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VOYA - Q1 2015 Voya Financial Inc Earnings Call

EVENT DATE/TIME: MAY 06, 2015 / 2:00PM GMT

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PRESENTATION

Operator

Good morning and welcome to the Voya Financial first-quarter 2015 earnings conference call. All participants will be in a listen-only mode.

(Operator Instructions)

Please note this event is being recorded. I would now like to turn the conference over to Darin Arita, Senior Vice President, Investor Relations, please go ahead.

Darin Arita - *Voya Financial Inc - SVP of IR*

Thank you Emily, and good morning, everyone. Welcome to Voya Financial's first-quarter 2015 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 related 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.

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 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 reconciliations to the most directly comparable GAAP measures can be found in the press release and quarterly investor supplements available on our website at investors.voya.com.

Joining me 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. 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 had a strong first quarter and we're pleased to share our results with you today. Let's begin on slide 4 with key developments.

We increased our ROE to 12.6% for the 12 months ended March 31, this improvement reflects the continued execution of our plans. Next the liquidity of our stock increased as ING Group exited its stake in Voya, almost two years earlier than required. This was a significant milestone in our progress.

We've made a number of cultural, operational, and financial improvements over the past few years. With a clear vision and an exciting new brand, we will continue to execute on our plans to deliver even greater value for shareholders and customers.

Speaking of value, we utilized $631 million in excess capital to repurchase stock during the quarter. Of this, $600 million was repurchased directly from ING Group. We continue to believe that share repurchase is an attractive use of our excess capital.

With regard to ratings, S&P, Moody's, and Fitch have all upgraded Voya and its operating subsidiaries. We're pleased that they've recognized the progress we've made in strengthening Voya's financial position. We have improved the ongoing business earnings, driven excess capital generation, ensured strong liquidity, and strengthened our balance sheet.

On May 1, we welcomed Charlie Nelson to our leadership team as our new CEO of Retirement. Charlie has a strong track record of developing and executing profitable growth strategies for retirement businesses. He's well respected across our industry and I'm very pleased to have him on our team.

Finally, we continue to build and establish our new brand. As you may have seen, we've introduced two new commercials as part of our OrangeMoney advertising campaign. These spots can be seen on our website.

Also in March, we were once again recognized by Ethisphere Institute as one of the world's most ethical companies. Voya was one of only 132 companies around the globe to receive this impressive recognition. I, along with all of our employees, are very proud to have received such a great distinction and verification of our strong culture at Voya.

Moving to slide 5, you can see an overview of our first quarter financial highlights. We generated $197 million or $0.82 per diluted share in after tax operating earnings. Excluding DAC and other intangibles unlocking, results were $0.80 per diluted share.

Operating earnings growth this quarter was driven by strong earnings in ongoing business and is reflected in our net income as well. As I mentioned, our ROE increased to 12.6% for the 12 months ended March 31, this is up from 12.1% for 2014.

As you know, we launched our second GMIB enhanced annuitization offer during the quarter. The offer concludes on May 15. The enhancement rate we offered was half of what we offered last year and the takeup rate thus far has been about half of the previous offer.

We continue to view these offers as pilot programs. We're learning from these efforts. Collectively, they are helping us identify steps we can take to accelerate the runoff of this block. As we learn, we'll continue to focus on actions good for our customers, good for our shareholders, and good for Voya.

Moving to slide 6, our leadership positions in Retirement, Investments, and Insurance helped to generate approximately $1.4 billion in pretax adjusted operating earnings in the 12 months ended March 31. As we announced last month, we've made organizational changes to ensure that our businesses work cohesively to help our customers with their retirement readiness.

We've aligned Retirement and Investment Management to help sharpen our customers' centric focus and drive profitable growth. To achieve this, these businesses will collectively be overseen by Alain, as our new CEO of Retirement and Investment Solutions. We look forward to discussing our plans and the strategic investments we're making in all of our businesses during our investor day on June 2.

Moving to slide 7, our Ongoing Business is just one of Voya Financial's key sources of value. The others are the potential value in our Closed Block Variable Annuities segment, tax benefits, and excess capital. We are focused on leveraging our strengths in the marketplace and equally focused on external factors that could affect us, including the regulatory environment.

As you know, the Department of Labor recently released a proposal to broaden the definition of fiduciary under ERISA and the tax code. We, along with others in the industry, are closely reviewing the proposal. A number of open questions remain, and the proposal will continue to evolve.

We expect to see much discussion about this over the coming months and we plan to be actively engaged in the dialogue. We want to ensure there's a broad understanding of all aspects of the proposal. We intend to leverage our resources, as well as work closely with those across the industry to advocate for outcomes that help Americans become retirement ready.

With that let me turn it over to Alain for further details on the performance of our ongoing business.

Alain Karaoglan - *Voya Financial Inc - COO*

As Rod mentioned, the organizational changes we recently made will help our customers and reinforce our value proposition. We have strong businesses, talented leaders, and with the one Voya approach, we can bring greater value to our customers and to our shareholders. Our approach will require us to bring the same level of focus that we have demonstrated over the past several years.

As you can see on slide 9, the execution of our margin, growth, and capital initiatives continue to drive further improvement in our return on equity and return on capital through the first quarter. Our return on equity was 12.6% for the 12 months ended March 31, that's up 50 basis points from 12.1% for 2014.

When you remove items that we do not expect to recur at the same level, our return on equity improved 40 basis points to 12.1% from 11.7%. Our return on capital reached 10.4% for the 12 months ended March 31 and showed improvement similar to the growth we had in return on equity compared with year-end 2014.

Moving to Retirement on slide 10, the return on capital was 9.3% for the 12 months ended March 31, or 9% when you adjust for items that we do not expect to recur at the same level. During the first quarter, our recordkeeping efforts under administration declined due to nonrenewal of certain plans.

As we noted on previous earnings calls, our exit from the defined benefit business and certain nonrenewals will reduce our recordkeeping fees. This, combined with initiatives to spur future earnings growth, will likely cause our retirement's return on capital to remain roughly flat in 2015.

That said, we have also renewed several clients in the large institutional markets. In our recordkeeping business, we recently retained two Fortune 500 clients and are adding two new, large clients as well. In addition, we have also expanded our relationship with a large state government client resulting in a large transfer deposit and in Voya now providing full services for this plan's sponsor.

We also have grown our distribution footprint. During the quarter, we expanded our small to mid-corporate market sales and service team. This will enable us to target future sales expansion and increase participant education. These new hires also will help us build on the positive momentum we've generated in this market over the past four years.

We also achieved the strongest ever quarterly results for recruiting new Voya financial adviser representatives, focused on increasing individual customer engagement and driving enrollment in tax exempt markets. The personalized practice builder model that I mentioned last quarter, which was rolled out to support sales activities, is helping to attract new representatives to Voya.

Finally, we continue to enhance our digital capabilities to further encourage participant engagement and action. Last week, we rolled out retirement healthcare cost modeling to myOrangeMoney, to help individuals better understand retirement savings and income needs.

At our investor day, you will have the opportunity to have a hands on experience with myOrangeMoney. This will allow you to appreciate the simplicity and power of our tool, which is available to more than 3 million of our retirement plan participants.

On slide 11, the return on capital of Annuities improved to 9.5% or 8.9% when you adjust for items we do not expect to recur at the same level. We continue to leverage our strong distribution network while also introducing new products to continue to profitably grow the business. The combination of these efforts is enabling us to reach more customers with annuities, such as PotentialPLUS and more recently, our Wealth Builder Plus products that are designed around customer needs.

We have also introduced a unique and innovative web based resource that enhances the new business experience. It allows our distribution partners to track the status of applications online and to address those applications that are not in good order status on a realtime basis. This streamlines the new business process and aligns with our focus on delivering industry leading customer and distributor satisfaction through the digital solutions.

Moving to slide 12, Investment Management's operating margin was 31.5%, or 29.5% when you exclude results from investment capital. A key driver of our success has been our strong investment performance.

As of March 31, 2015, 92% of our fixed income assets outperformed benchmark or peer median returns on a five-year basis. Our fixed income performance in the quarter led to solid quarterly net cash flows in the intermediate bonds and senior bank loan strategies.

In addition, 64% of our equity assets and 99% of our multi-asset strategy assets outperformed the benchmark or key median returns on a five-year basis. The breadth and quality of our platform was again confirmed during the quarter as we received an additional 15 consultant buy ratings for 11 different investment strategies.

As of March 31, we now have a total of 135 buy ratings across 17 different strategies. We also continue to see robust RFP activity in the number of strategies across the platform.

As we have mentioned before, we are continuing to reinvestment in the business, making investments in distribution and in sales force productivity too. We expect these actions will cause expenses to grow slightly faster than our revenues in 2015, but we expect our margins to stay at healthy levels. Enhancing our distribution and our sales force productivity should help us accelerate our earnings growth and expand our operating margin after 2015.

Turning to slide 13, Individual Life's return on capital grew to 5.7%, or 5.3% when you adjust for items that we do not expect to recur at the same levels. Our sale of a block of term life policies through reinsurance to RGA was effective October 1, 2014.

For the 12 months ended March 31, this transaction has benefited Individual Life's return on capital by 35 basis points. We expect the transaction will provide its full 70 basis points benefit to Individual Life's return on capital by September 30, 2015. As we have previously mentioned, the transaction will also provide 35 basis points of improvement in the Ongoing Business return on capital.

We continue to execute on an aligned distribution strategy to expand relationships with agents and brokers that aligned with our valued proposition. To support this distribution strategy, we launched our Life Journey app this quarter.

This tablet based app facilitates an interactive experience for agents and customers, and is designed to enhance customer understanding of the use of life insurance in retirement planning. It is available only to those agents who are part of our aligned distribution.

While the app has just launched, we've already begun to receive some very positive feedback on it. In addition, during the quarter, we continued to shift sales toward indexed life products, which accounted for 66% of total Individual Life sales, compared with 42% in the first quarter of 2014.

Turning to slide 14, the return on capital of Employee Benefits increased to 32.2%. During the quarter, we continued to position Employee Benefits in terms of both product offerings and distribution capabilities for further profitable growth, and we are seeing the benefits of our efforts.

In the first quarter, we enhanced our underwriting sales and service capabilities to support growth in the mid-sized employee markets. In addition, Stop Loss sales increased 11% over the first quarter of 2014. This is on top of 103% increase in Stop Loss sales that we achieved in the first quarter of 2014 when compared with the first quarter of 2013. Most importantly, we are remaining very disciplined with our underwriting and pricing.

Overall, we are very pleased with the progress we are making, both in terms of improving the value of our business and investing for the future. Now, I will turn it over to Ewout who will provide more detail on our financial results.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Thank you, and good morning, everyone. Today, I will discuss our financial performance for the first quarter of 2015 and key drivers.

Slide 16, you can see the items that affected our first quarter results relative to the fourth quarter. Retirement was impacted by lower recordkeeping fee income, reflecting our decision to exit the defined benefits administration business and to not renew certain plans.

Annuities was affected by lower alternative income. Investment Management, higher investment capital results offset lower seasonal performance fees. Individual Life benefited from higher prepayment income, but encountered slightly elevated mortality relative to expectations.

In Employee Benefits, the loss ratios for Group Life and Stop Loss continue to benefit from favorable claims development relative to expectations. Also, Stop Loss sales were seasonally higher due to the January renewal cycle. Prepayment income was higher than expected and lower sequentially for Retirement and Annuities.

Looking ahead, we would like to discuss administrative expenses for our Ongoing Business. We expect a slight decrease for the remaining quarters of the year, relative to the first quarter of 2015. The decrease in seasonal expenses will be partially offset by expenses that will continue to support new business growth.

We still expect to maintain our Ongoing Business ROE in 2015 at a level generally consistent with 2014, based on incremental investment spends of $50 million this year, as we announced in February. We'll provide a further update at our investor day in June as we explore accelerating the initial timing of our investment projects in 2015. As we incur expenses related to our $300 million to $350 million investment program, we will report this progress to you, and we plan to do so in our corporate segment to simplify the presentation of our financial reporting. The Ongoing Business ROE, excluding this investment spend will be higher relative to 2014.

Moving to slide 17, we had positive flows in all of our Retirement markets. As mentioned, in tax exempt markets we expanded our relationship with a large state government client, resulting in a large transfer deposit this quarter. This does highlight a large institutional client can affect our net flows. We do anticipate two large cases not renewing in the second half of the year, and that will affect our future net flows.

Turning to the corporate markets, we have seen continued net inflows for 14 of the last 15 quarters. In stable value, we had some positive inflows this quarter, and flows can be lumpy from period to period. As always, we remain disciplined with our pricing and risk tolerance across our major markets.

And slide 18, we continued to generate positive net flows in our mutual fund custodial product, and had outflows of capital intensive products, such as the multi-year guarantee annuities, which is a positive from an ROC perspective. We anticipate the runoff of the multi-year guarantee annuities to continue and the net outflows to taper off, as the size of the book becomes smaller.

For the fixed index annuities, net flows were slightly negative, as the industry faced a declining interest rate environment. We are maintaining pricing discipline while proactively adjusting caps and rates on existing products. It's worth noting that this quarter's net flow has minimal impacts on our overall $13 billion fixed indexed annuity book. Overall, we will continue to explore expanding our product suite to address a broader range of customer needs.

In slide 19, Investment Management sourced net flows were strong this quarter at $700 million, strong interest in our senior loan strategy and intermediate bonds funds drove this result. Variable annuity outflows for the funds that are managed by Investment Management were $800 million.

In slide 20, you can see the continued progress we have made in shifting our sales focus to indexed universal life which aligns with our focus on less capital intensive products. The chart on the right illustrates the normal mortality fluctuations on an actual to expected basis. This quarter, we had slightly elevated mortality. A normalized mortality ratio would be approximately 90% on an actual to expected basis.

Then moving to slide 21, we have strong sales in Employee Benefits in the seasonally favorable first quarter, led by our Stop Loss products. We continue to drive profitable growth by increasing sales while maintaining our pricing and underwriting standards.

Similar trends can be seen in our loss ratios for Group Life and Stop Loss. Both continue to come in better than our expected range of 77% to 80%. Expected seasonally higher loss ratio for Group Life did not materialize this quarter, due to favorable severity.

Slide 22, in the Closed Block Variable Annuity segment, our hedge program performed within expectations as hedges offset the effects of market movements. The living benefit, net amount at risk, increased to $4.1 billion during the quarter, driven by the decline in interest rates.

We have estimated available resources of $5.5 billion which compares favorably to the living benefit net amount at risk. Our available resources exceeded the required statutory reserve by $1.3 billion, and these are all hard assets and no LOCs were needed. The annualized net outflow rate was 11.6%.

During the quarter, we also successfully implemented the outsourcing of the actuarial valuation, modeling, and hedging functions for the Closed Block Variable Annuity segments to Milliman. This initiative, which we announced last June, represents a proactive approach to creating a more variable cost structure, while preserving a secure and stable control environment.

By working with Milliman, we will benefit from their sophisticated hedging expertise and state of the art modeling capabilities. Note that we will retain full responsibility for assumptions and methodologies, as well as the setting of hedge objectives, and execution of hedge positions.

Slide 23, this slide updates the impact of various market sensitivity scenarios on CBVA's 50-year cash flows on a present value basis. The net present value of cash flows consists of two components. First, the available resources backing the block, and second, the resources needed.

The letter includes the present value of fees, claims, and a cash flow impact of our hedges. Relative to a year ago, the net present values have generally declined due to a downward shift in interest rates, particularly at the long end of the curve. Results do remain positive, except under scenario one, which is an extreme stress scenario.

As you know, our philosophy is to be one of the most transparent companies in the industry. In that spirit, we think slide 24 will help to put the four 50-year cash flow scenarios in perspective.

The graph illustrates the distribution of net present values of cash flows using 1,000 stochastic scenarios and discounted at swap rates. The x-axis represents the net present values of the cash flows and the y-axis represents the distribution of results.

We overlaid the four deterministic scenarios on this graph, to provide some perspective about where those scenarios would fall on the distribution. Please note that the distribution of results does not represent the probability of outcomes.

As seen on the far left of the graph, scenario one is an outlier, as it aligns with a very small distribution of results under these scenarios. The other three scenarios are closer to the center of the distribution.

In slide 25, our estimated combined risk based capital ratio improved in the first quarter to 547%. On the right of the slide, the debt to capital ratio, at the end of the first quarter, increased slightly from the fourth quarter to 21.9% and remained better than our target of 25%.

The increase was largely due to $631 million of share repurchases during the periods. The room below our 25% targeted ratio provides us with additional strategic flexibility.

In slide 26, our holding company liquidity stood at $462 million at the end of the first quarter, and this figure reflects share repurchases in the quarter, and remains above our 24-month liquidity target of $450 million. Our estimated statutory surplus in excess of our target RBC ratio of 425% at the end of the first quarter was $1.7 billion, and that's before adjusting for intercompany borrowings.

The middle chart shows our current excess capital position at quarter end, and that is net of intercompany borrowings. To affect the share repurchases, the holding company borrowed a net $499 million from intercompany credit lines on a temporary basis. The $1.2 billion of estimated statutory surplus is net of this intercompany debt.

The outstanding intercompany borrowings, owed by the holding company, will be repaid using ordinary dividends from the operating entities and we expect this to occur later in May. After the repayment of holding company intercompany credit lines, the excess of the ordinary dividends from the operating entities will increase the holding company liquidity. This will not affect the overall excess capital amount in the middle chart.

Adding to potential liquidity is $500 million of pre-capitalized trust securities issued during the first quarter. We issued these securities to provide a source of contingent capital, and we believe this transaction represents a prudent and cost effective way to enhance our balance sheet strength. The chart on the right shows the $631 million we spent on share repurchases in the first quarter, and the remaining balance on share repurchase authorization.

In summary, we delivered strong financial results for the first quarter of the year. We continued to expand our high return businesses, we solidified our balance sheet, we returned capital to shareholders, and we took proactive steps to manage our Closed Block Variable Annuity segment.

I will turn the call back 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*

Thanks, good morning.

I wanted to follow up on something Ewout said in the prepared remarks, just to make sure I have this correct. So you're going to allocate the incremental investment spending costs to the corporate segment, but your comment about the ongoing business ROE still being flat year-over-year would be incorporate that impact that it's going to actually be in the corporate segment? It includes those expenses. Is that accurate?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Ryan.

Indeed, that is accurate. What we have tried to say in the prepared remarks is, compared to the guidance we have provided in February, the guidance is still the same. As you remember, we said that the ROE in 2015, according to our expectations, would remain more or less flat with 2014. With two particular effects, we'll see the benefit of the lower effective tax rate, and that is offset by those investments according to the new strategic plans.

Now we are saying that most likely we are going to report those investments, the $300 million to $350 million over the next four years in the corporate segments, which means that the ROE of the ongoing business will go up based on the effect of the effective tax rate, and that's approximately 50 basis points. But on an apples to apples comparison with the guidance we provided in February, it's still the same as what we told you a few months ago.

I just would like also to point out one other element: what we will report in terms of investments in the corporate line are those start-up investments and development investments on the particular initiatives. All the additional expenses with respect to volume, expansion of the organization and staffing, and other elements, will be reported as operating expenses within our segments in our business.

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

Thanks. And then in terms of the -- I guess, a related question -- would you expect the amount of capital that's allocated to your ongoing businesses to be fairly flat relative to the first quarter amount as we go through the year?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Ryan, that is probably a good theme we can discuss during the Investor Day in June. We are certainly ready to provide more details at that point in time what the plans, with respect to our new initiatives will do for the capital position of the ongoing business. As you understand, the whole focus is here on growing the businesses in a healthy way going forward. That will have a positive effect on the capital base of our businesses. So, there will be new business strain to support the growth of the businesses, and we are planning in June to provide you more details on that.

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

Okay, understood, thank you.

Operator

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

I want to go to slide 23, if I could, on the CBVA scenarios. If I look at scenario 1, the minus $1.8 billion -- as you noted, that's a little bit worse than what you showed us last time. But I also noticed that the lapse rate assumption changed. It had been down 10%, I think, and now it's down 5%. If we held everything apples to apples, meaning the lapse rate down 10% assumption was used in this analysis, what would that $1.8 billion loss be?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Thank you very much for pointing that out. We believe that with these assumptions underneath the scenarios we provide on slide 23, we are comparing the outcomes of the scenarios in a similar way as the way how the scenarios have been constructed in previous years. And the reason is that, as you might recall, in the past the lapse assumption we have in our models, we're looking at an experience base over multiple years.

Last year, in the third quarter of 2014, we updated our lapse assumption, and we trued it up to more recent experience. Under these four scenarios, we applied management's best estimate assumptions; and we have those assumptions today, after all of the updates, and because we have a true-up done with respect to lapse assumptions in the third quarter of last year, we think a 5% additional stress on top of that is more comparable with the 10% stress we did over the assumptions we used before -- and again that was more based on the average of the experience over a much longer period of time. We believe this is a fair and reasonable comparable year over year.

Suneet Kamath - *UBS - Analyst*

That makes sense.

Ewout Steenbergen - *Voya Financial Inc - CFO*

I would like to point one thing further out. If you go to slide 24, you see that scenario 1 is located completely on the left-hand side of the distribution of those stochastic scenarios. In fact, if you would look at the 1,000 stochastic scenarios, there are only four scenarios out of 1,000 -- so 0.4% of the distribution -- that are worse that this particular scenario 1. I thought that was maybe an additional piece of information that could be helpful to point out.

Suneet Kamath - *UBS - Analyst*

That's helpful. Unfortunately, it's that scenario that we worry about.

Wanted to move to capital in a different way. Can you remind us about your plans for ordinary dividends for this year? And any updated thoughts on extraordinary dividends in the second half?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Let me get you the total overview of our capital plan and dividends plan. What we are intending to do in the next few weeks is to request ordinary dividends in three of our entities at a level of $819 million, $819 million which we expect to receive through the holding company later in May. Then we have one of our entities where we will declare ordinary dividends beginning of June that is at the level of $111 million; and then we have still remaining $90 million ordinary dividend capacity which we can take out in December.

In other words, a little bit over $900 million we expect in terms of ordinary dividends over the next few weeks. $500 million of that will be used to repay those intercompany borrowings, and then $400 million will become excess liquidity at the holding company. If you look at the excess RBC we had at year-end, we were approximately over $1.5 billion, so you could say $1 billion of that is capacity in terms of ordinary dividends, as I just explained. $500 million is then available that we will try to take out on the basis of extraordinary dividend distributions.

What we are planning to do is, after we receive the ordinary dividends in May and June, to engage in conversations with the regulators to apply for the extraordinary distributions. We go through a very constructive process with the regulators. In the past we have always received approval for extraordinary distributions, but this requires discussions with the regulators. So we're planning to do that after the May and June periods. The intention is that we request for extraordinary distributions at the level of $500 million then, which we hope to receive in the second half of this year as well.

Suneet Kamath - *UBS - Analyst*

All right, got it. Thank you very much.

Operator

Thomas Gallagher, Credit Suisse.

Thomas Gallagher - *Credit Suisse - Analyst*

Good morning. Just, Ewout, a follow up on the Suneet question.

So in terms of the extraordinary dividend, can you comment on whether or not the proposed changes in variable annuity captives potentially throws a wrench into that, in terms of what's being proposed, what your view of it -- and how that might influence an extraordinary dividend?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning Tom, and thank you for this question.

Let me first make a few comments about the VA captive accreditation process, and then I can specifically answer your question about what will that do with respect to the capital plan for the Company. First, as you are aware, the NAIC has established a VA issues working group, chaired by Commissioner Gerhart of Iowa, and they are going to follow, as we understand, a similar process as what the NAIC has done with the XXX and AXXX captives working group last year. They also hired a consultant in a similar way, which we consider a very positive development. We are actively involved by the ACLI, and what we expect is a rational, constructive, and thoughtful process. And I also would like to comment that it's very rare in the history of the NAIC to introduce new regulation with a retroactive application. The Closed Block Variable Annuity is already closed for 5.5 years. We are not selling for last 5.5 years VAs with living benefits.

With respect to the capital position of the Closed Block Variable Annuity, we will hold full, AG43 reserves, cash flow testing reserves -- in effect we have $1.3 billion of additional hard assets, so no LOCs, hard assets over and above that. And we also meet the CTE 95 requirements for the rating agencies. If we look at the developments with respect to this draft for VA captives and the accreditation, there are a lot of uncertainties about the process, timing, and implementation. But overall, we believe that the capital position about the closed block is strong and it will not influence our plans with respect to our capital distribution going forward. So we will remain focused as management to generate free cash flow and to distribute that to our shareholders in the most effective way. And we believe that our capital position about the VA block is strong and we are not changing our course with respect to this development.

Thomas Gallagher - *Credit Suisse - Analyst*

That's helpful. Thanks.

In the unlikely event that it is not grandfathered -- I mean I would agree with you, based on everything I've seen historically, I can't think of any instances of where, in a situation like this, it wasn't grandfathered. Given that there's some uncertainty there, is there a way of thinking through what that would mean? Of, you know -- are we talking about a material capital issue? Is it just a change in hedge program? It's not clear to me exactly what that would mean.

Ewout Steenbergen - *Voya Financial Inc - CFO*

The way you can think about this is the following: overall, again, in the framework of what I just explained, the capital position in support of CBVA is strong, and we believe we have sufficient flexibility to manage through the potential implications of the VA captive accreditation, or potential recapturing of this block. We believe that the effects and the impacts could impact our RBC ratio, but overall that would be manageable given the resources we have available.

Our concern is not so much about a one-time impact on the RBC ratio. Again, that is manageable. The impact is, that under very extreme economic environments and scenarios, the standard scenario, under C3 Phase II, can become dominant and lead to results and outcomes that do not make sense. What that will mean is a very volatile environment going forward with respect to the RBC ratio, and very volatile environment with respect to our hedging program. And as you know, it's very important for us to be able to run a steady and stable and predictable hedge program on this block.

So in other words, we are not concerned about the impact of the recapturing of the already accreditation itself on our captive. There will be impact on the RBC ratio, but we think it's manageable. The real concern is the volatility that this will bring in the future with respect to our RBC ratio and our hedge program. We believe that, similarly as what we have done in the past with the NAIC, that we are able to entertain a rational and constructive process and that we would be able to find mutual outcomes that work for the regulators and for the industry as well.

Thomas Gallagher - *Credit Suisse - Analyst*

That makes sense, thanks for that answer.

And one follow-up for CBVA. The updated scenario analysis, the $1.8 billion and the worst-case scenario -- does this change your view of the timing of release of capital from the CBVA at all? I think, Rod, when you all had IPOed, you had talked about five years out is when you could practically expect to start releasing capital from that block? Is that still the case, despite the updated analysis?

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

Tom, yes. Good morning.

So the original guidance we gave at the time of the IPO, for those new listeners, was: do not expect a release -- and this was a management position -- of capital from the Closed Block Variable Annuity business sooner than five years. And that was our guidance at that time, and that guidance remains in force today. So no change.

If I could go back to one other piece of what Ewout said -- what he was describing is an industry issue, not just a Voya-specific issue in terms of the hedging and the volatility piece. I think you understood that, but for the other listeners, I want to clarify that point.

Thomas Gallagher - *Credit Suisse - Analyst*

Yes, thanks for that. And one last one if I could.

The 50 -- Ewout, did I hear you correctly? You said of the new planned expense initiatives, the $350 million over four years, $50 million should be expected this year, but then it may be accelerated this year? Did I hear you correctly on that?

Ewout Steenbergen - *Voya Financial Inc - CFO*

That's correct. That's what I said in the prepared remarks. And we'll provide you an update on this during the June Investor Day.

Thomas Gallagher - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Yaron Kinar, Deutsche Bank.

Yaron Kinar - *Deutsche Bank - Analyst*

Good morning, everybody.

On the ROE path -- I realize you'll provide more color on the June Investor Day, but if we're talking about some acceleration of the strategic investments into this year, should we also expect an acceleration of the ROE target of 13% to 14% by the end of 2018? Maybe move that forward as well?

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

Good morning. It's Rod.

We will, again as Ewout spoke about, be giving you and others a broad update of the detailed parts of our plan and our overall guidance that we gave in the February call, fourth quarter earnings call. We're not prepared to update any further guidance today.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. And maybe one clarification on that.

If the strategic expenses are in the corporate -- and if I understand correctly, corporate is not included in the Company's methodology for reporting ROE -- then at the end of the day if we look at the Ongoing Businesses excluding corporate, should we see -- I guess where should we think of ROEs moving to?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Do you mean for 2015? Or do you mean --

Yaron Kinar - *Deutsche Bank - Analyst*

2015.

Ewout Steenbergen - *Voya Financial Inc - CFO*

For 2015, what we are expecting, as I said before, is an ROE that is materially flat and consistent with 2014, which has two offsetting elements, what we said in the past. With the expenses and investments for these strategic initiatives in the corporate line, we'll see the full effect of the effective tax rate on the ROE for the Ongoing Business. So that's a positive 50 basis points that is now not being offset by those investments anymore because they fall in the corporate line. That's just a reporting difference. In terms of the economics, the result is still the same.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. And my follow-up question is on the DOL proposal.

We've heard commentary from a few companies on potential impact. Just curious if you could offer a little additional color on top of what Rod had talked about in the prepared comments, specifically as it would relate to the Retirement segment and the potential for either challenges or opportunities that would arise from it?

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

Sure. Two parts to that.

Just to maybe reiterate a little bit of what I talked about in the opening comments. I think as you all understand, it's early in the process of reviewing, a very highly complex draft, and naturally at this point, difficult to forecast the structure of the final rules. That said, we are confident that our cumulative experience and knowhow that we bring to the market will enable us to respond quickly to changes in the landscape. We have a long history of innovation and expertise across all the tax codes and certainly with large institutional experience.

In terms of the challenges and opportunities, the challenges as have been discussed by others -- the potential increase in compliance and documentation and reporting -- are hard to forecast and predict exactly what that would be. There could be challenges and some opportunities in the sale of rollover products that could be affected. To put that in perspective for us, we have $7 billion of AUM relative to the $280 billion of AUM in total in this segment.

In terms of opportunities, we think we have significant resources and experience to adapt and adapt quickly. We've got a potential to engage more directly with customers, which is consistent with wanting to serve customers how, when, and where they want to be served. And what you'll hear much more about at the investor meeting on June 2 is the digital experiences that we're going to be talking about for both customers and distributors. And we think largely, as best we can understand the proposal today, our full service corporate markets are already aligned largely with the proposal that's being introduced and recommended.

So I think it's similar to what you're hearing; it's of high importance to us as it is for the rest of the industry. We're actively engaged, as I spoke about earlier, we think that we've got the right talent on these issues, and we'll actually keep you posted and very much give you and others an update on the June 2 meeting.

Yaron Kinar - *Deutsche Bank - Analyst*

I look forward to hearing more about it on June 2. Thank you.

Operator

Eric Berg, RBC.

Eric Berg - *RBC Capital Markets - Analyst*

My first question is actually a follow-on to Yaron's question -- the immediately preceding question regarding return on equity.

Because return on equity is by nature an accounting construct, and because you have announced today what I think -- please correct me if I don't have this right -- is a change in your financial reporting policy: moving into the corporate area expenses that would otherwise have been booked at the operating units -- wouldn't it be right to say that you are going to be reporting out, not a flat ROE this year from your Ongoing Businesses, but an increased ROE owing to the lower tax rate this year than last year?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Eric, good morning.

Let me try to clarify this particular point a bit further. So my first comment would be that this is not a change in our accounting policy or practice. What we are trying to do here is to separate very discrete investment initiatives that do not show a good reflection of the underlying performance of the businesses. If you would allocate those investments to the business segments themselves, then you would see an impact on returns and it would be very hard for you, the analyst community, to look through what is really happening with the underlying performance of the businesses.

That's why we're separating out those investments. They are one-time investments; they are only startup investments and development investments. Everything related to ongoing normalized operational expenses will be in the businesses themselves. So, to separate this out, we are able to show you specifically how we are tracking, with respect to that overall budget of $300 million to $350 million, so that you can use that in your models and allocate that back in a way you think is right and appropriate to reflect the actual performance of the business.

This is just in order to be more transparent, more clear, to better show the underlying actual performance of the businesses, and in order for you to keep track of how we are progressing with the overall investment at that level of $300 million to $350 million. But this is only for a very short period of time. This is only temporary. And we are not going to do a permanent accommodation of the corporate segment for these kind of investments. This is only for that three- to four-year window.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you.

My follow-up relates to the CBVA block to management of your capital. You made the decision to bring in Milliman to manage the hedge program and management-related activities. I heard Rod's comment that there's been no change in the guidance regarding when investors should expect capital to be released from the closed block, what about the possibility that you could accelerate your withdrawal from the variable annuity business by selling the business or reinsuring part of the business? What's happening with efforts by your team to try to do that -- a move that presumably would bring the capital closer in time than five years out?

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

Good morning. Excellent question.

All of the activity that has happened and will continue to happen in relation to other potential outcomes for the block are very much still in play. I've said in various different ways, don't assume closed block means passive management. We have a significant amount of capital, hard assets, as Ewout has talked about repeatedly, associated with this block. Mike Smith and Christine Dugan and their team are doing a terrific job managing this. We are actively engaged with players in the marketplace in a variety of conversations.

As you would expect, interest rates and market conditions affect those outcomes, so depending on one's view of where interest rates are going and market conditions, that will affect the engagement of those kinds of alternatives. We have said -- and I'll repeat -- that we have put a substantial amount of hard assets against this, and we are going to do things that make sense economically for all of our stakeholders -- our customers, our shareholders, and naturally, Voya.

That said, that wouldn't in any way be tied to the five years. If we found a solution that was acceptable prior to that point in time, we could make a decision that would correspond with that outcome. And we continue to actively look at those pieces and we'll update you all, naturally, from time to time on that process.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you.

Operator

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

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

Emily, thank you; and thanks to all of you for joining us today. We're pleased with the results we've achieved in the first quarter. And we're excited about our plans for future growth. We have a talented team, a clear vision, and exciting opportunities before us. We look forward to all of you joining us on June 2 to discuss our plans for further growth in more detail.

Thank you and good day.

Operator

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