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ING U.S., Inc. *(VOYA)*

Q1 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the ING U.S. First Quarter 2013 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation there'll be an opportunity to ask questions. [Operator Instructions] Participants are limited to one question and one follow up. Please note this event is being recorded.

I would now like to turn the conference over to Darin Arita, Senior Vice President, Investor Relations. Please go ahead.

Darin Arita
Senior Vice President, Investor Relations, ING U.S., Inc.

Thank you, Emily, and good morning everyone. Welcome to ING U.S.'s first quarter 2013 conference call. A slide presentation for this call is available on our website at investors.ing.us or via the webcast.

Turning to slide two, on today's call we will be making forward-looking statements. Except with respect to historical information, statements made in this conference call constitute forward-looking statements within the meaning of the federal securities laws including statements relating to trends in the company's operations and financial results and the business and the products of the company and its subsidiaries.

ING U.S.'s actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties including those from time to time in ING U.S.'s filings with the U.S. Securities and Exchange Commission. ING U.S. specifically disclaims any obligation to update or revise any forward-looking statements whether as a result of new information, future developments or otherwise.

Slide two also notes that the call today includes non-GAAP financial measures. An explanation of how we calculate these measures and the reasons we believe they are useful can be found in the quarterly investor supplement available on our website at investors.ing.us. Reconciliations to the most directly comparable GAAP measures are included in the press release and the quarterly investor supplement.

Joining me this morning on the call are, Rod Martin, Chief Executive Officer of ING U.S.; Alain Karaoglan, Chief Operating Officer; and Ewout Steenbergen, Chief Financial Officer. After their prepared remarks, we will take your questions.

With that, let's turn to slide three and I'll turn the call over to Rod.

Rodney O. Martin

Chairman & Chief Executive Officer, ING U.S., Inc.

Thank you, Darin, and good morning, everyone. Today is a landmark day for us as we report results for the first time as a public company. On behalf of the entire ING U.S. management team, we look forward to building a productive relationship with the investment community. Our IPO was an exciting day for our organization and another important milestone in our transformation. As we look forward, our focus is on the execution of our Retirement Readiness strategy, and our return on equity improvement plan.

Turning to slide four, you'll see our first quarter results that we're making steady progress and are on track for our plans. Before we jump into the details of our quarter I want to take a moment to update you on our progress in some of the key areas including our recapitalization plan, which is nearly complete.

While the IPO was a critical part of our recapitalization plan, our plan has many other components. For instance, we further termed out our debt maturity structuring by issuing $1 billion of senior notes in February and $750 million of junior subordinated debt on May 13. We used the proceeds of these offerings to repay amounts under our bank facility and other short-term debt. As a result of our IPO and other recapitalization activities, our debt-to-capital ratio has improved toward our target of 25%.

On May 8, after our closing of the IPO, we received a $1.4 billion in extraordinary distributions from our insurance company subsidiaries, and after receiving these distributions we reset to zero the negative unassigned surplus of our three principle insurance company subsidiaries, following the IPO, setting the stage for these subsidiaries to pay ordinary distributions as they generate earnings in the future. Collectively, these actions have allowed us to make considerable progress with our recapitalization plan.

Unrelated to our recapitalization plan, yet a significant part of our transformation story was the announcement we made about our future name, Voya Financial. Our new brand identity is a result of a very thorough, thoughtful and creative process. We chose Voya Financial because the name reminds us that preparing for retirement is like taking a voyage, the process and preparations are just as important as the destination. In that sense, the name closely aligns with our Retirement Readiness strategy and our ability to help Americans prepare for retirement. We expect to begin to commercially use Voya Financial sometime later in 2014.

As we move to slide five, let me cover some of the key highlights from the first quarter. Overall, we're very pleased with the results and we believe the year is off to a good start. Specifically, our Ongoing Business pre-tax adjusted operating earnings grew to $278 million, which is 15% year-over-year increase. Our Ongoing Business annualized return on equity increased by a 120 basis points to 9.5%, driven largely by a reduction in the required capital needed in our Ongoing Businesses.

We're pleased with this increase, but achieving our full-year target of 110 basis points of improvement requires us to deliver a solid performance in the remaining three quarters. Our Closed Block Variable Annuity hedge program helped us protect regulatory capital from market movements, which is our objective for this runoff business.

As a result of the rise in the equity market during the quarter, the CBVA produced a GAAP pre-tax loss of $477 million. The GAAP loss reflects the accounting asymmetry between the GAAP results and the statutory results and Ewout will cover this topic in more detail shortly.

The total company generated a GAAP net loss of $212 million as the CBVA results offset operating earnings from the Ongoing Business. On a per-share basis, operating earnings after income taxes were $0.73 and the net loss was $0.92. Again, we are pleased with the overall result and particularly with the execution of our strategy.

As we move to slide six, we continue to effectively execute the fundamental elements of our Retirement Readiness strategy with a goal of improving the profitability of the Ongoing Business. In the first quarter we delivered $278 million in pre-tax adjusted operating earnings, more than 76% of the operating earnings came from our Retirement Solutions and Investment Management businesses, which are our least capital intensive businesses. The remaining 24% of the operating earnings came from our Insurance Solutions business.

Retirement and Investment Management also achieved $1.4 billion and $3.2 billion in net flows respectively which fuels our ongoing growth in earnings from investment spread and fees. Our leadership presence in all segments of the defined contribution retirement plan market and our strong investment performance allowed us to win several key mandates and attract more assets under management in our Retirement and Investment Management businesses. Total assets under management and assets under administration grew to $481 billion from $461 billion at the end of 2012.

Individual Life sales continued to decline, reflecting a focus on less capital intensive products. This decline in sales was a result of a deliberate pricing action. Our Employee Benefit business experienced unfavorable mortality in the quarter, which has been consistent with the seasonality in prior first quarters. Overall, we remain confident that our franchise is well positioned in the right markets to generate steady growth.

As we move to slide seven, let me remind everyone that our goal for the Ongoing Business adjusted operating return on equity is 12% to 13% by 2016. We're on track to hit our target of a 110 basis points of improvement for the year. This improvement largely reflects lower allocation of capital to our Ongoing Businesses that's required as of January 1.

We delivered 120 basis points of ROE improvement in the first quarter as we grew to 9.5% on an annualized basis. As I said a moment ago, we're pleased with our progress, but note this reflects just the result of one quarter on an annualized basis.

And now, I'll turn it over to Alain for more details about our progress that we're making on our ROE and ROC improvement program, Alain?

Alain M. Karaoglan

Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

Thank you, Rod, and good morning everyone. One of the central themes of our investment narrative is the execution of our comprehensive plan to increase our return on equity. As a reminder, our return on equity and return on capital improvement initiatives fall into three categories; margin initiatives, growth initiatives and capital initiatives.

There are more than 30 specific initiatives and each initiative has an owner, each initiative has clear target, each initiative is actively monitored and tracked and we are constantly evaluating new opportunities to add to this program. We've planned the work. We are now intensely focused on executing our comprehensive return on equity improvement plan.

And as you know, our goal is to make steady improvement every year as we did in 2012 and in the first quarter of this year. The majority of our initiatives are concentrated in the improvement of our businesses. Therefore, it is important that we look at both the return on equity, and the return on capital. The reason we focus on the return on capital for the businesses is because we do not allocate that to each of the business units. And our target is to reach a return on capital on Ongoing Business of 10% to 11% by 2016 or a 300 to 400 basis points improvement.

Our return on capital improved 80 basis points in the first quarter from 7.2% to 8.2%. And the first quarter return on capital number benefited from a couple of positive developments that were factored into our plan. First, as of January 1, we reduced the capital required in our ongoing businesses by $766 million, as a result of the execution of our recapitalization plan and investment portfolio restructuring.

Second, we improved our operating earnings in the quarter. And among other factors this reflects a benefit from lower expenses due to a true-up in variable compensation accrual and favorable prepayments income in Retirement an in Individual Life. The Retirement and Annuity segments were the largest contributor to our return on capital improvement in the quarter. Overall, we continued to improve the profitability of the in-force business and gradually shift the composition of our business to less capital intensive and fee-based products.

Turning to slide 10, let me highlight some of the key return on capital development in the quarter from each of our business segments. Retirement improved its return on capital by 200 basis points from 7.2% to 9.2%. Our target for our Retirement segment is to increase the return on capital to 10% to 11% to 2016.

The key contributors to the improvement in the first quarter were the continued execution of our return on capital initiatives, which are grouped into these three categories of margin, growth and capital. We reduced our crediting rates in light of the low interest-rate environment and as you can see, we've moved 90% of our book of business to minimum guarantee rates up from 86%.

We also have improved pricing, since January, 2012 20% to 25% of the corporate market cases have been re-priced and 10% of the tax-exempt market cases have been re-priced. We made progress with our recordkeeping business. Since 2012, $1 billion in recordkeeping assets have converted to full service plans as part of the initiative to improve margins in Retirement. We also reduced the required capital in this business by $462 million and we continue to expand our [ph] Retirement (13:01) and build our capabilities.

Moving to slide 11, we improved our Annuity segment return on capital by 100 basis points to 6.9%, and our target is to increase it to 7% to 9% by 2016. There were a few key factors that contributed to this improvement in the first quarter. First, we continue to successfully run off our multi-year guarantee Annuity block of business. We had approximately $242 million of net outflows in the quarter, this is [inaudible] (13:36) billion of net outflows in 2012, which is a very positive development as it both improves – helps us improve on margins and releases capital.

Second, we generated more than $255 million of sales and deposits with our mutual fund and IRA custodial product which has attractive returns with low capital requirements. Third, we reduced the capital in that business by $139 million. These factors will continue to be the principal drivers of our return on equity improvement in the Annuity segments.

Let's move to slide 12. As a reminder, we focus on operating margin rather than return on capital for Investment Management, which is more appropriate because this business is not capital intensive. And you will see that Investment Management's operating margin declined slightly for the quarter from 24.7% in 2012 to 22.8% in the first quarter due to the fact that in 2012 we benefited from strong investment return on our invested capital.

Excluding investment returns on invested capital, our margins improved from 18.4% to 21.1%. We made very solid progress in the first quarter on our return on capital initiatives. We had sales force productivity improvements. The Investment Management sales force generated $4.6 billion in sales and $3.2 billion in net flows. Third party assets under management grew by 6.3% from $101.3 billion to $107.7 billion. We had defined contribution investment only sales of $200 million in the quarter and we had a continuation of takeover mandates of $600 million.

Investment Management also continues to focus on maintaining and leveraging its strong investment performance with more than 75% of our mutual fund assets beating their five-year MorningStar average. Our Investment Management segment is continuing to execute on the same initiatives to increase our operating margin to its target of 30% to 34% by 2016.

Turning to slide 13, our Individual Life segments made progress with its return on capital improving approximately 70 basis points. We continue to reposition Individual Life to focus on more capital efficient product, which will help Individual Life, achieve its target return on capital of 6% to 8% by 2016.

There were a couple of key contributors to the improvement in return on capital during the first quarter. We reduced expenses to right size the business to lower sales targets. We reduced sales in our more capital intensive products. Term Life sales were down 55%, guaranteed Universal Life sales were down 98%. At the same time, we increased sales in less capital intensive products. Our indexed Universal Life sales were up 33%.

Individual Life will continue to focus on several long-term initiatives to support its goal of increasing its return on capital. These initiatives include rightsizing expenses and commission structures, reducing crediting rates due to the low interest rate environment, and normalizing underwriting results.

Moving to slide 14, Employee Benefits return on capital is down for the quarter primarily reflecting high Group loss ratios which the industry typically experiences in the first quarter. Employee Benefits is focused on several initiatives to support this goal of increasing its return on capital to its target of 18% to 22% by 2016.

These initiatives include, improving the loss ratio for stop loss, increasing persistency and sales and Group Life and Group Life sales increased 74% in the first quarter, and growing the voluntary business. Voluntary sales increased 39% in the first quarter.

Let me summarize the key points of our return on equity improvement plan. We are continuing to execute on our plan and we are making steady progress. We improved our return on capital by 80 basis points and our return on equity by 120 basis points this quarter, due to the combination of a reduction in the capital in our Ongoing Business and improved operating performance.

In the short to medium-term, we expect that margin initiatives to continue to have the greatest impact on our return on equity improvement as was illustrated by this quarter's results.

Now, let me turn it over to Ewout who will go through our financial results in more detail.

Ewout L. Steenbergen
Chief Financial Officer, Director & Executive VP, ING U.S., Inc.

Thank you, Alain. Good morning, everyone. I'd like to highlight some of our key business, operating and balance sheet metrics for the first quarter. Turning to slide 16, this slide reconciles operating earnings to net loss. Adjusted Ongoing Business, operating earnings after tax was $181 million, adjustments being DAC, VOBA and other intangibles unlocking of $5 million.

This gets us to our first quarter Ongoing Business operating earnings after tax of $186 million, adding corporate expenses of $33 million and those are mostly interest expenses, and operating earnings of $14 million from the Closed Block Institutional Spread products and other Closed Blocks, we reached an after-tax operating earnings of $167 million.

The Closed Block Variable Annuity result was an after-tax loss of $310 million, reflecting an accounting asymmetry between GAAP and statutory results. This included $69 million related to a decline in non-performance risk in the Closed Block Variable Annuity. Results were in line with expectations, given the 10% equity market appreciation in the first quarter. We also had some realized gains in other items, which brings us to a net loss available to our common shareholder of $212 million.

Turning to slide 17, we analyze our Ongoing Business based on what we call the margin analysis or sources of earnings. This presentation can be helpful in understanding the three main drivers of the earnings of our business – being first, the investment spreads and other investment income, this is the difference between the net investment income and what we credit in terms of interest to policyholder reserves, and then we also add the investment income on capital supporting the business.

Second, fee based margin. These are fees we earn on assets under management and assets under administration, and transaction-based recordkeeping fees. And the third, the net underwriting gain/loss and other revenue and this is the difference between premiums or fees charged for insurance risks, and incurred benefits. Looking at those three drivers, the investment spread was resilient, given credit rate reductions and increased by $21 million compared to the prior year quarter, excluding the impact of the portfolio restructurings in 2012.

The fee based margin increased by $13 million on higher asset, due to market appreciation and positive net flows. And then the net underwriting gain/loss was flat, driven by mortality seasonality in Individual Life and Group Life, in both periods.

Slide 18, the top graph shows our Ongoing Business pre-tax adjusted operating earnings trends. The first quarter 2013 results were strong at $278 million, especially in light of seasonality we generally experienced in the first quarter in Employee Benefits and Retirement, and the normalization of investment capital results in Investment Management. We also had lower investment income due to the impact of capital initiatives as a result of which we have lower capital in our Ongoing Business.

The bottom chart demonstrates our administrative expense trends. There is significant reduction in expenses as a result of focused management actions and a benefit of $13 million, primarily related to a variable compensation accrual true-up. Also, we have made progress towards our expense reduction target of $100 million.

Slide 19, commercial momentum in Retirement continues to be positive with net flows of $1.4 billion, well above the prior year quarter driven by strong sales in full service and stable value. In addition, two large cases made deposits just before the end of the quarter, totaling approximately $660 million. Net flows in this business tend to be lumpy and will vary from quarter-to-quarter. We have initiatives in place to reprice some cases in our

Retirement business. This might dampen future net flows as we look towards the second-half of this year and 2014, but the benefit should be higher returns.

Turning to slide 20, the expected run-off of the multi-year guaranteed annuities and the annual reset block resulted in net outflows of $220 million in our Annuity segment. Most of this business had high crediting rates and either lapsed or renewed at lower rates, therefore improving margins and releasing capital. We are moving towards less capital intensive products, such as our mutual fund custodial product, which had positive net flows of $140 million. With respect to our other Annuity products in light of the current low interest-rate environment, we have remained disciplined in our pricing.

Turning to slide 21, we saw strong commercial momentum in Investment Management with inflows of $3.2 billion. Investment Management sourced and affiliate sourced net flows grew while takeovers were $645 million. These are assets that we took over from another sub-advisor within ING mutual funds, because our Investment Management business was able to offer stronger historical investment performance to customers. Our Investment Management team has been working closely with Retirement and Insurance on winning these takeover assets.Net flows in Investment Management can be lumpy from period-to-period.

The bottom of the chart shows the Closed Block Variable Annuity net outflows of $500 million, out of funds managed by Investment Management. These outflows are a positive for the company as a whole, but present a headwind to Investment Management asset growth as this block continues to runoff. To generate asset growth, we continue to work on building out our defined contribution investment on the efforts and improving sales force productivity.

Slide 22, we are deliberately reducing our sales in Individual Life as we shift to less capital intensive, less interest-rate sensitive products. We stop selling secondary guarantee universal life at the end of 2012, and we are also out of the 25 and the 30 year term business as of the third quarter of 2012. We have re-priced most of our products to reflect the low interest-rate environment and to reflect the capital intensity of this business. Moreover we have right-sized our expenses relative to the new scale of the Individual Life business.

Turning to slide 23, Employee Benefits sales reflect seasonality. The majority of sales are written in the first quarter. Stop loss sales declined from a year ago, due to our continued pricing discipline and pricing softness we observed in the market. Group Life sales improved, reflecting investments we have made in technology in this business. The loss ratio for stop loss of 77.6% was within expectations, given the sales volumes in the quarter. The loss ratio for Group Life is elevated, due to mortality seasonality experienced this quarter.

Turning to slide 24, our hedge program for the Closed Block Variable Annuity performed within expectations. During the quarter, we had a statutory gain of approximately $100 million related to changes in equity markets. This reflected a $1 billion decline in hedged assets, offset by an improvement in statutory reserve liability of $1.1 billion. Living benefit reserves on a statutory basis declined to $5.3 billion from $6.5 billion at year-end, while the living benefit net amount at risk improved to $4.4 billion from $5.3 billion.

The net flows were a negative $944 million which was 8.7% of the beginning of period assets for the quarter. Our prime objective for this block is to protect regulatory and rating agency capital. This will lead to U.S. GAAP earnings volatility that is below the line, not economic and reflects accounting asymmetry.

Turning to slide 25, our combined estimated risk based capital ratio at the end of the first quarter on a pro forma basis was 451% and this was after the $1.4 billion of distributions from our insurance subsidiaries, on May 8, which happened after the closing of the IPO. The RBC ratio on a quarterly basis is an estimated figure. Our focus is on excess capital generation and we are comfortable with our target of 425%.

Slide 26, the slide illustrates our debt maturity profile reflecting both the $1 billion five year senior notes offering which we did in the first quarter, as well as the $750 million junior subordinated offering that was completed last week. The proceeds of this last offering were used to replace existing debt with approximately $400 million replacing the bank term loan and approximately $350 million to pay back a part of the ING [indiscernible] (29:12) loan.

Moving to our debt-to-capital ratio on slide 27, as illustrated on this page, our debt-to-capital ratio has continued to move toward our 25% target. At the end of 2012, we were at 27.3%, and at the end of the first quarter of 2013 we were at 27.2%. Pro forma for the IPO primary proceeds and junior subordinated debt offering, our financial debt-to-capital ratio will be in the range of 25% to 26%. Our debt-to-capital ratio ignores the 100% and the 25% equity treatment afforded by S&P and Moody's respectively on the junior subordinated debt offering.

And with that, let me turn it back over to Rod.

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

Thank you, Ewout. Overall, we're pleased with the progress we're making in our transformation story. We're a premier franchise with leadership positions in the most attractive retirement, investment and insurance markets. Our experienced management team is executing a 400 basis point to 500 basis point ROE improvement program and as you've heard we're making steady progress.

We have a solid foundation based on a recapitalized and de-risked balance sheet. We will continue to focus on the execution of our Retirement Readiness strategy and our ROE improvement program which will allow us to create long-term value for our stakeholders.

And with that, we'll turn it back to the operator and begin the question-and-answer period.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Nigel Dally of Morgan Stanley. Please go ahead..

Nigel Dally
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks a good morning, everyone. First on the CBVA, we can see the overall lapses but hoping you can provide some color as to how the lapses are developing on the living benefit block, in particular the income benefit annuities. Secondly, the RBC ratio seemed a little above your earlier projections, was that just the impact of the market which drove the increase or were there other factors driving the improvement as well?

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

Nigel, good morning, it's Rod. Ewout will take those questions.

Ewout L. Steenbergen
Chief Financial Officer, Director & Executive VP, ING U.S., Inc.

A

Nigel, good morning with respect to the lapse, actual lapse observations of our Closed Block Variable Annuity for the living benefit versus the death benefits, we're currently not disclosing those details and what we have said during the IPO material and road show is that the overall lapse assumption is approximately 5.6% for the IBs and WBs for life on a statutory basis and our actual observations are a little bit higher than that.

We are doing our actual annual assumption update always in the third quarter of every year. So we will update you after the third quarter, if we found it needed to make an update in our assumption or not, but that is too early to give you any indication on that right now.

With respect to the RBC ratio, so the 451% is after the extraordinary distributions of $1.4 billion that were taken out of our operating entities and were moved to the holding company. It was also a little bit of an additional affect on the admitted tax asset that was reduced as a consequence of this. So the 451% is above the 425% level target we have set for ourselves.

It means an excess capital of approximately $380 million above the 425%. From our perspective we are exactly where we plan to be after the first quarter. You know that we have a plan in place to generate excess capital between $1.2 billion and $1.4 billion between now and 2016, mostly in 2015 and 2016. So we're very comfortable where we are today with our RBC ratio and we're exactly in line with the plan we have set for ourselves.

Nigel Dally
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks a lot.

Operator: Our next question is from Steven Schwartz of Raymond James & Associates. Please go ahead.

Steven D. Schwartz
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning, everybody. Could somebody tell me the takeover in Investment Management, how much maybe came from Retirement and how much maybe became from Annuities? It seems like it came from both.

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

Sure, Alain will take that question, Steven.

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

Steven, of the $600 million, approximately $400 million came from Retirement and $200 million from Annuities.

Steven D. Schwartz
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then, while I have you, Alain, the movement from recordkeeping to full service, that $1 billion, explain maybe how that happens? What you offer and then to the extent that maybe you can get your own assets in there for your own offerings.

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

So, as you know – our goal is to improve our return on capital in all our businesses including the Retirement Business. The recordkeeping business margins and return – doesn't take a lot of capital, but the – so the return on capital in that business isn't as profitable as you would like it to be and as the full service business. So our goal is to shift as much of that Retirement Business – recordkeeping business into the full service plans because they're more profitable. It's a small to mid migration from fewer recordkeeping to full service Retirement, which would generate higher fees and higher returns on capital.

Steven D. Schwartz
Analyst, Raymond James & Associates, Inc.

Q

Okay and when you do this, do you immediately get your offerings in there, does it switch to your offerings, or is it still very, very wide open and you're just one of the offerings?

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

You mean in terms of our ING Investment Management – our Investment Management offering?

Steven D. Schwartz
Analyst, Raymond James & Associates, Inc.

Q

Yes.

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

It will be included as part of it, depending on the plans and depending on what we're doing, it could be more or less, but it's an open architecture.

Steven D. Schwartz
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then going back to takeovers is there anything pending that you can share?

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

We've done a tremendous amount of takeovers, $7 billion last year on top, over $3 billion the year before. We've done $600 million; eventually you'll run out. There might be a little bit more to do. It depends and it will continue to depend on two things, our strong investment performance, which we expect and we want it to continue to be good compared to the investment performance of other investment managers that are on platform and may not be performing as well.

Steven D. Schwartz
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you, guys.

Operator: Your next question is from Chris Giovanni of Goldman Sachs. Please go ahead.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Thanks so much, good morning. The first question, the Investment Management, the sourced AUM net flows have been very strong here the past couple quarters in and around $3 billion or so versus sort of a neutral level the quarters before that. Just curious what's driving that sizable pick up there and kind of your thought around that going forward?

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

Chris. Alain will also take that.

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

Chris, thank you. In our return on capital initiative, which are really margin improvement initiatives. If you recall our Investment Management business is a scalable business and our goal is to get more growth into that business and more assets under management and we have three ways to focus on. One is improving our sales productivities. Two is increasing a part of our alternative assets or higher fee assets in that platform which will improve our margin. And third is winning more investment only defined contribution mandates.

And what you're seeing is our investment performance, five years, is coming into place, it's starting to have a meaningful impact with consultants, with outside constituencies that is being noticed, our significant efforts on sales force productivity is being successful and they're improving their productivity and we have been winning investment only defined contribution mandate.

There's a couple of areas in the market at any point in time that may be more in vogue or more attractive. Senior bank loan is one of the areas we happen to have a fantastic senior bank loan team and it providing us opportunities to capitalize on assets generation on that end.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Okay and then my follow up is just on CBVA, the – I guess the focus on NAR here. We see the change in NAR and then the resultant decline in stat reserves in 1Q versus year-end. So – but curious if you can talk about what's the stat capital behind that book and the change there?

And then specifically to the GMIB product, I guess markets are up roughly 10% or so year-over-year and the account value for the GMIB product is down over that period, which I think is a good thing, pointing to lapse acceleration. But the NAR for that GMIB is actually up. So I guess wondering how we should be thinking about who is lapsing and kind of why that NAR for GMIB actually accelerated year-over-year.

Ewout L. Steenbergen
Chief Financial Officer, Director & Executive VP, ING U.S., Inc.

A

Chris, this is Ewout. Let me try to answer this question. First of all, if you look at the living benefit reserves, you saw decline of $6.5 billion to $5.3 billion from year-end to the end of the first quarter, and a decline of the net amount of risk from $5.3 billion to $4.4 billion. So we sometimes look at the ratio of one over the other and we are still covered by more than 120% of our living benefit statutory reserves over the living benefit net amount of risk. So we are very comfortable with the position we have there.

You're right that the underlying movements of net amount of risk are quite complicated because they're influenced by the so-called roll-ups we still have in our income benefits. So, these benefits are rolling up by 5% to 7% every year up to the moment they reach the maximum benefits. So despite that markets go up, you will see a net amount of risk movement that might be a little bit counterintuitive than what you might expect. But that is the main underlying reason.

But clearly, if you look at the overall risk profile of this book, we are clearly helped by the markets that the risk profile is coming down. Some other numbers I would like to point out is that the – in the moneyness of our contracts, so the percentage of contracts that earn you money for the IBs came down from 86% to 81% and for the withdrawal benefits for life from 57% to 48%. So, overall I think we are, as you know, really focused on protecting regulatory rating agency capital around this book as we run this off and with the improvement of the markets clearly the risk profile is diminishing over time.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Okay, thanks. And then just the stat, do you have a number for the stat capital that's behind the CBVA book and how that changed versus year end?

Ewout L. Steenbergen
Chief Financial Officer, Director & Executive VP, ING U.S., Inc.

A

Yeah, this is a complicated question; let me try to explain that. So first of all the – most of the VA business is written out of our Iowa domiciled entity called ING USA, so most of the business is written there. And ING USA has a statutory surplus of approximately $2 billion and that is covering most of our VA but also all our fixed Annuity book. So it's basically co-mingled.

Then the living benefits are reinsured offshore through our reinsurance captive at the Caymans; statutory surplus there is not so meaningful because the local requirements of the Caymans is rather different. So we look there at the total CTE (95) requirement, which is, as you know, both a reserve plus capital and total asset requirement. So, what we are doing offshore is to hold the full AG43 reserves, plus the CTE (95), or the higher of the two requirements.

So, it's very hard to isolate a surplus number, given the different moving parts and the given different elements and it is more co-mingled with the total assets we hold on this book. But overall, I think from our perspective, with our very significant reserves we have put aside on a statutory basis, we feel we are very well covered to deal with this book in the future.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Okay and if I may, sorry, one follow up just with that. Any thought of bringing that onshore, similar to what one of your competitors announced earlier this week?

Ewout L. Steenbergen
Chief Financial Officer, Director & Executive VP, ING U.S., Inc.

A

When we look at our offshore reinsurance captive, first of all, it's important to say that we hold hard assets in our reinsurance captive, so the living benefits are reinsured offshore and the full AG43 reserves are backed by hard assets.

So from a perspective of the necessity to post collateral for our hedge programs, we are covered well because we hold the actual hard assets at our offshore reinsurance captives. So from that perspective, there is not a direct immediate need. Moreover, I would like to emphasize that our captives have all been established in full transparency and discussion with our regulators. So from that perspective, we also feel that our captives are established in a proper way.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Understood, thank you very much, very helpful.

Operator: [Operator Instructions] Showing no further questions, this concludes our question and answer session. I'd like to turn the conference back over to Rod Martin for any closing remarks.

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

Operator, thank you. We're pleased with a solid quarter and our progress in achieving our financial targets. I have one important closing thought. Preparing for retirement is the most daunting financial issue facing Americans today, and our mission is to make a secure financial future possible one person, one family and one institution at a time. It's a mission that aligns perfectly with our Retirement Solutions, Investment Management and Insurance Solutions business.

Our employees are deeply committed to helping Americans address their asset accumulation, asset protection and asset distribution needs. Our passion for the customer will help us achieve our vision to be America's Retirement Company. And with that, thank you and good day.

Operator: The conference has now concluded. Thank you for attending today's presentation, you may now disconnect.