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ING U.S., Inc. (VOYA)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the ING U.S. Second 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 of 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 second quarter 2013 conference call. The 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 the respect to historical information, statements made in this conference call constitute forward-looking statements within the meaning of 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, Chairman and 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 will turn the call over to Rod.

Rodney O. Martin

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

Thank you, Darin and good morning. During the second quarter, we continued to deliver on our retirement readiness focus as well as our return on equity improvement plan. We continue to generate results in line with our strategic objectives and we remain on track with regard to the plans we previously discussed with all of you. I'll begin with some highlights on slide four.

Total company after-tax operating earnings for the second quarter were $177 million, or $0.71 per share. Our Ongoing Business pre-tax adjusted operating earnings grew to $303 million, up 9% year-over-year. This was due to earnings growth in all of our ongoing businesses. Our annualized Ongoing Business adjusted ROE for the first half of 2013 was 9.9%. This is up from 8.3% at the end of 2012. The strong increase during the first six months of the year was due to a variety of factors, including; increased fees on higher asset levels, exits and runoff of capital intensive products, and improved underwriting in Employee Benefits.

Turning to the GAAP bottom line results, here they were driven by our Closed Block Variable Annuity segment. As you know, our hedging program for this business is designed to help protect regulatory and rating agency capital from market movements rather than minimize GAAP earnings volatility. As a result this quarter, our CBVA book reported a GAAP net loss, which drove our total company GAAP net loss of $82 million. Despite this, several key measures for the CBVA book improved during the quarter, including a significant year-over-year decrease in the net amount at risk. So we're pleased with our overall performance during the second quarter and the first half of 2013.

If you turn to slide five, you'll see how ING U.S. is well positioned as a premier franchise with diverse earnings. In the first half of 2013, we achieved $581 million in pre-tax adjusted operating earnings. 75% of these earnings came from Retirement Solutions and Investment Management, which are our higher growth and least capital intensive businesses.

Retirement and Investment Management achieved $442 million and $3.1 billion in net flows respectively in the second quarter. As of June 30, total assets under management and administration grew to $482 billion, up 5% from the end of June 2012 – or the end of 2012. Insurance Solutions contributed 25% of the earnings in the first half of 2013. We continue to reposition our Individual Life business with a focus on less capital intensive products and as you know, we've made a number of changes to our business mix in order to improve our performance.

At the same time, we continue to invest in our Employee Benefit business for further success given this low capital intensity and the opportunity for future growth. With access to 13 million customers and more than 200,000 points of distribution, ING U.S. is well positioned to generate steady growth.

As you move to slide six, you'll see the annualized Ongoing Business adjusted operating ROE growth I referenced earlier. Our annualized ROE for the first half of 2013 was 9.9%, up 160 basis points from year-end 2012. We're committed to an aggressive yet attainable goal of 110 basis points of annual improvement in our ROE over the next several years. We're encouraged by our year-to-date ROE growth. And while there were several items that bolstered the growth in the first half of the year, we remain on track to achieve our ROE target of 12% to 13% by 2016.

Overall, we're making good progress with our transformation efforts in the first six months of 2013 and more recently, we completed our recapitalization plan with our senior note offering last month. We're committed to maintaining this positive momentum into the second half of 2013 and beyond.

I'll now turn it over to Alain for more details about the progress we're making with our ROC improvement work. Alain?

Alain M. Karaoglan

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

Thank you, Rod, and good morning, everyone. We continue to make steady progress in executing our return on equity and return on capital improvement program. And our primary focus is on the execution of our 30-plus return on equity and return on capital improvement initiatives.

Let me remind you of the fundamental elements of this program. The 30 initiatives fall into three categories: Margin initiatives, growth initiatives and capital initiatives. And each initiative has an owner, each initiative has clear targets, and each initiative is actively monitored and actively tracked. And we are constantly evaluating new opportunities to add to the program and execution remains the key focus for us.

On slide eight, you see a consolidated view of our return on capital progress. Our total return on capital improved 110 basis points to 8.3% in the first half of 2013 from 7.2% in 2012. And our target is to reach a return on capital of 10% to 11% by 2016. We are a little ahead of where we expected to be and the macroenvironment of the increasing interest rates will help us going forward. Ewout will address that in more detail.

The first half return on capital improvement was driven by strong executions in two areas. First, we generated higher fee-based margin on assets under management and assets under administration, which have grown to $482 billion from $461 billion since year end 2012. Strong net flows from Retirement and Investment Management were healthy contributors to that growth.

Second, we made progress in shifting the composition of our product portfolio to be less capital-intensive and more fee-based. We are running off and closing less profitable products and introducing new products in line with this operating philosophy.

In addition, our first half return on capital improvement benefited from record keeping change orders, favorable prepayment income and from a first quarter favorable impact due to a true-up in variable compensation accrual which we highlighted last quarter.

Turning to slide nine, Retirement improved its return on capital by 190 basis points to an annualized 9.1% in the first half of this year from 7.2% in 2012. We are improving our return on capital by maintaining pricing discipline on retained and new contracts as it relates to targeted internal rates of returns.

Let me provide you with an example. In the second quarter, we renewed a tax exempt plan sponsor with significant assets that had historically been priced below our targeted internal rates of return. The plan sponsor was a very valuable customer, but not as profitable as we would like and need the business to be. And so, during repricing, we improved the internal rate of return by 500 basis points by reducing the guaranteed minimum interest rates. So through a disciplined approach to pricing, we effectively managed guaranteed minimum interest rate and variable fund revenue in relation to our targeted returns as was the case with this customer.

Lowering the guaranteed minimum interest rates allows us to exercise management discretion around crediting rates in response to changes in the external rate environment over the course of the contract. Maintaining flexibility with these levers is key as we contemplate long-term repricing initiatives.

Furthermore, we combined our repricing actions with a very clear focus on preserving value with customers. This customer has access to a local sales office that helps plan participants with education, enrollment assistance and financial planning services.

Moving to slide 10, Annuities improved its return on capital by 110 basis points to an annualized 7% in the first half of 2013, up from 5.9% in 2012. The two key return on capital improvement initiatives for Annuities include running off a multi-year guarantee annuity and annual reset blocks, and growing our mutual fund IRA custodial products called Select Advantage.

Let me highlight some key points about how Select Advantage is helping our return on capital improvement. First of all, it's an important product because it has attractive returns with low capital requirements. We generated more than $300 million of net flows through the first half of 2013 and the second quarter was the highest flow quarter since 2011.

Strong sales and flows of Select Advantage are being driven by the expansion of our distribution model with an increase in wholesaling focus. Our success with Select Advantage amplify our commitment to the core principles of our return on capital improvement program which are capital efficiency, is focused on fee-based products, efficient distribution, and delivering a product that clearly meets a growing customer need.

As we move to slide 11, let me remind you that we focus on operating margins rather than return on capital for our Investment Management business because it is not a capital-intensive business. Investment Management's operating margin increased to an annualized 25.4% in the first half of the year compared to 24.6% in 2012.

Our 2012 results were helped by strong returns on invested capital and our target is to reach 30% to 34% margin by 2016. Excluding those investment return, which is a better indication of the business improvement our margin improved to 22.9% from 18.4% in 2012.

One of our key initiatives for improving Investment Management's operating margin is to continue to leverage our strong investment performance and improve our sales force productivity in higher fee asset categories. Let me give you some color on how this is taking shape. 74% of our fixed income assets achieved above benchmark performance on a five-year basis. This is up from 54% as of year-end 2012. And 89% of our equity assets achieved above median returns on a five-year basis in the first half of 2013. This performance helps our sales force attract more assets.

Winning defined contribution investment only mandate is also a key part of our improving operating margin. And in the second quarter, several new DCIO mandates were funded, including in the higher fee asset categories of senior loans and small cap equities. And each win was driven by strong investment performance combined with strong distribution. So when one steps back and looks at all of our initiatives and efforts over the past 12 months, Investment Management has increased its third-party assets under management by $19 billion to over $110 billion, that's more than 20% increase.

Turning to slide 12, Individual Life improved its return on capital approximately 20 basis points to an annualized 4.5% in the first half of 2013. Progress with our return on capital improvement is not where we would like to see it as we continue to reshape this business, although we are taking step to address our plan and expect it to improve over time. First, we are adjusting crediting rates where possible in the second quarter. Due to the low interest rate environment, we have moved 76% of our book to guaranteed minimum, up from 72% at year-end 2012 which helps improve the return on capital.

Second we are repositioning the business to focus on capital-efficient products, specifically Indexed Universal Life. We launched a new Indexed Universal Life product in July called Protector, which will help build sales momentum in the second half of 2013 and help in our return on capital improvement. Protector is ideal for clients seeking a low-funded way to paying life insurance protection with the potential for cash value accumulation via an index product. Protector's low fixed expense structure makes the product attractive to the underinsured middle market.

Turning to slide 13, Employee Benefits return on capital is a solid annualized 16.8% in the first half of 2013 compared to 16.9% for 2012, and our target is to reach 18% to 22% by 2016. One of our core return on capital initiatives for Employee Benefits is to expand our voluntary business with an emphasis on our product suite called Compass.

The Compass Suite includes three products: Critical illness, accident, and in July we launched a Hospital Confinement Indemnity product. Voluntary sales increased 14% in the first half of 2013 and we have positive momentum heading into the second half of the year. Our Compass products fit perfectly into our capital-efficient operating philosophy. They are capital efficient, they produce higher returns, they meet an expanding need in the marketplace as employers manage rising healthcare cost, and they have a simple administrative platform which is attractive to employers and provides us with cross-selling opportunities. For example, two of our second quarter Compass case wins were in an existing Group Life and an existing Stop Loss customer.

Overall, we are pleased to be ahead of our target for an annualized Ongoing Business with adjusted return on equity. We are committed to delivering on our long-term return on equity goal of 12% to 13% by 2016. We are focused on our improvement initiatives which can be achieved by continuing to establish, expand and leverage our execution's culture.

Now let me turn it over to Ewout who will go into our financial results into more detail. Ewout?

Ewout L. Steenbergen

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

Thank you, Alain. Good morning, everyone. I would like to highlight some of our key business operating and balance sheet metrics for the second quarter.

Turning to slide 15, this slide reconciles Adjusted Ongoing Business, operating earnings to net income. The Ongoing Business adjusted operating earnings after tax was $197 million. After DAC/VOBA unlocking, the

Ongoing Business operating earnings after tax was $199 million, adding corporate expenses of $34 million, and those are mostly interest expenses and operating earnings of $12 million from the Closed Block Institutional Spread Products and other Closed Blocks will reach an after-tax operating earnings of $177 million.

The Closed Block Variable Annuity result, excluding non-performance risk, was an after-tax loss of $141 million, reflecting an accounting asymmetry between GAAP and statutory results. On top of that, we saw non-performance risk impact of $79 million driven by a slight tightening of our own credit spreads in relation to an overall rate increase environment. We also had some other after-tax items which mostly consist of one-time expenses related to the IPO and tax differences which brings, which brings us to a net loss to our common shareholders of $82 million.

Slide 16. We are managing our business as you know on the basis of three main drivers of operating earnings. We saw the investment spreads and the other investment income coming down slightly during the second quarter, driven by the low rate environment and offset by some crediting rate actions we have taken.

We saw a nice increase in the fee-based margin, mostly in Retirement and Investment Management, driven by positive net flows and also helped by the equity market appreciation. The net underwriting gain and other revenue in the quarter saw a positive increase and debt was primarily helped by the improvement of the loss ratios in Employee Benefits.

Slide 17. A material development in the quarter was the rising interest rate environment, which overall is economically positive for the company. A key benefit of rising rates is that we will be able to achieve higher new money rates on our investment portfolios, which will lead to an improvement of approximately $60 million annual operating earnings after tax by 2016. This translates into an ROC [ph] walk (20:25) erosion now being approximately half of our initial estimates of a negative 110 basis points to 130 basis points. In the short term, the rising rate environment will lead to a reduction of OCI and we saw a reduction of $1.4 billion during the second quarter, but over time, it will be a positive for the balance sheet.

Rising rates also leads to an improvement in the risks profile of our Closed Block Variable Annuity. The living benefit net amount at risk improved by approximately $1 billion in the quarter as a result of rising rates, partially offset by other factors netting to a $600 million improvement.

Other consideration with respect to the rising rates environment includes lower bond fund assets and fees, which will lead to less than $10 million after tax reduction to annual operating earnings and it's mostly on our Retirement business. And there is a potential increase in liquidity needs in a sharp rising rate environment for which we have significant protection. For instance, we have $2 billion of liquid assets to cover our Closed Block Variable Annuity hedging requirements, $3.6 billion in interest rates caps in Retirement and a robust liquidity monitoring program in place.

Slide 18, strong Ongoing Business operating earnings was achieved while keeping the administrative expenses flat. As you can see, there was no increase in administrative expenses from a year ago. In fact, cost reductions that are being executed are offset here by higher variable expenses related to higher sales and other higher volume effects from some of our businesses. Also the 9% year-over-year improvement in operating earnings was achieved in light of approximately $800 million, lower capital in the Ongoing Business.

Slide 19, Retirement has seen positive net flows in the quarter of $442 million, based on sales at a price at or above our 12% target return level. The $442 million is a good result. We believe this is a reasonable quarterly run rate for the second half of the year.

Turning to slide 20. In the Annuity segment, we have seen an improvement of our sales and net flows from our mutual fund custodial product where we earned attractive margins. At the same time, we have seen a continuation of the outflow of the low or negative margin products being the annual reset and the multiyear guaranteed annuities.

Turning to slide 21. We saw very strong commercial performance of Investment Management, where the net flows reached a level of $3.1 billion, especially helped by the strong institutional and retail assets, sourced by Investment Management. This was driven by some bank loan products, public equity and a private equity fund launch. In addition, we had non-ING U.S. sub-advisor replacements of $537 million during the quarter. At the bottom, you see that the total outflows for the Closed Block Variable Annuity for funds that are managed by Investment Management were $618 million.

Slide 22. This slide shows that we are continuing to execute on our strategy to shift our Individual Life business to less capital intensive products. We have right sized to our expenses relative to the new scale of the Individual Life business.

Turning to slide 23. In Employee Benefits, we saw a strong improvement in our loss ratio during the quarter with a loss ratio for Group Life at 75.4% and the loss ratio for Stop Loss of 72.1%. Sales are always lumpy with a majority of sales being written during the second quarter. We also saw a continuation of the softness in some of the Employee Benefits markets in the quarter especially in the Stop Loss and Group Life sales areas while we continue with our pricing discipline.

Turning to slide 24. In the Closed Block Variable Annuity, we see that our hedged program has offset a change in statutory reserve liability as a consequence of the equity market movements during the quarter. Our hedged programs for the Closed Block Variable Annuity continue to perform well and protecting regulatory capital from market movement. We've seen the net amount at risk for the living benefits being reduced by $600 million during the quarter to $3.8 billion and that is now covered by $4.7 billion in statutory reserves for the living benefits.

We've also seen for the past five quarters an increase in the net outflows as a percentage of assets. The net outflows were just over $1 billion for the quarter, which leads to a 9.1% annualized net outflows as a percentage of the beginning of period assets. At the bottom of the page, you see the new sensitivity tables for the end of the second quarter for both regulatory capital as well as GAAP earnings for equity markets and interest rate movements.

Turning to slide 25. Our combined estimated risk based capital ratio at the end of the second quarter was 454%. The RBC ratio was more or less flat compared to the first quarter, which was as expected. Statutory income from our businesses was offset by the loss of an admitted tax assets, which was linked to the $1.4 billion extraordinary distribution that took place in conjunction with the IPO.

Slide 26. We have previously indicated that we would term out our debt maturity profile. We have completed our recapitalization program as of two weeks ago with the issuance of $400 million of 30 year senior notes. During the third quarter, we will repay $139 million and that is a tranche of the old Aetna debt that is maturing and we will repay that with the cash on hand from the holding company. After this repayment, we have no debt maturing until 2018. We are pleased that we have been able to recapitalize the company in very attractive period of rates from a historical perspective.

Moving to slide 27, the debt to capital ratio at the end of the second quarter was 25.4%, which is pro forma for a repayment of an ING Verzekeringen loan of $150 million in July. 20% of our leverage ratio is senior debt and 5.4% is junior subordinated debt. This is also in line with our target to bring the leverage ratio to the 25% area.

And with that, I will turn it back to the operator to start the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. We would now begin the question-and-answer session. [Operator Instructions] Our first question comes from Nigel Dally of Morgan Stanley. Please go ahead.

Nigel Dally
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. First question, the $60 million positive impact from high interest rates by 2016, how should we expect that positive influence to build up to that level? Should it be in a pretty linear fashion? And how much will it be coming into results in 2014? Then second, also on interest rate, you said with the CBVA, the NAR benefited by roughly $1 billion from higher rates but was offset by $400 million of some other factors. If you can just discuss what those other factors were. Thanks.

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

A

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

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

A

So, Nigel, good morning. With respect to your first question, let's put it in the following perspective. If you look at our portfolio yields, the portfolio yields during the second quarter was 5.09%. If you look at new money rates where they are today for our investments, it's about 4.25%. So we're approximately still 85 basis points off from our portfolio yields.

So we have closed more or less half of the gap we saw before because our previous projection for base on the forward curve in the mid of 2012. The $60 million after-tax improvement we expect to come in gradually over time up to 2016, so this will really happen as long as the new money rates stay where they are and the new money investment we are doing over time will pick up the higher rates than we saw before. So you should see a gradual improvement probably more linear backwards to 2016.

Your second question with respect to the attribution of the net amount at risk, so the $1 billion improvement is especially the improvement that comes from the discount rates. So we are discounting based on swap rates and with the improvement of the rate environment that has led to the benefit of $1 billion that was offset by approximately $250 million of fund value reductions. A part of the VA funds are invested in bond funds, so there is some reduction. And then we have decrements and rollups and other elements that make the overall, the difference to the $600 million. So, overall, I have to say we are very pleased because clearly in the low-rate environment, we see a strong improvement of the risk profile of our Closed Block Variable Annuity.

Nigel Dally
Analyst, Morgan Stanley & Co. LLC

Q

That's great. It's very helpful. Thanks.

Operator: Our next question is from Mark Finkelstein of Evercore. Please go ahead.

Alan Mark Finkelstein
Analyst, Evercore Partners (Securities)

Q

Good morning. Question on the surrender activity in Annuities. I guess the first question is, can you just kind of talk about maybe how July is looking? And I guess, secondly, are you doing anything different in maybe trying to accelerate some of the surrender activity?

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

A

Ewout?

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

A

Mark, good morning. So if you look at our surrender rates, you have to see that in the perspective also of the – in-the-moneyness level of the book. So we have always said that we have dynamic lapse assumptions where our lapses are lower when the book is more in-the-money and where lapses are expected to be higher when the book is less in-the-money. So in fact that is the pattern of what we are seeing today. So we see the increase now for five quarters in a row of the surrender rate and that is really driven by the improvement of the – in-the-moneyness of the book. We're not able to give you any information on the July results. At the end of the third quarter, we'll update you on the results in the quarter itself as well as, as you know, we always do our annual assumption review and update during the third quarter, so that is also the moment we will update you in that respect if there is any update of assumptions that we have to do during the third quarter.

Alan Mark Finkelstein
Analyst, Evercore Partners (Securities)

Q

Okay. I guess are there any broader strategic things that you're contemplating as markets have gotten better in terms of trying to accelerate that process?

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

A

Mark, it's Rod. During the roadshow, as you may recall, we certainly discussed our plan. We provided some forward thinking around to not anticipate a release of capital from this book of business sooner than five years. That said, we certainly discussed that we are both open and in listening actively and engaging actively on other ways in part or in hold that we could find pieces of what you see with the variety of other players happening in the market to accelerate a capital release. We are continuing to look at that on a very proactive basis. And as we discussed during that period, when we have an answer and it's different than what we shared on the roadshow, we will certainly share with you and all of you on the call. So we continue to look at all of those things and we will keep you posted.

Alan Mark Finkelstein
Analyst, Evercore Partners (Securities)

Q

Okay. All right. Thank you.

Operator: Our next question is from Jimmy Bhullar of JPMorgan. Please go ahead.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. So I just had, first, a follow-up on Mark's question and maybe a little bit more directly on, like a lot of your competitors have had success with buyout options on VAs. Have you considered those and what are the potentials – what are the pluses and negatives on you doing something similar to what some of the other companies have done? And then also I had a question on just your Investment Management business. You had a very strong third-party net flows and wondering, you mentioned the strong performance, but wondering if you could just discuss on what are some of the factors that are driving that and what your expectations are, not specific numbers, but in general going forward for that?

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

A

So, Jimmy, it's Rod. Let me take the first part of it and then Alain will jump into the second.

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

A

Sure.

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

A

On the first part and I'll come back to really the point I was making earlier. We aren't going to be speculating about every single idea that's being pursued. There are many that are happening in the marketplace. You just cited two very good examples. We have a large book of business. It's $40 billion plus. We are looking for both holistic solutions that might help advance capital release and we're looking at really all options that are being considered, but what we're not going to do is speculate from call to call when we aren't complete with both analysis and thinking. We will keep you updated. You broadly – I'm talking about everyone on the call and when we have something more to report, again, we will share it. Alain?

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

A

Okay. Good morning, Jimmy. Yes, Investment Management business had very strong net cash flows. If you recall during the roadshow, one of the way we described our Investment Management, it was one of our best kept secrets in terms of their strong investment performance. And it's coming into its stride with both the investment performance we're publicizing it or more active about it. And the change in the environment with people looking at more equities, more alternatives than they were looking before.

So, we had a very strong quarter in terms of net flows, the areas were throughout our franchise. So, senior bank loan had a very strong product sales in the second quarter. Our return to equity investing and we have very strong equity performance, as I mentioned, has also led to strong sales and interest and growth strategies. We also had closing of private equity fund launch. These things tend to be lumpy. It came in the – they will happen over time. It happened to come in the third quarter. So, we're very pleased with the net cash flows. It's both the performance, the improving sales productivity. It's the initiatives that we put in place that are coming to fruition.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

And then just...

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

A

Sorry, go ahead.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

And just lastly, you announced a $0.01 dividend which is obviously a plus, but a very small amount in terms of percentage of your earnings. So, the payout ratio is pretty low. How should we consider about the pay out ratio going forward?

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

A

Ewout?

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

A

Jimmy, good morning. The $0.01 dividend per share per quarter was an indication we have given in the S-1. That has been approved now by our board. So, basically what we are doing is to put in place what we have signaled to investors in our IPO as one document.

If you look to our RBC ratio, it was 454%. It's above our target of 425%. It's approximately $400 million over. But we're really looking our ex capital generation over a longer term period. We have to plan in place, as you know, to generate excess capital between $1.2 billion and $1.4 billion up to 2016 mostly in 2015 and 2016. And we will reevaluate where we are with our excess capital at the end of this year and have a discussion with our board at that time about payout ratio. So it is just too early to commit to any payout ratios at this point in time, but we are very pleased that we're on the path to generate the excess capital as we have indicated to the market.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Okay, thank you.

Operator: Our 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. Just one quick follow-up just on CBVA. When we think about New York regulators looking at some of the private equity back players, just wondering if that's caused a change in maybe the pace of conversations you've had with those types of suitors?

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

A

Sure Chris, it's Rod, good morning. I think it's well noticed in the market that the New York regulators and I would submit all of the regulators are paying appropriate attention to those options and alternatives that are being kind of discussed in the market. I would not say it's necessarily slowed it down, I think it's caused people to be both realistic, cautious and prudent and thorough in the conversations. And so, it's hard to gauge and we're not, as you've heard me on two previous answers, we're not going to be in the speculation business about timing of conversations.

I think the choices and options that will present itself will emerge over time. I think the regulators are being appropriately thoughtful as they go through these discussions, the companies will be. And I think the other side of the equation is also. So, I just think it's a moment to both think carefully and thoughtfully as we go through and make sure that the options that are being both offered, considered and evaluated and ultimately implemented, are the right options for all the stakeholders. So, more to come.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Okay. And then Senator Hatch from Utah, I guess he's been vocal for a period of time, but more recently around trying to find solutions for the troubles facing the public pension market and points to the life insurers possibly playing a bigger role in that. So I wanted to get kind of your thoughts around maybe some of his proposals and if you see this as a good opportunity for you guys specifically?

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

A

I just attended this interesting question at the most recent ACLI meeting in June and there was a series of discussions very much focused around the – broadly the emerging problem that Americans are facing and what are potentially solutions. What felt good about that conversation more broadly I think it very much it reinforces our thesis that the most daunting issue facing Americans today is preparing for retirement. And I think we're uniquely well-positioned.

I think as this emerges in – through this fall and certainly into the next years, whether it's Senator Hatch's thesis, Senator Baucus' thesis or others and there are many on the – that are being proposed right now, usually from that I think good choices and options begin to emerge. And shining a light on this issue I think is a good thing for Americans. It's a good thing for companies like ours with a focus on Retirement Readiness and the tools that we have to help our customers. So I think more to come on that. There'll be a lot more written and a lot more discussed. We are actively part of the discussion and the engagement.

Christopher A. Giovanni
Analyst, Goldman Sachs & Co.

Q

Okay. I'll get back in the queue. Thank you.

Operator: Our next question is from Tom Gallagher of Credit Suisse. Please go ahead.

Tom G. Gallagher
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Good morning. Few questions on the Closed Block Variable Annuities. The – so with lapse rates now running – or at least outflow as a percent of AUM at around 9%, is that the right apples-to-apples comparison with where your lapse rate assumptions in your reserves were set which were, I believe, around 5.5%, meaning it now has a pretty favorable deviation when we think about your next balance sheet review or is it more nuanced than that?

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

A

Ewout?

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

A

Tom, good morning. The actual lapse experience versus what we have assumed in our assumptions that is one I cannot compare to you today, and certainly it's very hard to compare that at a high aggregation level. If you look at lapse assumptions, it's really set with a lot of details and a lot of dimensions and a lot of factors. You have to think about the some short, you have to think about how long the policy is in place, is it before or after surrender charge period, the in-the-moneyness level of the policy, and many other factors.

We have all of those factors in our assumptions. So our assumptions are very, very multi-dimensional. It's very hard to compare it with an aggregate number of a surrender rate in the quarter. We will review that in a lot of detail during the third quarter in our normal annual review process of our assumptions and then we will update you at the end of the third quarter where we land and if there is a need to make any changes or not and what is the impact if there is a need. So it's just too early to give you any indication on that right now, Tom.

Tom G. Gallagher
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Got it. But, Ewout, at a high level, your comment that lapses have seen a pick-up, I think in each of the last five sequential quarters is a favorable development as it relates to when you think about your inputs in terms of the review, I presume that would be a positive development if we – at high level, is that fair to say?

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

A

Yeah. Let's say it in the following way, Tom. I think if you look to the risk profile of the book we see very favorable developments. We see the net amount at risk coming down. We see an improvement of the fund values. We see the improvement of the lapse rates and leverage going up. We see hedge notionals coming down, so there's many indications we have that our book is developing in the right way. I think you know that we are really comfortable in managing business part of ING U.S. we're protecting regulatory rating agency capital. We're trying to make sure that we over time can generate excess capital and release some of the capital and redistribute that. We have $5.4 billion of statutory reserve resources both for the living benefits and the death benefits as well as cash flow testing. So we feel that [ph] where we are (44:36) that all the movements are in a positive direction, but specific for the lapse assumption I cannot give you more detail today. We really have to wait until we have finished the assumption study in the third quarter.

Tom G. Gallagher
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Got it. Okay. And then one other thing though, just a little bit confused by the $200 million change in the Variable Annuity reserves in the quarter which was released was offset by a $200 million loss on the hedge assets. So those two essentially offset each other, yet the change in the VA reserves that it has on slide 24, I believe it is, is $600 million. So I was just trying to track what was the change in reserves to what was the change in hedge asset performance and that threw me off a little bit. Was it $200 million or was it $600 million? Can you help me reconcile that?

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

A

Tom, if you look at the graph, what we are trying to do here to look at the statutory results for the Closed Block Variable Annuity and to make an attribution of the impacts of equity markets on the one hand on our reserves, and on the other hand, with respect to our hedges. And you see that both are opposite direction $200 million, so more or less offsetting.

If you look at the total statutory results for the variable annuity block in the quarter, there was a positive $82 million and this is – out of the $82 million, this is the attribution that can be described to the movement in the equity markets. If you look at reserves, debt reserves is an all-in movement that also reflects changes in rates and other elements. So that is how you should compare one to the other. But the $200 million movement is very specific before the equity market movement impact only.

Tom G. Gallagher — Q
Analyst, Credit Suisse Securities (USA) LLC (Broker)

And are you – what about the interest rate component which it sounds like that's an even bigger delta. Was that something that was additive to statutory capital for the quarter, if I consider how hedge assets performed relative to the movement of the liability?

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

Yeah. So, if you look at the impact of rates on a statutory basis that was overall a net positive for the results on a statutory basis for the Closed Block Variable Annuity.

Tom G. Gallagher — Q
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Okay. And then – and sorry, if I could just squeeze in one last one for Alain. So just following your commentary about the very strong flows within asset management, are you able to, I guess, separate it between what you would deemed to be more a one-time fund launches, because I know you mentioned a private equity fund launch. You also mentioned the commercial bank loans. Can we separate out kind of recurring flows on funds that you already had versus maybe new fund launches, whether that closed-end funds or the like that might be more one-time in nature, is there a way to separate that out?

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

Yeah. Thanks, Tom. And we can work more detail offline with Darin on the detail, but conceptually, I would change a little bit your terminology in terms of one-time. These can be lumpy and the lumpiness comes in quarters. But of course, because we have strong capabilities, we expect over time to do more of these. But in the second quarter, you can count about $1 billion of what I would call the lumpy net flows that came in and the two sort of broad categories are the CLOs and the private equity fund. I hope that gives you enough detail and information and we can follow up offline if you want the exact numbers.

Tom G. Gallagher — Q
Analyst, Credit Suisse Securities (USA) LLC (Broker)

That's great. Thanks.

Operator: Our next question comes from Eric Berg of RBC Capital Markets. Please go ahead.

Eric N. Berg — Q
Analyst, RBC Capital Markets LLC

Thanks very much and good morning to everyone. Most of your competitors when thinking about the change in reserves versus the change in the value of the hedge assets do not disaggregate the effect of, say, the equity market from the effect of interest rates, from the effect of changes in implied volatility. Why do you give us this separate break? And I realize it's just that, it's additional information. But in the end, isn't the whole picture, what matters rather than the effect of the equity markets alone?

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

Eric, good morning. It's Rod. Ewout will take that.

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

Eric, that's a fair comment. Ultimately, our objective is to protect regulatory rating agency capital for whatever reason that can move that capital and we have to make sure that our current comfort levels, which are very comfortable as we have explained that we keep that in place for the future.

Why are we really showing the equity market movement only? This is just to illustrate that our hedge program has been effective during the quarter and to compare it with previous quarters, where we have shown you similar indications. So, this is really to be consistent and to show you, for a longer term pattern, about the hedge program performance and effectiveness because it's very important that we're able to make the case and you and investors get confidence that our hedge programs behave as we expect. So, this is just an attribution to illustrate that point.

But you're right, overall, it's important that the impact of all our hedge programs are really protecting us against many, many different market movements. That's why I gave that number of $82 million overall stat income for the Closed Block VA, that's an all-in number to give you another indication that also the other hedge programs have worked well, especially the [indiscernible] (50:22) hedge program.

Eric N. Berg Q
Analyst, RBC Capital Markets LLC

Good. Moving on, in the same slide, slide 24, you compare the net amount at risk on the right of the slide to the statutory reserves. But am I right when I say that in terms of the resources that are available to the company to [ph] decease (50:42) that net amount at risk, should it need to do so today, is it not only the statutory reserves but also the value of your hedge assets? In other words, have we omitted an important element from the picture here?

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

Let's say it in the following way, Eric. Our hedges are not based on option instruments. Our hedges are based on either swaps with respect to the interest rate protection as well as future – short future positions with respect to the equity protection.

Eric N. Berg Q
Analyst, RBC Capital Markets LLC

Okay.

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

So these are notes derivatives that can contain a value itself, but we have the immediate impact of the value movement of the swaps and the futures going through the P&L and therefore you see a gain/loss that is being offset every quarter. So if we look at the $4.7 billion, we are looking really at the statutory reserves, the AG43 reserve we have available for the living benefits. That's the $4.7 billion. You can add – they're also the reserves, the statutory reserves for the death benefits. You can add the cash flow testing reserves. So everything we have in terms of hard assets and resources that is backing this book and that is another – that leads to a total of $5.4 billion, so there's another $700 million we have available. But it's not another element of certain derivatives that have a value that is not being captured in these numbers given the particular type of hedging instruments we use.

Eric N. Berg
Analyst, RBC Capital Markets LLC

Q

Okay. Final question, I'm intrigued, I want to understand better than I do this custodial product really briefly for the purposes of allowing us to press ahead here. Can you help me explain – can you help me understand very succinctly on why you're able to earn target rates of return on that product but not on a conventional fixed annuity product? What is different about it?

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

A

Eric, it's Alain. Thank you. I'll try to do my best as succinctly. But the mutual fund custodial product attracts investors who are looking for the flexibility of investing in multiple fund families without the hassle of transaction cost. And so it's a product where we offer a 100-plus mutual funds in one platform, including ING Investment Management as well as third-party funds. So, there's no fee switching between the third-party mutual funds. And unlike a fixed annuity product, there is no guarantees on any of the funds, so there is not much in terms of capital commitment that is required. And the – what it does is it allows investors to switch from one family of fund to another within the platform without incurring a significant cost in doing so. And so the product is really targeted to small-size IRA rollovers and we've expanded our target market to include startup IRAs by lowering the startup contribution in it.

Eric N. Berg
Analyst, RBC Capital Markets LLC

Q

Thank you.

Operator: In the interest of time, our last question comes from Erik Bass of Citigroup. Please go ahead.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Hi. Thank you. Just a couple of questions on Retirement. I was hoping you could comment a little bit more about the flow trends in particular, are you starting to see a pick-up in terms of recurring deposits or employer matches?

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

A

I'm sorry, could you repeat the question?

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Sure. Just on the Retirement business and the flows, I guess, are you starting to see any pick-up in terms of recurring deposits or employer matches in that business?

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

A

It's Rod speaking, sorry. We're viewing – what we're seeing right now is more of a steady trend. So it certainly isn't – we're not seeing a pick-up, but we're certainly not seeing any degradation of that either. So, it's more of a steady course. And we view that as a healthy part of the business and reflected in the growth that you're seeing in and with our Retirement business.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. And then could you comment at all on how retention rates have been on retirement cases that you're repricing?

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

A

Yes. As we've discussed previously, the book is roughly a five or six -year duration. Client retention has remained stable. We are achieving most importantly our ROCs equal to or higher than what we've signaled to you, which is 12% or better. And that's both in our full service as well as in our tax -exempt business. So that's continued to move forward very nicely.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. And then just finally just one number if you can provide on the CBVA. Can you update us on what percentage of your guarantees are currently in-the-money and the approximate level of in-the-moneyness?

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

A

Good morning, Erik. I will give you the one number. The in-the-moneyness expressed as the policies that are considered in-the-money in terms of the net amount at risk calculation came down from 65% last quarter to 61% this quarter.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. So that's just the – as a percentage of the number of guarantees that are in-the-money, is that correct?

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

A

It is the number of policies where there is still a level of in-the-moneyness on our policies.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. And your lapse assumption – the dynamic lapse assumption assumes that that picks up once those contracts kick in to being out of the money? Is that correct?

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

A

So just to be specific, that one number, the 61% is then for the living benefits, so in-the-moneyness of the living benefits. If you also question about what does that mean for lapses? So again, that doesn't look only at, is a policy in-the-money or not. This percentage shows, is it in-the-money, yes or no, but also the level of in-the-moneyness. So when policies are more deeper in-the-money, you have much lower lapses and the other way around, so that is really the dynamic assumption. So, that is not a binary assumption, that is really dynamic taking into account the actual level of the in-the-moneyness. But this number is only the number of which percentage of our policies are from a net amount at risk calculation are showing in-the-moneyness for living benefits and that came down from 65% of all our policy count to 61% at the end of the second quarter. I hope that helps.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Yes, definitely. Are you – in the Q, do you provide or plan to provide the level of in-the-moneyness in terms of, I guess, the second part of your point?

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

A

Yeah. There is some information in the Q, so the 10-Q will be filed at the end of this week and you will see specific information about the in-the-moneyness level in the Q. So it goes maybe a little bit too far to provide you the numbers now, but you can find that later this week.

Erik J. Bass
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Thank you very much.

Operator: And this concludes our question-and-answer session. I'd like to turn the call back over to Rod Martin for any closing remarks.

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

Emily, thank you. And thank you, everyone, for joining us today. You can see from the results we've reported, we're making strong progress with our transformation story. We're focused on achieving our vision to be America's retirement company. ING U.S. is a premier franchise with leading positions and attractive markets and this management team is committed to executing a 400 to 500 basis point improvement in our ROE by 2016. We'll continue to build on our solid foundation which is based on our recapitalized and de-risked balance sheet. In short, we're well positioned to create long-term value for our stakeholders.

Thank you for joining us today. Good day.

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