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PRESENTATION

Operator

Good morning and welcome to the Voya Financial's second-quarter 2015 earnings conference call. (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. - IR*

Thank you, Emily, and good morning everyone. Welcome to Voya Financial's second-quarter 2015 conference call. The 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.

Slide 2 also shows 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 about 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 supplement available on our website at investors.voya.com.

Joining me this morning on the call are Rod Martin, Voya Financial's Chairman and Chief Executive Officer; Alain Karaoglan, Voya's Chief Operating Officer, and Chief Executive Officer of Retirement and Investment Solutions; and Ewout Steenbergen, Voya's Chief Financial Officer. After their prepared remarks, we will take your questions. Also here with us today to participate in the Q&A session are other senior members of management: Charlie Nelson, Chief Executive Officer of Retirement; Jeff Becker, Chief Executive Officer of Investment Management; and Mike Smith, Chief Executive Officer of Insurance Solutions. With that, let's go slide 3 and I will turn the call over to Rod.

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Good morning. Today, I will highlight some recent developments as well as give you some color on the quarter before turning it over to Alain and Ewout for more details. As Darin mentioned, we have additional members of our management team here this morning to assist in answering your questions. I'm glad you had the opportunity to hear from Charlie, Jeff, and Mike at our Investor Day, and we are eager to continue our discussions with you about our plans for future growth.

Let's begin on slide 4 with some key developments. As you know, at our Investor Day in June, we increased our 2018 return on equity target range to 13.5% to 14.5%. This was an increase from the 13% to 14% range we announced in February. And we are fully committed to driving ROE expansion, increasing free cash flow, and accelerating earnings growth.

Supporting our plans will be $350 million in incremental strategic investments that we intend to make through 2018. We're confident that these investments will simplify our IT structure. They will also provide us with capabilities to better understand and anticipate customer needs. We're excited about driving more innovation throughout Voya and we look forward to sharing our progress with you.

Also at Investor Day, we announced a new $750 million share repurchase authorization. During the second quarter, we repurchased $128 million of shares as part of our focus on making effective use of our excess capital. We also entered into a new share repurchase arrangement on July 1 to buy back an additional $150 million of shares.

Our financial performance has helped us generate sustained growth in book value per share which reached $56.33 in the quarter. Finally, in a sign of our further evolution as a public company, we recently welcomed Ruth Ann Gillis, Byron Pollitt, and Joe Tripodi as new independent directors of our Board. Like our other directors, Ruth Ann, Byron, and Joe have extraordinary skill sets coupled with extensive leadership experience. All of our directors provide us with unique insights that will be valuable as we move forward with our growth plans.

Our recent formation of a new Board committee focused on technology, innovation, and operations is an example of how we leverage our directors' expertise in support of our growth strategy. This committee reflects our commitment to technology and innovation as a differentiator for our culture, our value proposition, and the way that we will help our customers get Retirement Ready and to Retire Better.

Moving to slide 5, you can see an overview of our second-quarter results. We generated $179 million or $0.78 per diluted share in after-tax operating earnings. Excluding DAC and other intangibles unlocking, results were $0.80 per diluted share. Our results were mixed this quarter. The earnings for some segments were in-line to better than we planned and some segments were not. Net flows and sales growth were positive across most segments.

On the capital front, we generated additional excess capital and have received regulatory approval from three states for extraordinary distributions. Alain and Ewout will provide further details.

For the 12 months ended June 30, our ROE remained at 12.6%. We are focused on executing the plans we discussed at Investor Day to achieve our 2018 return on equity target. Similar to phase 1 of our ROE improvement journey, our ROE expansion between now and 2018 will not be linear. However, specific to 2015, we continue to expect our full-year ROE will be higher than our full-year 2014 ROE. Our strong leadership team, our strategic investments, and our focus on further improving returns gives me confidence in our ability to achieve our 2018 ROE target and position our business to grow as fast as possible.

Finally, our second GMIB Enhanced Annuitization Offer concluded on May 15. As a reminder, the enhancement rate was half of what we offered last year and the final take-up rate was 7% of the account value eligible for the offer. This is just over half of the take-up rate we saw in the previous offer and represented roughly $3 billion of account value. Overall, our Enhanced Annuitization Offers have been valuable learning experiences. We continue to look at all options and possibilities to continue to reduce the size of this block and we will keep you updated on our efforts.

Moving to slide 6, we have several key sources of shareholder value. Continuing to grow profitably our Ongoing Business is what we see is our biggest driver of value at Voya. Our other value drivers are our tax benefits, excess capital, and the potential value in our Closed Block Variable Annuity segment. And we are committed to taking actions that benefit all of our stakeholders and enable our customers to become Retirement Ready.

Because of this focus, we were one of the first in our industry to provide comments to the Department of Labor on their proposal to broaden the definition of fiduciary under ERISA and the tax code. As we noted in our letter, we shared the DOL's broader goals to help working and retired Americans receive sound advice on savings and planning and to expand access to quality retirement and asset management services. However, we are concerned that the current proposal is excessively broad and complicated. We believe that rather than enhancing investor protection, it would have the unintended result of limiting consumer access to products, services, and information. We believe there are areas of the proposal that can be improved to ensure employers, workers, retirees, and IRA account owners receive the information of services they need to plan, invest, and protect their savings. We plan to remain actively engaged in the dialogue both on our own at Voya and with others across our 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 and Retirement and Investment Solutions CEO*

Good morning. Turning to slide 8, our return on equity was 12.6% for the 12 months ended June 30 while our return on capital was 10.3% for the same period. As I mentioned at Investor Day, we are focused on more than 20 growth, margin and capital initiatives to drive higher growth and achieve our 2018 return on equity target for our Ongoing Business. Let's begin with Retirement on slide 9.

The return on capital was 9.3% or 9% when you adjust for items that we do not expect to recur at the same levels. As we mentioned last quarter, we expect Retirement's return on capital to be flat in 2015. Under Charlie Nelson's leadership, the team is actively engaged in taking steps to ensure we can improve returns in order to meet our 2018 return on capital target. In his first 100 days at Voya, Charlie has been working closely with the team as well as collaborating with colleagues across our businesses, and I am very pleased to have him as part of our team. We look forward to sharing updates with you as we move forward with our plans to improve our momentum in Retirement in 2016.

During the second quarter, we continued to execute on our growth initiatives, including enhancing our distribution and market reach. In Corporate Markets, where we plan to grow our sales and service teams by 20% in 2015, we have already achieved 90% of that target during the first half of 2015. This has resulted in proposal volume being up 20% over the past 12 months compared with the prior 12-month period. Also for Tax Exempt Markets, we have recruited 39 new Voya Financial advisor representatives during the first half of 2015 compared with 51 during the full-year 2014, continuing our efforts around increased customer engagements and enrollment.

We also are focused on driving margin improvement in part by targeting clients that align with our value proposition. Clients see the value of our enhanced suite of products, and our technology and services, which can help their employees become Retirement Ready. While assets under management and administration will fluctuate, we are pleased with the persistency we had in the second quarter. For example, during the quarter, our retention rate for Tax Exempt Markets and Large Corporate Markets Recordkeeping were 96% and 98%, respectively.

Finally, we continue to enhance our digital capabilities. In April, we rolled out the healthcare guidance feature for myOrangeMoney to help participants model the impact of healthcare costs on their future monthly income. In the third quarter, we are adding a Social Security guidance feature to allow participants to model the impact of taking Social Security early or later in retirement. In summary, we're taking actions to ensure that our Retirement business is well-positioned to achieve strong participant engagement, long-term growth, and return on capital expansion.

On slide 10, the return on capital for Annuities improved to 9.5%, or 9.1% when you adjust for items that we do not expect to recur at the same level. We have introduced new products, we've expanded distribution, and run off less profitable business.

In July, we launched Preferred Advantage, which is a complement to our Select Advantage Mutual Fund custodial products. This low-cost attractive retirement accumulation solution provides a wide range of investment options with no surrender charges or transaction fees. Preferred Advantage builds upon our earlier new product launches.

We have also expanded our distribution reach for Annuities as Voya is now the new provider of fixed index annuities for Farmers Insurance. Our new agreement with Farmers provides an additional 13,000 agents with access to Voya's fixed index annuities and supports our growth momentum.

Moving to slide 11, Investment Management's operating margin was 30.5% or 29% when you exclude the results from investment capital. The decline compared with 2014 reflects unusually high performance fees as well as certain fees associated with the private equity fund launch last year. Also, as you can see, in the trailing 12 months ending with the second quarter of 2015, investment capital added 150 basis points to the margin, which is slightly below our long-term expected contribution of 200 basis points. However, this figure can be more or less in any given quarter or any year.

One of our growth initiatives in Investment Management is to further develop offerings for specific client segments and in the second quarter, our private equity business, Pomona Capital, launched a retail fund being distributed solely by Voya solely through financial advisors. In addition, in May, we introduced a zero revenue share target date suite exclusively through Voya's Retirement channel, which is an example of new cross enterprise retirement solutions. Finally, our investment performance remains strong through the second quarter, and we also saw an increase in the number of consultant buy ratings across our investment strategy.

Turning to slide 12, Individual Life's return on capital grew to 5.6% or 5.2% when you adjust for items that we do not expect to recur at the same level. We continue to benefit from the sale of a block of term life business that we executed in the fourth quarter of last year, which further positioned the business to generate improved returns. During the quarter, we made a number of enhancements to our Voya Life Journey app, which is designed to enhance customer understanding of the uses of life insurance in retirement planning. We are receiving very positive feedback on this new resource which can help agents complete sales in less time.

During the quarter, we also continued to shift sales to indexed life insurance as indexed life sales increased 17% compared with the second quarter of 2014.

Turning to slide 13, the return on capital of Employee Benefits was strong at 31.5% and loss ratios for both Stop Loss and Group Life were once again better than the expected range during the second quarter. We are leveraging our success in the large markets and expanding in the middle markets where we believe we can continue to grow profitably. Specifically, we have created a model for employers with fewer than 1,000 employees including appointing dedicated mid-market sales reps and underwriters. We also have established a mid-market operational team in addition to our national accounts model. Simultaneously, we are focused on ensuring that we drive efficiencies in our processes and increasing our close ratio metrics.

Overall, we have made progress across our Ongoing Business during the quarter. As we did during phase 1 of our return on equity improvement plan, we will continue to execute on our plan and take actions that will enable us to grow and to improve our returns. Now I will turn it over to Ewout who will provide more detail on our financial results. Ewout.

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Good morning. Today I will discuss our financial performance for the second quarter of 2015.

On Slide 15, we will first highlight key drivers and other relevant items that factored into our quarterly financial results. In Retirement, our adjusted operating earnings of $125 million this quarter represents the baseline level for future growth in the second half of the year. To support growth initiatives, distribution expansion and related new hiring in the second quarter affected our administrative expenses.

Second-quarter results were also impacted by prepayment income returning to planned levels and lower levels of recordkeeping fees that we have referenced in prior quarters. Our Annuities results were in line with our plans.

In Investment Management, our investment capital results were light this quarter due to lower private equity gains. Individual Life experienced slightly elevated mortality relative to expectations as several large claims materialized during the quarter. In Employee Benefits, the loss ratios for Group Life and Stop Loss continue to benefit from favorable claims experience relative to expectations to support growth in the business, expenses and commissions were sequentially higher.

As reported in the Corporate segment, $13 million of the planned $350 million incremental investment was incurred this quarter. Looking ahead, we would like to discuss some factors that we expect to affect us. We generated $475 million of net inflows in Retirement this quarter, which I will discuss in more detail on the next slide. As mentioned in May, we do anticipate two large non-renewed cases which were in Full Service Tax Exempt Markets to affect Retirement flows. This will specifically impact the third quarter where we expect net Retirement outflows to range between $1.9 billion to $2.3 billion.

We also expect minimal earnings in our Closed Block Other segment for the remainder of the year due to a reinsurance transaction that was completed in the second quarter involving a legacy workers compensation and accident block.

Then slide 16, we had positive flows in all of our Retirement markets for the second consecutive quarter. Within Corporate markets, we have seen continued net inflows for 15 of the last 16 quarters. In Stable Value, we attracted positive inflows again this quarter, though we would like to remind everyone that flows can be lumpy from quarter to quarter. As always, we will remain disciplined with our pricing and risk tolerance across our major markets.

Slide 17, we continued to generate positive net flows in our Select Advantage Mutual Fund Custodial product. Since its launch in December 2009, Select Advantage has attracted 22 consecutive quarters of net inflows. Outflows of capital-intensive products such as the Multi-Year Guaranteed Annuities continued, which is a positive from an ROC perspective. We anticipate the runoff of the Multi-Year Guaranteed Annuities to continue and net outflows to taper off as the size of the book become smaller. For fixed index annuities, net flows were slightly negative as our sales were affected by the low interest rate environment. It's worth noting that this quarter's net flows remain minimal relative to the size of our overall $13.5 billion fixed index annuity book. We are maintaining pricing discipline while proactively adjusting caps and rates on our existing products.

Turn to slide 18, Investment Management sourced net flows were positive for the third consecutive quarter at $546 million. Interest across a diverse range of asset classes including our senior loan strategy, alternative credit offerings, and large cap equity growth funds drove this result. Variable annuity outflows for the funds that are managed by Investment Management were $1 billion which were accelerated by $148 million of additional outflows due to our second 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 that are a positive for the large enterprise. We would like to point out that these outflows are largely in lower fee funds.

Turn to slide 19, 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 elevated mortality driven by higher severity. The normalized mortality ratio would be approximately 90% on an actual to expected basis.

Now moving to slide 20, we had strong year-over-year sales in Employee Benefits, led by our Stop Loss products, following seasonally higher first-quarter sales. We continue to drive profitable growth by increasing sales while maintaining our pricing and underwriting standards. Our loss ratios for Group Life and Stop Loss both continued to come in better than our expected range of 77% to 80%.

Slide 21, in the Closed Block Variable Annuity segment, our hedge program performed within expectations as our hedges offset the effects of market movements. The living benefit net amount at risk decreased to $3.7 billion during the quarter primarily driven by increasing interest rates. We have estimated available resources of $4.8 billion, which compares favorably to the living benefits' net amount risk. These are all hard assets and no LOCs were needed. We note that we have not utilized LOCs since the second quarter of 2013. The annualized net outflow rate in this closed block was 13.8%, which includes a 2.2% benefit from our second Enhanced Annuitization Offer.

Then slide 22, our estimated combined risk-based capital ratio ended the second quarter at 482%. The ratio reflects $930 million of ordinary dividends from our insurance companies and $98 million of extraordinary distributions which was approved by the Iowa regulator during the second quarter. On the right side of the slide, the debt to capital ratio at the end of the second quarter decreased from the first quarter to 21.5% and remain better than our target of 25%. We achieved this even as we executed $128 million of share repurchases during the period at an average price of $46.22 per share. The incremental room below our 25% targeted ratio provides us with strategic flexibility.

Slide 23, our holding company liquidity stood at $773 million at the end of the second quarter and remains above our 24 month liquidity target of $450 million. The middle chart shows our second quarter end excess capital position at $1.1 billion which consists of estimated statutory surplus and holding company liquidity above target. At the end of the second quarter, our estimated statutory surplus in excess of our target RBC ratio of 425% was $796 million. The $323 million figure represents excess liquidity at our holding company.

The second quarter ending excess capital position includes the full repayment of intercompany borrowings by our holding company and the upstreamed ordinary dividends and extraordinary distributions mentioned on the previous slide. In addition to the extraordinary distributions already paid to our holding company in the second quarter, our insurance subsidiaries in Colorado and Minnesota declared $410 million of extraordinary distributions in June and July. Our regulators approved the $410 million of distributions last week which we have repatriated in the meantime to our holding companies.

The chart on the right shows the amounts that we've deployed toward share repurchases since the beginning of the year. In the first quarter, we used $631 million to buy back shares. We have deployed an additional $128 million in the second quarter for a year-to-date total of $759 million. The remaining balance on our share repurchase authorization is $752 million. On July 1, we entered into a $150 million discounted share repurchase arrangement with a third-party financial institution. This arrangement allows the financial institution to actively repurchase our shares throughout the quarter. We will receive the shares at a discount to the volume-weighted average share price upon the closing of the transaction which could occur during the third quarter or very early in the fourth quarter.

In summary, we are on track to meet our ROE expectations for the year. We continued to execute and lay the groundwork during the quarter to further 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. We also wanted to mention that we have included a new summary page in the appendix of this presentation, and that's on page 29, that may help analysts model our Ongoing Business. There is nothing new on this page other than it consolidates our comments presented in prior periods.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Seth Weiss, BofA Merrill Lynch.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Could you comment a little bit on expenses in the quarter or maybe a little bit more generally, first half of the year where it looks like there is a step-up in both Retirement and Employee Benefits expenses? If you could help us look about if that's a proper run rate going forward.

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Good morning, Seth, this is Ewout. If you look at expenses, there are different reasons why we see some elevated expenses during the second quarter. We have made very deliberate decisions to invest in expansion of distribution in our Retirement and Investment Management businesses, and that is what you are seeing in the administrative expenses during the second quarter for those segments. In Retirement, there were also certain nonrecurring expenses during the quarter at a level of $3 million, so those expenses you should not expect to recur in the third and the fourth quarter.

With respect to Employee Benefits, expenses are going up and that is directly correlated with the volume of the investments with the Employee Benefits business. Premiums are going up, new sales is going up, and that leads to higher administrative expenses -- as well as also higher trail commissions in Employee Benefits. So different backgrounds, different reasons mostly linked to commercial activities but also please keep in mind there is a $3 million one-time nonrecurring item in Retirement.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, great, thanks. And Employee Benefits specifically, when we think about trail commissions, what's the biggest driver of that? Is it more so ongoing premium than sales? Is that the way to think about it?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Mike will take that.

Mike Smith - *Voya Financial, Inc. - Insurance Solutions CEO*

Hi, Seth. I think the way to think about that is the renewal of existing cases leads to payments to certain select brokers that then shows up as -- we call it retention, but effectively, it's a trail commission.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, great. Thanks. And on the Individual Life, have you guys given the sensitivity of what beats or misses in the actual versus expenses translates to in dollar amounts?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Seth, is your question about expenses or about mortality?

Seth Weiss - *BofA Merrill Lynch - Analyst*

I'm sorry, about mortality.

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

If you look at mortality, as you see, this is very much normal course of business. We are clearly within a one standard deviation from our expectations. There were a couple of larger claims over $1 million, so that is the severity but nothing out of the ordinary, very normal course of business and normal volatility with respect to mortality.

In dollar terms, the impact is approximately $8 million for the quarter but you have to also take into account that Individual Life had better results in terms of the investment margin as well as had lower expenses during the quarter, so you probably have to see it in combination with each other, but the stand-alone mortality effect -- negative mortality affect due to the experience in the quarter was approximately $8 million.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

Starting with Retirement, of the $1.9 billion to $2.3 billion of outflows that you expect in the third quarter, can you give us a sense of maybe the ROC on that business and maybe how much capital you would expect to be freed from those outflows?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Charlie will take that.

Charlie Nelson - *Voya Financial, Inc. - Retirement CEO*

Those are Tax Exempt programs or plans, and I think we're going to have to get to back to you on the exact amount of capital that would be associated with that.

Suneet Kamath - *UBS - Analyst*

Okay, but as we think of your strategy of working through the back book in terms of repricing, I know things can be lumpy quarter to quarter, but should we be seeing the light at the end of the tunnel in terms of these sizable outflows, or do you still think that we're going to see more of this in the coming years?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

That's a good question. It's Rod speaking. So at Investor Day, we talked about the fact that we have really the balance of 2015 and the full year 2016. So we very much can see the light at the end of the tunnel. We do participate, as you well are aware, and this was discussed on the call, in the large market and so when one of those cases leaves, it represents itself in the way that Ewout described. But this will be substantially behind us by the end of 2016 and we will be in a normal mode of having run through the renewal cycle of that block of business within our broadly defined Retirement platform.

Suneet Kamath - *UBS - Analyst*

Okay, got it. And then my second is on the Annuities business, particularly with respect to the Enhanced Annuitization Offers, so just a quick two-parter. One, are there more of these in the works? And then second, do you think -- is there any way that the Department of Labor's focus on fiduciary standards could impact your or the industry's ability to proceed with these types of transactions?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Suneet, let me go first into the second Enhanced Annuitization Offer. We are very pleased with the outcome of the offer. It's another good progress we have made with respect to the runoff of the closed block, lowering the risk, reducing the market risk, and reducing the hedge program. So we're very pleased and obviously we will continue in a very active way looking for opportunities to develop new programs to stimulate further runoff of this book. There's nothing to mention at this moment. It's still under development but at this moment, we are pleased with the outcome, there were a lot of learnings from the first and second annuitization offers and we will apply that in our next actions.

On your second question, with respect to the impact of the DOL on the Closed Block Variable Annuity, the headline answer would be that we continuously monitor our lapse experience but, at this moment, we don't believe that there will be a large change in lapse rates especially for policies at higher levels of -- in the moneyness. Let me expand a bit on that answer. Approximately 60% of our Closed Block Variable Annuity book is in terms of qualified products. Policies are in the money for a large part of the book, as you are aware, and that has already set a high bar with respect to rollovers, in general. You have to also keep in mind that on average, there is a very high average age in terms of the policyholders of this book. That is most likely the reason why we have seen lapses coming down after the financial crisis for both a combination of average age, but especially that the in the money levels have gone up after the financial crisis. This is not a homogeneous book so some lapses are better than other lapses, but in general as far as we would predict at this point in time, we don't believe that there will be a very large change in the lapse rate but obviously we will continue to monitor that and make adjustments as needed.

Suneet Kamath - *UBS - Analyst*

Got it, but has there been any chatter around the DOL proposal and that specifically impacting your ability to do these enhanced annuitizations? That was the thrust of my question.

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Yes, it's Rod. It's still, as you are well aware, in motion. We are actively participating. You saw the letter that we wrote. We've made a number of very, I think, sensible suggestions including a customer bill of rights. Voya and Charlie will be participating in the hearings of the DOL, and I think it's just too premature to speculate beyond that at this point in time. They have appeared to demonstrate a willingness to listen to multiple points of view from the industry and so we are encouraged by that. But beyond that, I think it's simply too premature to speculate on the DOL as it relates to VA or, frankly, the rest of our business.

Suneet Kamath - *UBS - Analyst*

All right, thank you.

Operator

Erik Bass, Citigroup.

Erik Bass - *Citigroup - Analyst*

So Ewout, I think that you mentioned that 2Q results should serve as a baseline for Retirement earnings for the second half. Is that adjusting for the $3 million of one-time expenses? And then thinking further out, should we expect an inflection point in the future where expenses drop off and earnings growth in Retirement accelerates?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Erik, let me expand a bit on answer I provided earlier. So if you look at the $125 million and the comment that that provides a good base for further growth over the next few quarters, I was especially indeed having in mind the $3 million of the nonrecurring expenses that we then should see as a benefit for the next quarters, as well as if you look at the alternatives and prepayment income for the quarter -- for the second quarter of the total

Ongoing Business, it was basically flat and in line with our expectations. For Retirement specifically, it was $2 million below our expectations. So we would also normalize that in terms of our forecast for the next few quarters.

On top of that, you're right. If we are speaking about normal course of business development in Retirement, especially if certain plans are leaving us, there's always the opportunity to adjust certain expenses that are directly related to those plans in the future as well, so there should be an offset and overall we expect that the Retirement expenses should show a slight declining trend over the next period, combined with future growth of the business. But I think Charlie, maybe you can speak better about the opportunities there?

Charlie Nelson - *Voya Financial, Inc. - Retirement CEO*

Yes, thanks. Obviously we are committed to responsibly managing our expenses over a number of initiatives and I think that we've got going both digital and platform consolidation. In terms of growth, we have a number of growth initiatives in Retirement. The expansion of our distribution team and the 401(k) advisor group in our Tax Exempt, which we think are really going to help accelerate our growth in the future, but I'd caution that it does take time for those to be realized as you start to bring it into the organization.

Erik Bass - *Citigroup - Analyst*

Thank you. And, Ewout, just to make sure I've got it correct, so should we adjust the $125 million for the $3 million of one-time expenses and the $2 million of shortfall? So really using $130 million as a base or are you saying $125 million is still a good baseline, in your opinion?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

I think you have the pieces there Erik, so $125 million plus $3 million, plus $2 million, I think that is how you should look at it.

Erik Bass - *Citigroup - Analyst*

Got it. And then can you talk about the trend just in overall fee-based margin which is down slightly year over year and flat sequentially. Is this primarily driven by the decline in Recordkeeping fees or are there other factors driving it. And going forward, should we expect the fee-based margin to track AUM or are there margin dynamics or other things to think about?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

No, this is primarily driven by the decline in Recordkeeping fees. We have told you before that Recordkeeping fees should be approximately $43 million a quarter going forward. If you look at the non-Recordkeeping Full-Service fees, we see a normal trend. The variable assets under management went, in fact, up quarter over quarter are now slightly over $84 billion. You see margin there is rather stable, 70 basis points. So this is really driven primarily by the Recordkeeping fees.

Erik Bass - *Citigroup - Analyst*

Got it, thank you.

Operator

Tom Gallagher, Credit Suisse.

Tom Gallagher - *Credit Suisse - Analyst*

First question is just to clarify, Rod, did I understand you correctly in your remarks where you said you expected the 2015 ROE to be better than 2014? Or are you still expecting it to be consistent with 2014 level?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

No, Tom, you understood it. Correct, that we anticipate full year 2015 to be better than full-year 2014 ROE.

Tom Gallagher - *Credit Suisse - Analyst*

And correct me if I'm wrong, but the -- your previous commentary around that was consistent with 2014 levels?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

It probably was, and Tom, we think it's going to be modestly better, but nonetheless better.

Tom Gallagher - *Credit Suisse - Analyst*

Okay, so not --

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

If I may add -- this is Ewout, two elements there. We have previously speaking about two elements that affect ROE. On the one hand, the benefit of the effective tax rate which has come down from last year to this year to 32% and then originally, at the beginning of the year, we had announced that we might have some of those strategic investments in line with our new plans in Ongoing Business and that the two effects would be offsetting. With the strategic investments now in the Corporate segment, you will see the benefits of the effective tax rate not offset anymore, so that is in fact the main driver of the improvement of the ROE for your Ongoing Business in 2015 versus 2014.

Tom Gallagher - *Credit Suisse - Analyst*

Okay, and is it fair to say though guys on that topic there's nothing that's really changed in terms of where you first saw things and how returns are progressing so far this year?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

I think that's a fair summary, Tom.

Tom Gallagher - *Credit Suisse - Analyst*

Okay. The next question I had is just on statutory capital and earnings generation. Is it also correct to assume that there were close to breakeven statutory earnings this quarter if I look at the roll forward to stat surplus and dividends taken up to the holding company, it looks like there was not much in the way of statutory earnings. Is that -- first off, was that the case, and second, what was causing that?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Tom, we had statutory operating income this quarter of $227 million and that is net of some hedge losses. Offsetting that are some realized and unrealized losses. What you have to take into account is there is a maximum of 15% of our admitted deferred tax assets we can count to the total adjusted capital. And if you take, in other words, out dividends of a bit over $1 billion out of the operating entities, there's an immediate offset of a $150 million of reduction of the admitted deferred tax assets. So that is the effect of what you see underlying.

We are building up, of course, total adjusted capital, statutory earnings, so that will increase the admitted DTA at the same time, again. So overall, we think there is that offsetting effect of the admitted DTA versus the statutory operating income during the quarter.

Tom Gallagher - *Credit Suisse - Analyst*

Okay, that's helpful, thanks. And lastly, is it fair to say when we think about CBVA going forward that the likely path forward for the next couple of years will continue to be at the customer level in terms of these annuitization buyout offers? Or do you think that it's likely or possible that we will get something larger from a risk transfer standpoint?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Excellent question. It's Rod, I will begin. I think the way you described it, it's a fair summary at the customer level. The other factors would be influenced naturally by the external environment. As we discussed at the investor conference, by way of example, where are interest rates in the next 12 to 18 to 24 months. And frankly, the same thing with the equity market, and those will be factors that will influence the other commercial alternatives that would and could be available. Rising interest rates as I said at the meeting is very good for our customers and, frankly, very good for Voya in that aspect.

Tom Gallagher - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Ryan Krueger, KBW.

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

On the year -- I think you do your third-quarter actuarial testing coming up next quarter. Can you talk a little bit about the interest rate assumptions and how you feel about those in relation to what you -- in relation to the current environment we are in today?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Ryan, in general terms there's not a lot we can say at this point in time. We go through our normal procedures as we do every year during the third quarter. We do our internal studies, we supplement that with external studies, we get external and internal actuarial advice on that. Our auditors are involved. We look at economic assumptions, we look at actuarial assumptions, we look at policyholder behavioral assumptions, and so on, and then we come to conclusions.

At this point in time, we had not drawn any conclusions and there's no further commentary we can offer. We will come back to you with a clearer explanation with all the details during our third-quarter earnings call.

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

Okay. Understood. And then on Individual Life -- at the Investor Day, you talked about continuing to evaluate ways to reduce the reserve financing cost. Can you give us any sense of how far along you are in that process? Have you been evaluating potential opportunities for a long period of time and you're at a point where we could see a transaction, or are you more in the early stage of that process?

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Great question and I think you have a correct assumption -- summary of the conversation. What we don't do is speculate on an interim basis of where we are on the progress. I think it's fair for you to take away that we are actively looking at our book and proactively managing that outcome as evidenced by the transaction we did last year, and it would be reasonable to expect us to look at that in the same way it on a prospective basis. Beyond that, we're not going to speculate on the size of it or, frankly, the timing because it's just inappropriate. But we -- you should expect us to continue to look at that and other books of business in the same way as evidenced by the transactions that we, in fact, put in place and executed very successfully last year.

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

Understood, thank you.

Operator

Yaron Kinar, Deutsche Bank.

Yaron Kinar - *Deutsche Bank - Analyst*

I want to go back to the expense issue. And maybe you can help us conceptually to understand the difference between the investments in platform that we saw flowing through the segments and the strategic investments of $350 million that we should expect over the course of the next four years that are flowing through Corporate. What's the difference between the two? Are there different targets and different ramifications of these expenses? I guess I was just a little surprised to see the creep up in both Investment Management and Retirement given the fact that we are also seeing the strategic investments coming through Corporate.

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Yaron, this is Ewout. The way you can think about it is the following. So if you think about the new strategic initiatives, the $350 million, that $350 million is linked to very distinct initiatives in the areas of IT simplification, digital, analytics, and certain cross-enterprise initiatives. We have a very clearly defined list of initiatives where the $350 million can be used for.

Next to that, we have our normal course of business. Investment Management, and Retirement are expanding distribution, which will lead to future growth, future sales, and future revenues. You don't see those revenue showing up in the current quarter results but these are normal course of business expansion opportunities to improve sales going forward and we see that as normal course of business, and those expenses will be incurred in the business segments themselves.

So think about the $350 million, very specific strategic initiatives, clearly defined in normal course of business developments, and growth of sales and distribution you should see going forward as well in our business results.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. But when I think of the normal course of business expenses, nonetheless, I would say it seems like at least first half of the year, we are seeing an uptick in those normal course of business expenses. I'm assuming that that is not something that we should expect over the long run remaining at these levels. So there was some abnormality to it as well, no?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Well again, Yaron, it's mixed in terms of the reasons in the background, so the increase of expenses in Employee Benefits is directly linked to current sales, current volume, so as long as the business will continue to do well, we will go to the mid-market segment going forward, those expenses you should see going up, but those are healthy expenses because it's directly linked to the growth -- sales growth, business growth of Employee Benefits.

In Retirement and Investment Management, some of those expenses are linked to distribution expansion, where you should see the results in the future in terms of sales asset growth, fee growth. So you don't see that today in the numbers. We expect those expenses not to go up from here, but those level of expenses you should model going forward because that's part of our business proposition at this point in time. For Investment Management, think about the expansion in the insurance customers distribution, international distribution, and those kind of distribution expansion. Again, for Retirement, there were also specific certain nonrecurring expenses, the number, I already mentioned, and we don't expect to see those coming back in the next few quarters.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay, that's helpful. And then my second question goes back to the DOL proposal impact, do you expect it to impact your ability to grow in the Retirement segment specifically as you look to expanding into Individual and Corporate markets?

Charlie Nelson - *Voya Financial, Inc. - Retirement CEO*

Well, I think as Rod had indicated, it's difficult to say what the final rule is going to come out as but I think, in short, we would say we are optimistic for our ability -- because of our positioning, our products, our solutions to continue to grow in the retirement space. If you look at the -- and surf the web, you'll find there's been like 928 comment letters from a variety of providers and 16 petitions from almost 200,000 individuals and that tells you there's a lot of interest in this, obviously, and we are very hopeful that the DOL is going to massage the language I think in a way to promote advice that will not incur the unintended consequences that I think is pointed out in ours and other industry comment letters. So we're optimistic in our positioning in the marketplace to continue to grow depending on the final outcome of the regulations.

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

And as I mentioned a moment ago, Charlie will be and Voya will be actively participating in hearings which are coming up very shortly. We've made I think very clear summary of our responses to the letter and very strongly agree with the DOL on enabling the customer to have better access to this outcome. There is no disagreement on that other than the methodology and process of which to get there. So we are actively engaged, we are encouraged about their willingness to listen, and they do.

Yaron Kinar - *Deutsche Bank - Analyst*

Thanks for the comments.

Operator

Michael Kovac, Goldman Sachs.

Michael Kovac - *Goldman Sachs - Analyst*

I'm wondering -- thinking about the Retirement segment in the landscape more broadly, and understanding that you're going to have some key nonrenewals in the second half of the year, can you discuss where you are actually seeing opportunities and whether going forward it's going to be from taking share rather than improving retention as you work through pricing? That's the first part. And then the second part, which specific markets are you seeing the best opportunities in? And I've noticed some of the headlines that have come across have been for both Corporate and some of the not-for-profit markets. Thanks.

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

Let me begin and then I'll hand it a Charlie. On the renewal of the existing block, as we discussed in previous periods, and again, a very fair point. We -- as I mentioned, but end of 2016, we will be through that journey. And we've been very disciplined about our process of renewing cases that meet our return expectations and passing on cases that don't. And occasionally, we simply just don't win a bid and that happens with all companies. But I think the focus that we have and we suspect the focus that you have now is as much turning to the second part of your question and that's how we are doing on new business and where do we see the growth opportunities and how are we competing there. And with that, I will pass it to Charlie to give an overview.

Charlie Nelson - *Voya Financial, Inc. - Retirement CEO*

Thanks Rod. I think, relative to your question, there's a number of areas and we are very optimistic about our positioning and the small 401(k), the large mega 401(k), and expanding into the mid-market 401(k) -- it's one of our initiatives to grow there as well as well as our strength and positioning in the 403(b) and in the government marketplace. I think that's all kind of combined together for new plan growth with our strong retail wealth management team that we have in our group of advisors. So as I think about our expansion in our growth, it's not just on the new, it's about getting more also out of our existing clients and building upon the relationships to improve outcomes for participants.

A lot of our digital initiatives are really focused on that. For example, we just announced recently there is going to be a new addition to our myOrangeMoney where we have a new tool which is referred to as the Match Maximizer. If you look, there's about two thirds of participants that do not maximize their match in their 401(k). And with our new tool, with one click, a participant can get there contribution level right to the max of the maximum level for their employer. We think, as an example of that, will drive recurring contributions, match contributions, and build our base over time. So it's just one example of how our digital initiatives are coming to life and what we believe will grow not just our new business, but also help expand on our existing.

Michael Kovac - *Goldman Sachs - Analyst*

Great, thanks. And then shifting gears. On capital deployment, how are you thinking about utilizing share repurchases relative to excess capital on a run rate basis going forward and knowing in the past there been some more chunky quarters relative to ING's exit. But how do you think about the position you are sitting in today versus what you want to do on a run rate going forward?

Ewout Steenbergen - *Voya Financial, Inc. - CFO*

Michael, as you've heard, we are in a very strong position with respect to the capital position of the Company. We are very pleased with the extraordinary distributions that have now gone to the holding company and the holding company liquidity is strong. And as we have announced earlier today, we have a current program, a discounted share repurchase program running at the level of $150 million.

We have a remaining $600 million under our share repurchase authorization. We have sufficient cash and liquidity at the holding company to fund that at this point in time with the extraordinary distributions which we received to the holding company. So what you may expect this to continue to do is a gradual and steady pace of buyback over the next few months and quarters. The $600 million will expire the mid of next year, so we will go through that in a steady pace as we have done over the last period. We are having an opportunity to have discretionary buybacks on top of the existing program as long as we work with the same broker, so there is really opportunity to take benefit of the strong capital position of the Company in the next few months.

Rod Martin - *Voya Financial, Inc. - Chairman and CEO*

I want to thank you all for your questions. We're excited about our plans for future growth and the value our investments will bring to Voya's customers and shareholders over the next few years. We've got a talented team, a clear vision, and a relentless focus on executing on our plans to achieve our 2018 ROE target. We look forward to sharing further details on our progress as we move forward. Thank you and good day.

Operator

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