strategic options, which I think is where you were really trying to go with the question, is interest rate increases make it more likely that we're going to be able to find some kind of broader de-risking opportunity. I do think rates need to probably go up a bit more before the opportunities are going to be particularly attractive. And so, we'll continue to watch the developments in the equity and interest rate markets, but we are very comfortable with where we are now. We think the resources are more than adequate. We think we're well protected, from a hedging perspective, and if we can find a way to strategically accelerate the runoff of that risk, we'll take advantage of that, if it's economic for us to do so.

Mike Kovac: You mentioned, obviously, that the rise in rates is helpful, but that maybe needs to rise a little bit more in order to find additional capital coming into that space today. What level do you think we need to get to? Is it 3 percent on the 10-year, 3.5?

Mike Smith: I want to be careful and not draw lines in the sand, because the expectation then is if I say it's 3, then at 3.01 it's where's the deal. I do think that we need to get probably north of 3 before it becomes reasonably doable. But we'll have to see. It needs to get in that range, probably, before we'll see an opportunity. But we are always looking for ways to reduce the risk.

Mike Kovac: And one of the other ones that you highlighted that is back in place today is the enhanced surrender offers that have been going on for a number of years. Understanding that one's sort of still in progress, what is the timeline for that in terms of when you should be able to give us more information, and when you ultimately expect to start seeing some of the impact on the economics?

Mike Smith: So the most recent offer, that's completed now. That was an income-enhanced offer on our 2003 block. It's about half of the overall GMIB business—a little bit over, I think. We'll have a complete update for you on the fourth quarter call. Assuming the filing and registration process proceeds as we expect, we should be able to give you an update on the enhanced surrender buyout, as well.

Alain Karaoglan: I think, Mike, it's important to put it in perspective, right? When we closed the block, the size of that block was $47 billion. Today, it's $34 billion. We had 600,000 policies; today, 330,000 policies. So we've made very good progress in chipping at the block.

Now, having said that, $34 billion is still a large block, and so if you think of potential one-transaction, there are not a lot of players that can absorb such a large block. So we have to think about it in pieces, et cetera, as we think through it. But we made very good progress in terms of dealing with the block and shrinking it over the past years, and Mike has done a phenomenal job at it.

Mike Kovac: Understood. I want to leave a couple of minutes here. If anyone has questions in the audience, raise your hand. We have a microphone in the back, right up to the front. Is someone coming?

Unidentified Audience Member: Hi. Going back to the closed block, just broadly speaking so that I can get my head around it, is it fair to say that right now, the hedge is in the money and the underlying isn't? I mean, theoretically, when you put it on, you were flat, I'm assuming. So which one's in the money, which one's out, and kind of how close are you to being at kind of parity – broadly speaking?

Mike Smith: I think the way to think about our hedging program is that we've got a capital and/or reserve amount that we're solving for, and we're trying to offset the changes in that capital or reserve as the markets move, so that in the money, out of the money is not really the way we think about it. We think about it more in terms of do we have enough resources to cover the liability, and that's what we measure our success on, and we've demonstrated a consistent track record of that.

Unidentified Audience Member: Hi. You mentioned before that a potential reduction in the corporate tax would have two consequences. One, the DTA, and one, just obviously the Ongoing Business. And the question was asked whether you can accelerate the DTA usage somehow, to take advantage of any timing arbitrage before it actually happens. The question I have is on the tax rate itself for the Ongoing Business. Obviously, the law has not even been proposed yet, but I'm assuming you've run some analysis on your business. Saying the tax rate goes to 25 or maybe 20, do you have an idea as to how much your tax rate would go down, or how much your earnings would benefit from that, just assuming some level that we can use?

Mike Smith: The effective tax rate is 32 percent. So I think, to the extent the gross tax rate goes down, then you can adjust it ratably from that. But, well, it depends on other characteristics and what other deductions may or may not be allowed, right? So it's a little bit about the definition of taxable income, as well as the tax rate. So if the definition of taxable income is shifting, then I think it gets a little more complex. We're certainly monitoring what comes out, and when we get an actual proposal on the table, then we'll start really analyzing. I think right now, it's really hard to speculate, because the field is just so wide.

Alain Karaoglan: If you look everything else being equal, yes, it's a one-for-one deduction.

Mike Smith: Yeah, if nothing else changes, it's straight math.

Unidentified Audience Member: Mike, you mentioned earlier there was about $600 million of excess capital in the operating insurance company. Is that $600 million incorporated in the 98 percent CTE on the closed block, or is that excluding the 98 that you're currently at?

Mike Smith: Good clarifying question. The excess capital is not part of the—the VA is not included in that excess capital. That's all related to the ongoing business, so the CTE 95 is separate from that.

Mike Kovac: Thanks. We're just out of time here. Join me in thanking Voya for their time today. Thanks, Alain and Mike.

Alain Karaoglan: Thank you.

Mike Smith: Thanks.