THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VOYA - Q4 2014 Voya Financial Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2015 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Darin Arita *Voya Financial Inc - SVP of IR*

Rod Martin *Voya Financial Inc - Chairman & CEO*

Alain Karaoglan *Voya Financial Inc - COO*

Ewout Steenbergen *Voya Financial Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Ryan Krueger *Keefe, Bruyette & Woods - Analyst*

Tom Gallagher *Credit Suisse - Analyst*

Erik Bass *Citigroup - Analyst*

Eric Berg *RBC Capital Markets - Analyst*

Suneet Kamath *UBS - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Voya Financial fourth-quarter 2014 earnings conference call. All participants will be in a listen-only mode.

(Operator Instructions)

After today's presentation, there will 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 - *Voya Financial Inc - SVP of IR*

Thank you, Emily, and good morning, everyone. Welcome to Voya Financial's fourth-quarter 2014 conference call. A slide presentation for this call is available on our website at investors.voya.com or via the webcast.

Turning to slide 2, 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 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.

Voya Financial'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 Voya Financial's filings with the US Securities and Exchange Commission. Voya Financial specifically disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

Slide 2 also notes that the call today includes non-GAAP financial measures. In particular, all references on this call to ROE, return on equity; ROC, return on capital; or other measures containing those terms are to Ongoing Business adjusted operating return on equity or Ongoing Business adjusted operating return on capital, as applicable, which are each non-GAAP financial measures.

An explanation of how we calculate these and other non-GAAP financial measures and the reasons we believe they are useful can be found in the quarterly investor supplement available on our website at investors.voya.com. Reconciliations to the most directly comparable GAAP measures are included in the press release in the quarterly investor supplement.

Joining me this morning on the call are Rod Martin, Chairman and Chief Executive Officer of Voya Financial; Alain Karaoglan, Chief Operating Officer; and Ewout Steenbergen, Chief Financial Officer. After their prepared remarks, we will take your questions. With that, let's go to slide 3, and I will turn the call over to Rod.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Thank you, Darin, and good morning. We're excited to share with you our 2014 results and our plans for continued growth and value improvement. Let's begin on slide 4 with some key developments.

First and most noteworthy, we have achieved our overall 12% to 13% ROE target two full years ahead of our plan. Our 2014 ROE of 12.1% is 180 basis points higher than 2013 and 380 basis points higher than 2012.

The transformation that we have achieved in just two years has been quite meaningful. We are pleased with the financial, cultural, and operational improvements that we've made and the track record we have established. Our success is due to our talented people, our commitment to executing on our plans, and our relentless focus on our customers.

We are now focused on continuing our momentum, raising the bar, and achieving our vision to be America's Retirement Company. In connection with this, we are establishing a new run rate ROE target of 13% to 14% for full-year 2018.

To achieve our new ROE target, we will continue to drive improvement in each of our businesses. We also plan to strategically invest in incremental $300 million to $350 million over the next four years to develop next-generation customer experiences and solutions. In a moment, Alain will provide you with an initial view of our investments.

Briefly, I would like to say that these will ultimately help drive ROE expansion, increase free cash flow, and accelerate earnings growth. With the improved returns that we have achieved in our Ongoing Businesses, and the significant excess capital we are generating, we're excited about the future.

Driving shareholder value is one of our prime objectives. In 2014, we utilized almost $800 million in excess capital to repurchase common stock. This included $175 million in the fourth quarter in connection with ING Group's most recent secondary offering.

As we announced today, the Board has increased our share-repurchase authorization by $750 million. This new authorization expires at the end of 2015. Given the current valuation of our stock, we continue to believe share repurchases are an effective use of our excess capital, and we plan to opportunistically buy back our shares.

Over the course of 2014, ING Group's ownership stake in VOYA declined from 57% to approximately 19%. As a result, other than myself, all members of Voya's Board are now independent.

During the year, Lynne Bigger, Jane Chwick, and Debbie Wright joined our Board. Together with Barry Griswell, Fred Hubbell, and David Zwiener, our Board consists of individuals with distinguished backgrounds and diverse experiences. They're great assets to the company and I value their insights and guidance.

Our independence has also made a new brand identity. Through our operational rebranding and our new advertising, we've started to build the Voya brand in the marketplace.

We have also used this as an opportunity to reengage with our distribution partners and our clients. We are pleased with the excitement we're generating for our new brand, and we look forward to building on this momentum in 2015 and beyond.

Slide 5 contains an overview of our fourth-quarter and full-year financial highlights. For the quarter, we generated $245 million, or $0.99 per diluted share, in after-tax operating earnings. Excluding DAC and other intangibles unlocking results were $0.97 per diluted share.

For the full year, we generated $800 million, or $3.14 per diluted share, in after-tax operating earnings. These results include strong earnings from our Ongoing Business and are reflected in our net income as well. As I mentioned, our year-end ROE increased to 12.1%, up from 11.2% at September 30.

In our Closed Block Variable Annuity segment, we completed our GMIB enhanced annuitization offer during the quarter. About 13% of the account value eligible for the offer elected to participate, a very positive result. Using this experience, we are preparing a new offer for contract holders, representing approximately $3 billion of account value, or roughly 20% of our IB block.

We have further regulatory approvals that are required, but we expect to launch the offer in the first half of this year. We will keep you updated on our progress, and our approach will continue to be to take actions that are good for our customers, our shareholders, and good for VOYA.

Moving to slide 6, our leadership positions in Retirement, Investments, and Insurance help generate approximately $1.4 billion in pretax adjusted operating earnings in 2014. As we drive toward achieving our new ROE target, we will remain -- we will maintain our one VOYA focus.

Our Ongoing Business defines our value proposition of offering asset accumulation, asset protection, and asset distribution, products, services, and advice. As such, we want to ensure that our businesses work cohesively to help clients with their retirement readiness.

I'm excited about what we will be able to accomplish. And I, along with Alain and Ewout and other members of our management team look forward to sharing further details with you in June.

Moving to slide 7, we've included a fourth key source of value on this slide. In addition to our Ongoing Business, the potential value in our Closed Block Variable Annuity segment and our tax benefits, our excess capital is also a source of value.

Voya Financial is now in a stronger position than it was just two years ago. This is evidenced by stronger earnings power in our Ongoing Business, improved debt and risk-based capital ratios, and higher assets under management. It's also demonstrated by the significant excess capital that we have generated and have started to distribute to shareholders.

Moving ahead, we will leverage the improvements that we have made and build upon our strong financial foundation in order to achieve our vision to be America's Retirement Company.

With that, let me turn it over to Alain for further details on our plans and the performance of our Ongoing Business.

Alain Karaoglan - *Voya Financial Inc - COO*

Thank you, Rod, and good morning. Turning to slide 9, we reached our 2016 return-on-equity target of 12% to 13% this year. That is two years ahead of our plan.

Our return on equity was 12.1% for 2014. That is up 180 basis points from 10.3% in 2013. When you remove items that we do not expect to recur at the same levels, our return on equity improved 190 basis points to 11.7% from 9.8%.

Our return on capital reached 9.9% in 2014. That is up 130 basis points from 8.6% in 2013 and very near our 2016 target of 10% to 11%. When you remove items that we do not expect to recur at the same levels, our return on capital increased by 140 basis points to 9.6%.

On slide 10, our margin growth and capital initiatives have contributed to the return on capital improvement since 2012. First, our margin initiatives were the primary drivers, contributing 182 basis points. Initiatives here include repricing actions, running off less profitable assets, and aligning costs with lower levels of sales in certain capital-intensive products.

Also through 2014, we achieved approximately $70 million in cumulative cost savings as part of our plan to realize $100 million in cost savings by 2016.

Second, our growth initiatives contributed 190 basis points; this is primarily due to growth in Retirement and in Investment Management. Third, our capital initiatives contributed 55 basis points. These include reinsurance actions and progress with shifting the composition of our product portfolio to be less capital intensive.

Fourth, the headwind of low interest rates negatively impacted our return on capital by 69 basis points. And as you know, the impact of low interest rates was factored into our plans.

Included in the 270 basis points of return on capital improvement were 30 basis points related to several items that we do not expect to recur at the same levels. Primarily reflected in margin, these included limited partnership income and prepayment fee income in excess of what we would consider our normalized run rate.

Our commitment to executing our initiatives has enabled us to significantly improve the value of our Ongoing Business. And we intend to bring this same level of commitment to achieving our new plan.

Slide 11 illustrates how we plan to achieve our new 2018 run rate return on equity target. First, we will continue executing a series of specific Ongoing Business initiatives to further improve performance and accelerate profitable growth.

Second, we intend to make strategic incremental investments of $300 million to $350 million over the next four years. These investments are intended to reduce operating costs, to simplify our operating model, to increase our speed to market, to improve our customer experience, and differentiate us from competitors.

These investments will focus on three areas. First, we will invest in digital and analytics capabilities. This will enable us to be more efficient, engage more closely with customers, and enhance our understanding of their needs.

Second, we plan to accelerate our efforts to substantially simplify Voya's IT infrastructure. And third, we will adopt a new outcome-oriented cross-enterprise strategy that will harness the power of our Ongoing Business so that we can work together to offer holistic solutions.

As we did with our original plan, we will share with you specific initiatives, each of which will have clear owners. At our investor day in June, we will provide more detail on these initiatives, as well as 2018 targets for each of our business segments. We will track our performance against our plans and we will be transparent with you on our progress.

Now let's look at year-end 2014 return-on-capital performance in our Ongoing Business, and our priorities in 2015. Beginning with Retirement on slide 12, the return on capital was 9.2% for 2014, or 8.9% when you adjust for items that we do not expect to recur at the same level.

In the fourth quarter, we began rolling out new tools for our distribution teams and we began to onboard two large tax-exempt plans. We also retained 91% of the cases that we re-priced during the quarter by maintaining our pricing discipline to achieve our targeted internal rates of return.

In 2015, we will continue to look for opportunities to improve returns where warranted on the in-force business. Other initiatives, however, will become a larger driver of earnings and return on capital improvement, and these include expanding our distribution footprint, developing key product and technology capabilities, increasing participant engagement with the further rollout of our retirement readiness offering, as well as strengthening our market position in tax- exempt.

On slide 13, the return on capital for annuities improved to 9%, or 8.6% when you adjust for items that we do not expect to recur at the same level. Our strategy to profitably grow our annuity business continued to deliver strong results last year. In 2014, we expanded our wholesale strategy to broaden our distribution and introduce new products, such as Wealth Builder.

Looking ahead, we plan to launch a broader suite of products to meet evolving client retirement needs and risk profiles. For example, our new structured annuity product, PotentialPLUS, successfully launched in January. Similarly, we will continue to leverage and expand our growth and distribution.

Moving to slide 14, Investment Management's operating margin increased to 32.1%, or 30% when you exclude the results from investment capital. This improvement has been significant over the past two years, increasing more than 1,100 basis points when you exclude results from investment capital.

A key driver for -- of our success has been our strong investment performance. As of year-end 2014, 97% of fixed income assets and 59% of equity assets outperformed benchmark or peer median returns on a five-year basis respectively.

We are also expanding in multi-asset strategies and solutions, and in January, our collective trust target date offering, which serves the large defined contribution market reached its five-year anniversary. Since its introduction, it has garnered over $1.4 billion in assets and has delivered consistent competitive results.

To continue our momentum, we are re-investing in the business to drive further profitable growth. This includes continued expansion of third-party product offering, as well as investment in institutional and in retail distribution.

Turning to slide 15, Individual Life's return on capital grew to 5.3%, or 5.1% when you adjust for items that we do not expect to recur at the same levels. Our transaction with RGA to reinsure an in-force block of term life insurance policies will, over the course of 2015, continue to improve Individual Life's return on capital, as well as the return on capital for the Ongoing Business.

Moving forward, a key focus in Individual Life will be our launch of an aligned distribution strategy, which will allow us to deepen relationships with key distribution partners. These aligned partners share our retirement readiness value proposition and are interested in working with Individual Life and other Voya businesses to bring our value proposition to clients.

Our capital initiatives, new distribution strategy, and our continued shift in sales to our index life product portfolio are all key aspects in our continued focus on driving better returns in Individual Life.

Turning to slide 16, the return on capital of Employee Benefits increased to approximately 29%. During the quarter, we began piloting a new proposal package process for accident and critical illness products to help drive greater sales, increase retention, and build scale.

In 2015, we will be expanding our target market focus to include midsize employers, as we focus on ways to continue to profitably grow the business. Targeting private exchanges and key distribution partners will further support our growth efforts and drive retention of profitable business.

To conclude, we are very pleased with the strong return on equity and return on capital improvement that we have delivered. And that we achieved our return on equity target two full years ahead of our plan. We look forward to sharing more details on our new plans with you in June.

Now I will turn it over to Ewout, who will cover our financial results in more detail.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Thank you, Alain, and good morning, everyone. Today, I will highlight some of our key financial metrics for the fourth quarter of 2014. Moving to slide 18, you can see the items that affected our fourth-quarter results relative to the third quarter. In addition, we will discuss business-specific drivers.

Higher prepayment income, partially offset by lower alternative income affected several segments. Retirement benefited from increased fee income and annuities had favorable mortality.

In Investment Management, we had higher performance fees, which helped to offset higher operating expenses. In addition, we recorded lower investment capital results due to changes in value on certain private equity investments.

In Individual Life, there was favorable mortality driven by lower severity. In Employee Benefits, the loss ratio for stop-loss continued to benefit from favorable claims development.

We also had several below-the-line items. We recorded a $1.85 billion release of the tax valuation allowance on our deferred tax asset for the full-year 2014, and I will address this in more detail shortly.

We also recorded a pretax $373 million loss in the fourth quarter related to our pension plans, due to lower rates, and the impact of updated mortality tables. We will use a fair-value methodology to account for our pension plan. This approach recognizes non-operating gains and losses in the current period, rather than amortizing over a multi-year timeframe.

Here, in Individual Life, the pretax impact related to the closing of the RGA reinsurance transaction was $71 million in the fourth quarter. We had already recorded $18 million in the third quarter due to accounting rules.

Looking ahead, there are some factors worth noting that we expect to affect our overall business and our individual segments. All of our segments are impacted by seasonal items in the first quarter, including higher payroll taxes and other annual expenses of approximately $18 million, of which approximately half is in Retirement.

In addition, alternative investment income is usually lower. We have also adjusted our operating tax rate, beginning in the first quarter of 2015 to a 32% effective tax rate, which I will discuss later.

As noted, last quarter we anticipate 2015 record-keeping fees in Retirement to have a quarterly run rate of approximately $45 million, reflecting our decision to exit the defined benefit administration business and non-renewal of certain plans.

In Investment Management, performance fees and investment capital results tend to be the lowest in the first quarter, reflecting the absence of typical year-end fees. Performance fees and certain front-loaded fees associated with the launch of new private equity fund in 2014, combined were $33 million and exceed 2015 expectations by approximately $20 million.

In Employee Benefits, the loss ratio for group life tends to be the highest in the first quarter, and we expect the full-year 2015 loss ratios for group life and stop-loss to be in the range of 77% to 80%.

Overall, for the Ongoing Business ROE in 2015, the continued execution of our specific business initiatives and the benefits of the Individual Life reinsurance transaction should help to offset the expected normalization of performance fees inInvestment Management and loss ratios in Employee Benefits.

Thus, we expect to maintain our ROE in 2015 at a level generally consistent with 2014 results, prior to factoring in the benefit of the lower operating earnings tax rates, and potential incremental investment spend. The net effect of all these items would be neutral to our 2015 ROE, assuming an incremental investment spend of $50 million in 2015.

And then in our Closed Block Institutional Spread Products, we anticipate 2015 operating earnings to be in the range of $5 million to $10 million, and that is reflecting the continued run-off of the block.

Moving to slide 19, we have seen continued strong net inflows in corporate markets for the last five quarters. In tax-exempt markets we had several wins that developed during the quarter to help partially offset the non-renewal of a large case that did not meet our targeted returns. In stable value, we remained disciplined with our pricing and risk tolerance.

On slide 20, we generated positive net flows in our Fixed Indexed Annuities and Mutual Fund Custodial products. For the Fixed Indexed Annuities, net flows were minimal, as we continued to proactively adjust our products, given declining interest rates.

The new products we launched in the fourth quarter of 2014 and in January of this year enabled us to cater to a wider range of customer needs through a broader range of cap rates. We expect our net flows to benefit from these products in 2015.

As we previously noted, we had a large block of multi-year guaranteed annuities run off in the third quarter. Approximately $275 million of the runoff of this block carried over into this quarter, largely in October. This runoff was a positive event from an ROC perspective, as this block had a low return.

On slide 21, Investment Management sourced net flows were strong this quarter, at $800 million, driven by retail sales of our intermediate bond fund that received a number-one ranking by Lipper in 2014, institutional sales, including senior loans and a CLO issuance. Furthermore, Investment Management successfully generated another $800 million of sub-advisor replacements.

For the full year, we have had $7.6 billion of these flows made possible by the strong investment performance of our equity and fixed income platforms. Separately, in the fourth quarter, there were legacy assets that were divested or returned during the period, much of which had low fees.

Variable annuity outflows for the funds that are managed by Investment Management were $1.2 billion, a sequential increase from the third quarter, reflecting $350 million of additional outflows due to the enhanced annuitization offer in CBVA. Investment Management, however, retained the outflows related to this offer, as these assets went into the general account. CBVA net outflows represent a headwind for the Investment Management business, but are a positive for the larger enterprise.

On slide 22, you can see the strong progress we have made in shifting our sales focus to indexed universal life, which aligns with our focus on less capital intensive products. Indexed sales now represent 52% of our sales in 2014, compared with 28% in 2013.

The chart on the right illustrates the normal mortality fluctuations on an actual to expected basis. As you can see, we expect a one standard deviation to be approximately plus or minus 9%.

While we have seen some movement over the past eight quarters, all but one quarter was within our expected range. The fourth-quarter 2014 had favorable mortality. Driven by lower severity, the normalized mortality ratio would be approximately 90% on an actual to expected basis.

On slide 23, our loss ratios for group life and stop-loss continue to come in better than our expected range of 77% to 80%. We have been encouraged by our efforts to drive our sales across group life, stop-loss, and voluntary, while maintaining our discipline in underwriting and pricing, which is leading to profitable growth.

Slide 24, in the Closed Block Variable Annuity, our hedge program performed within expectations, as our hedges offset the effects of market movements. The living benefit net amounted risk increased to $3.7 billion during the quarter, driven by the decline in interest rates, which offset positive fund performance and the benefit from the enhanced annuitization offer. We have estimated available resources of $5.0 billion, which compares favorably to the living benefits net amount at risk.

The annualized net outflow rate, including the one-time impact of the enhanced annuitization offer, was 16.6%. Excluding the annualized effect of the offer, the net outflow rate would have been approximately 12%, and that is an improvement from the prior-quarter's rate. As Rod mentioned, we are very pleased with the success of the offer and we expect to launch the next offer in the first half of this year.

Then slide 25, this slide helps to illustrate how the Closed Block Variable Annuity segment has run off, as it might not be apparent looking at a total account value. The number of policies declined by 17%, or roughly 80,000 policies since December of 2012, and this compares with an account value decline of 3% to $41 billion.

Then slide 26, our tax assets represent another source of value for the company. As I mentioned earlier, we recorded a $1.85 billion release of our tax valuation allowance for the full-year 2014.

We continued to have strong results and have taken other actions to strengthen our financial performance. Therefore, we concluded that a substantial portion of the deferred tax assets will likely be realized, so we released the corresponding portion of our tax valuation allowance. Approximately $800 million of our valuation allowance remains on federal NOLs.

We also adjusted our effective tax rate on operating earnings to 32% for 2015. This reflects the benefit of the dividends received deduction in our Ongoing Business.

And we have updated our estimate of the net present value of the projected cash tax savings from our deferred tax assets to approximately $1.6 billion. This slight increase was driven by higher deferred tax assets on life deferred losses, which can fluctuate based on Closed Block Variable Annuity hedge gains or losses. This was partially offset by the assumption that the DRD stays in place.

Please note that we have revised our assumption on the DRD in our net present value calculation from earlier presentations. We've also presented a net present value of the estimated DRD received for the Closed Block Variable Annuity over several time periods to illustrate the value of this benefit.

Then slide 27, our estimated combined risk-based capital ratio further improved in the fourth quarter to 536%. On the right side of the slide, the debt-to-capital ratio at the end of the fourth quarter declined from the third quarter to 21.3%, well below our target of 25%. This decrease was largely due to net income in the fourth quarter, even with the share repurchase activity during the period.

And then on slide 28, our holding company liquidity stood at $682 million at the end of 2014, and that is after the share-repurchase activity in the quarter and remains above our 24-month liquidity target of $450 million.

Moving to the middle chart this shows the composition of our corporate GAAP capital as of the end of 2014 of $2.9 billion, and that is excluding deferred tax assets of $2.3 billion. The largest component of the corporate GAAP capital is $1.5 billion, which represents our estimated statutory surplus in excess of our target RBC ratio of 425% as of the end of the fourth quarter.

The chart on the right shows $789 million we used for share repurchases in 2014, and the new $750 million share repurchase authorization. This is additive to the $11 million remaining balance on the prior authorization.

In summary, we delivered strong financial results for the quarter and the year. We have achieved our 2016 ROE goal ahead of schedule. We took actions to grow our high return businesses and free capital from lower return blocks. We improved the strength of our balance sheet, generated significant free cash flows, returned capital to shareholders, and we took proactive steps to manage our Closed Block Variable Annuity segment.

With that, I will turn the call back over to the operator, Emily, so we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ryan Krueger, KBW.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Hey, thanks. Good morning. Ewout, I wanted to follow up on the comments you made regarding the 2015 earnings outlook, just to make sure I heard it correctly. You said you would expect the ongoing earnings in 2015 to be similar to 2014 on a pretax basis? Is that correct?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Ryan, good morning. So what we have tried to say during the prepared remarks is the following: we have several moving elements in our results if you look at the 2014 ROE of the company, especially if you start to normalize for the alternatives and prepayment income, as well as for the higher performance fees in Investment Management. We would expect that normalize in 2015.

You can say there is an offset to that, because we expect the benefit of the life reinsurance transaction with RGA to come in gradually over time. If you then layer in on top of that the additional investments on the strategic initiatives that Rod in Alain explained, but also factor in the lower effective tax rate which we will start to apply from the first quarter of 2015, then the ROE year-over-year we expect to be more or less neutral.

I hope that helps. So it wasn't specifically on operating earnings, but it was to give some guidance, some expectation with respect to how the ROE might evolve year-over-year if you take all of those elements into account.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Got it. Understood. Thank you. The 13% to 14% new ROE assumption for 2018, does that also assume a 32% operating tax rate?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Yes, that is included in that underlying assumption.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Okay, and then just last one, you show your excess capital at the subsidiaries to be over $1.5 billion in excess of your target. Can you talk about your expectations for how much of that you think you can send up to the holding company in 2015?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Ryan, great question. Of the excess capital on a statutory basis in our operating entities over the RBC level of 425% we expect that the $1.5 billion, approximately $900 million is available in ordinary dividend capacity, which we're planning to take out of the operating entities after the filing of the blue books. So probably in the May timeframe.

Then the remaining $600 million is not available in ordinary dividend capacity, and after the May timeframe, we will continue to work on solutions to get also debt excess capital to the holding company. We are confident that we will find ways to do so.

Ultimately, the full $1.5 billion we are planning to take to the holding company, but it will probably be a two-step approach. Ordinary dividends of $900 million and then other actions to take the additional $600 million to the holding company.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

But you do think you can get all of that in 2015 up to the holding company with those two combined actions?

Ewout Steenbergen - *Voya Financial Inc - CFO*

That is absolutely the objective from us as management.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Great. Thank you.

Operator

Tom Gallagher, Credit Suisse.

Tom Gallagher - *Credit Suisse - Analyst*

Good morning. The main question I had is the excess capital versus last quarter I think it went up by $300 million. What was the, if I add up the excess in the subsidiaries plus the excess at the HoldCo, what was the main driver? Was that just statutory earnings?

Ewout Steenbergen - *Voya Financial Inc - CFO*

There's two elements here. If I look at the improvement of the RBC ratio, there was approximately operating statutory earnings of $400 million in the entities -- sorry, after-tax operating income was $285 million, and that includes the hedge losses. Net income on a statutory basis was $330 million. We also saw a decline in the required RBC, so the company action level at the 425% level of approximately $120 million.

It was both a combination of statutory income and a decline in required capital. Also please keep in mind that the benefit of the RGA reinsurance transaction, which closed in the fourth quarter, is also reflected in those numbers. That benefited both income, as well as required capital in the same periods.

The holding company cash position improved, so if you speak about excess capital, we look both at the excess capital in the operating entities as well as the holding company tax position. And that improved based on tax sharing that was done from the operating entities to the holding.

Ordinary dividends we were able to take out of our Connecticut entity, some dividends from our investment and management entity. There were some interest expenses and there was a buyback, as you know. So the combination of that drove the cash at the holding company up.

Tom Gallagher - *Credit Suisse - Analyst*

Ewout, that's clear. The tax sharing payments and the utilization at the DTA I think that had been running at a little over $100 million a year. Is that expected to grow, or how do you see that playing out in terms of the usage and the cash that that is going to provide?

Ewout Steenbergen - *Voya Financial Inc - CFO*

That is a very complicated question, because there are many moving parts that will impact the actual tax-sharing payments from the operating entities to the holding, as well as what the holding needs to settle with the IRS. It is very hard to give a precise guidance on that.

What I can tell you is that the tax-sharing payments during the fourth quarter to the holding were $260 million, and that was helped by the closing of the reinsurance transaction. So that triggered an additional tax-sharing payment to the holding. The holding has to settle part of that in 2015, but exactly how those numbers will move around year over year, it's hard to give very precise guidance.

Tom Gallagher - *Credit Suisse - Analyst*

Let me ask you it this way then: the net present value update you gave in terms of the value of the DTA, is there a way we can reverse engineer it and what are the cash flows that are embedded in that net present value calculation?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Thank you for asking that question, Tom. We have indeed updated those net present value calculations and you have seen there is a slight increase of those net present values, and that is based on the increased life-deferred losses driven by some hedge loss movements and gains by the CBVA during the year itself.

What we also have tried to do is now to spike out the benefits of the dividends received deductions. One-third of the dividends received deduction relates to the Ongoing Business, and that is why we have adjusted the effective tax-rate assumption for the Ongoing Business from 35% to 32%.

But then we get that two-thirds of the DRD benefit relates to the Closed Block Variable Annuity, so that is why we have separately indicated that in respect to the new net present value calculations for the cash benefits of the usage of the deferred tax assets.

So, if I look at the best estimate for payments and settlement to the IRS we have to do in the spring of this year, it would be probably somewhere in a $70-million range that has to do with a gain we have triggered on that life reinsurance transaction. But again, that is offset by higher tax-sharing payments we received from the operating entities, and I provided that number already to you; that was the $262 million.

I hope that gives a bit of guidance about how much do we get up from the operating entities. How much do we need to settle with the IRS and the difference, therefore is a benefit for the holding company as an overall net effect of all of those cash tax streams.

Tom Gallagher - *Credit Suisse - Analyst*

Okay. I can follow up on details later. Thanks.

Operator

Erik Bass, Citigroup.

Erik Bass - *Citigroup - Analyst*

Hi, I had a couple questions on the $300 million to $350 million of investments that you are making. What should we be thinking about for the payback period and the P&L impact of the investments? And then also, should we think about this as a use of free cash flow?

Alain Karaoglan - *Voya Financial Inc - COO*

As we have highlighted, $300 million to $350 million, Erik, are going to investments over the next four years, and these will be expenses. Ultimately, they will affect the free cash flow, but you have to tax effect them, take them through earnings. But these are expenses.

When you -- we will talk a little bit more in detail on our investor day on our expectations for that. But ultimately, our expectation is to achieve the higher return on equity in 2018 of 13% to 14%. But importantly, to enhance our customer experience, simplify our IT, and allow ourselves to grow as fast as we can at this higher return on equity levels.

In terms of the details on how this year is going to affect, as Ewout mentioned, in 2015, in his numbers, the assumption was around $50 million this year.

Erik Bass - *Citigroup - Analyst*

Got it, so we should think about --

Ewout Steenbergen - *Voya Financial Inc - CFO*

This is Ewout. If I may react on the second part of your question. Obviously, those investments will have an impact on the available free cash flow of the company. Nevertheless, we reaffirm our conversion of GAAP operating earnings to free cash flow of 60% to 70%. We expect even with those additional investments in those strategic initiatives, to still be able to have a conversion of 60% to 70% of our GAAP operating earnings to free cash flow over the next few years.

Erik Bass - *Citigroup - Analyst*

Got it. That's helpful. And then, can you talk about what your plan assumes for interest rates, and how to think about the sensitivities if rates were to remain at 2%?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Erik, I can give you some guidance with respect to the baseline of the assumptions. Specific sensitivities and sensitivity runs we have not done at this moment, and we will be able to give you more insight to that during the investor day in June.

But with respect to the baseline calculation and projections, the assumptions are the following: the main assumption with respect to the equity development is a 7.5% annual market appreciation on the equities. And then with respect to the interest rates, we have assumed a forward curve as of the end of 2014.

Rates have fallen, as everyone is aware, at the second half of last year but also the forward curve has further flattened, and we have seen at the same time a widening of credit spreads. All that has been factored in.

We are not pretending to be smarter than what the market is implicitly assuming in terms of what rates will do. And we have assumed a forward curve in respect to rates development as of the end of 2014.

Erik Bass - *Citigroup - Analyst*

Got it. Thank you.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

This is Rod. If I could just add, it's a similar methodology, obviously, the point in time is different that we did when we originally introduced the ROE walk in the beginning of 2012. So the same fundamental thesis, other than what the forward curve was then versus the end of 2014 is being applied and executed as we implement this. Again, details to follow at the investor day.

Erik Bass - *Citigroup - Analyst*

Great. Thank you.

Operator

Eric Berg, RBC Capital Markets

Eric Berg - *RBC Capital Markets - Analyst*

Thanks very much and good morning to everyone. I wanted to go back to your slide 26 and the little table on the value of the DRD. Because most companies, most other life companies, don't really disaggregate the value of the DRD, it's just something that they enjoy, that I guess is called a permanent difference and that reduces their GAAP effective tax rate, they typically don't separate it out or spike it out as somehow a source of value.

Can you review with me what you're saying here? Is the plus sign meant to communicate the idea that you consider the DRD to be a separate store of value apart from the DTA?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Eric. This is Ewout.

Eric Berg - *RBC Capital Markets - Analyst*

Good morning.

Ewout Steenbergen - *Voya Financial Inc - CFO*

What we are trying to show here is the following: on the one hand, what you see at the top part of the slide 26 is the effects of our DTAs and the reduction of the tax valuation allowance on our US GAAP balance sheet. So there on the US GAAP balance sheet, we now have a release of the valuation allowance and a reflection of deferred tax assets for a total of $2.2 billion, $2.3 billion going forward. That is just an accounting reflection on the GAAP balance sheet.

What we're trying to show at the bottom of this page is the cash benefit that the company will receive from using those DTAs in the future, and the usage, the utilization of those DTAs will help to reduce the actual tax payments to the IRS. And those will be relatively minimal for the foreseeable future.

The left side is showing the usage of the $3 billion nominal DTAs we have. If you look at the benefit and discount that with the 10% discount rate, that is a $1.6 billion number. That does not reflect that the company will have an economic benefit from use of the DRD. The dividend received deduction will have a significant economic benefit for the company.

What this tries to show is if you take an assumption how many years the DRD will stay in place, and that is of course an assumption nobody can precisely answer, it could be 5 more years, it can be 10 more years, it can be 20 more years.

The right-hand side of page 26 shows there is another benefit on a net present a basis of having the DRD staying in place. For example, if it stays in place another five years, the net present value for five years is $265 million. You have to add that to the $1.6 billion on the left-hand side then, to get to a total cash benefit for the company in the future.

Eric Berg - *RBC Capital Markets - Analyst*

I have a follow-up question, a separate question regarding growth. I certainly understand, because you have been very clear that you have been, to a certain extent, purposefully shrinking your business to remove from your roster underperforming business. I get that. You have customers who are just not generating the level of profitability that you would like.

But at the end of the day, 2014 was a year, I think, in which the cash flows in a number of your core businesses, Retirement, Investment Management, excluding the items that you disaggregate, fixed annuities, were negative, not majorly so, but they were negative. Understanding, and again, appreciating the fact that this is in part purposeful by you, I would like to know when we can expect to start seeing real growth in the balance sheet? Thank you. Organic growth, that is.

Alain Karaoglan - *Voya Financial Inc - COO*

Eric, thank you for the question. You are exactly right. Our plan is a plan that is improving the return on equity and return on capital in order to create value to shareholders. We all know the insurance industry can sell unprofitably product if it wants to, but that is not what we're trying to do.

Part of it is adjusting that book of business, as we refer to it, existing book of business that is functioning below its weight to getit to punch at its weight. And as we are renewing the book of business, if we cannot renew it at returns that are meeting our targeted internal rate of return, we're electing not to renew our business.

As we've said before we were in sort of halfway through, a little bit more than halfway through the book of business. So there's a couple of years still to go. But what we are doing in terms of the investments, in terms of the new return on equity targets, it is to enable more substantial growth going forward of our businesses. I would say on the repricing of our book of business, we still have probably a couple of years to go, Eric, where you will see the noise in terms of repositioning that book of business.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you, Alain.

Operator

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

Thanks, good morning. Just a couple of cleanups, first on guidance. The 2018 ROE target of 13% to 14%, I think when you gave us the 14 to 15 ROE walk, you said that the impact of the lower tax rate, lower assumed tax rate, would be essentially a wash with the impact of the spending for the Ongoing Business. Can we assume the same is true for the 2018 ROE? In other words, the increase in the longer-term target is not driven by the lower tax rate/the expense initiatives?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Suneet, at this point, we would not like to give further guidance than what would be the net effects on the 2015 ROE. We might be able to answer your question during the Investor Day in June, but at this point in time, it is a bit premature to answer that question.

Suneet Kamath - *UBS - Analyst*

Okay. We're just getting the question here. Is this really a guide up in terms of ROE, or is it just a change of the underlying assumptions? Clearly, any incremental information you can provide on that would be helpful to a lot of people.

My second question is on the Retirement re-pricing. Alain, when you say that you are 50% of the way through cleaning up that book, is that a -- or re-pricing that book. Is that based on like contracts, or is that based on AUM?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

It's really based on the contracts. They come through the process. I've talked about this earlier, it's Rod speaking, that we wish we could push a button and fast-forward through that. They have a natural duration that occurs. It is really about -- it's just based on that.

The other piece that I called your to your attention is we are making substantial improvement in distribution enhancements in a broader product portfolio and increasing efficiency. As we get closer to the end of that, it will be a whole lot less about where we are in that journey and a lot more about our effectiveness in implementation of these pieces. And again, we will give you far more color on that at the investor day meeting.

Suneet Kamath - *UBS - Analyst*

Okay. The timing of the remaining 50%, I think we started with a five-year kind of window back to --

Rod Martin - *Voya Financial Inc - Chairman & CEO*

It's probably a couple of years.

Suneet Kamath - *UBS - Analyst*

Got it. Okay. Great. Thank you.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

You're welcome.

Operator

This concludes our question-and-answer session. I would like to turn the conference call back over to Rod Martin for any closing remarks.

Suneet Kamath - *UBS - Analyst*

Emily, thank you. We have demonstrated our ability to develop aggressive plans, execute them, and achieve great results. We're focused on the future and on steps that we can take to further harness our strengths. We are excited about Voya's next chapter and what it will mean for our customers and for our shareholders. We look forward to sharing more details of our plan with you and to discussing how we intend to establish Voya as a new kind of financial services company, one that is committed to changing the way people think of retirement. Thank you and good day.

Operator

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