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PRESENTATION

Operator

Good morning, and welcome to the Voya Financial third-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. - SVP of IR*

Thank you, Emily, and good morning, everyone. Welcome to Voya Financial's third-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 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 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 Financial's Chief Operating Officer, and Chief Executive Officer of Retirement and Investment Solutions; and Ewout Steenbergen, Voya Financial'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 to slide 3, and I will turn the call over to Rod.

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

Good morning, and thank you for joining us today.

Let's begin on slide 4 with some key themes. Since our IPO, we've created significant value for Voya's customers and shareholders. We've made strong progress, and we're focused on continuing our momentum. We are executing on clear growth, margin and capital initiatives, and we remain on track to achieve our 2018 ROE target of 13.5% to 14.5%.

As an example of our efforts, during the quarter we agreed to sell a block of term life policies. This transaction is broadly similar to the one that we executed last year. It will improve the ROC for Individual Life and our Ongoing Business by 10 to 20 basis points. To put this in perspective, this transaction is worth approximately 10% of the 150- to 250-basis-point improvement in our ROC that we're targeting for 2018, and we expect it will generate more than $230 million in excess capital. Moving forward, we will continue to pursue and execute on strategic initiatives that will help us achieve our targets.

In addition, our Retirement and Investment Management businesses are equity-sensitive. They performed well despite market volatility during the quarter. In our Individual Life business, unusually high severity more than offset favorable frequency experience. Also worth noting is that our Closed Block Variable Annuity hedge program performed as designed during the quarter. We continued to achieve our primary goal with the CBVA segment of protecting regulatory and rating agency capital from market movements.

Finally, we continued to use excess capital to repurchase shares. During the quarter, we repurchased $481 million of common stock. Since our IPO, we've returned more than $2 billion to our shareholders. This has helped us reduce our shares outstanding by 17%. And at the end of September, we entered into an arrangement to repurchase an additional $100 million of stock. Returning capital is another example of how we're demonstrating our commitment to shareholder value.

Moving to slide 5, you'll see an overview of our third-quarter results. We generated $93 million or $0.42 per diluted share in after-tax operating earnings. Negative DAC unlocking this quarter impacted results by approximately $0.28 per share. Excluding this, results were $0.70 per diluted share. Ewout will provide more details on the annual assumption review shortly.

In our Ongoing Business, we generated $303 million of adjusted pre-tax operating earnings. Unfavorable mortality in Individual Life, and lower-than-expected alternative investment income, offset positive results in Retirement, Annuities, Investment Management, and our Employee Benefit businesses. Finally, for the 12 months ended September 30th, our ROE was 12.3%. We continue to execute on our plans; and as I mentioned previously, we remain committed to our 2018 ROE target.

On slide 6 you will see our key sources of shareholder value. We believe growing our Ongoing Business by helping Americans get ready to retire better makes Voya an attractive investment opportunity. Tax benefits, excess capital, and the potential value in our Closed Block Variable Annuity segment are also value drivers. Our work to transform our culture, and create a "One Voya" mindset has led to stronger organizational health, and an optimized ability to execute our strategy and deliver greater value. In a recent organizational health index survey of our employees, conducted by a third party, we received a 90% participation rate and improved our organizational health by 10 points over the past 18 months. This significant improvement, which has placed us in the highest quintile of over 700 firms tracked, bodes well for our ability to execute our strategy and achieve our 2018 ROE target.

With that, let me turn it over to Alain for more details on our Ongoing Business.

Alain Karaoglan - *Voya Financial Inc - COO & CEO, Retirement and Investment Solutions*

Good morning. Turning to slide 8, our return on equity was 12.3% for the 12 months ended September 30, while our return on capital was 10.2% for the same period. As Rod mentioned, we remain on track to achieve our 2018 return on equity target of 13.5% to 14.5%. This will be driven by our more than 20 growth, margin and capital initiatives, and the strategic investments that we are making over the next few years.

As we have previously discussed with you, our return on equity expansion between now and 2018 will not be linear. We expect that when you exclude items that we do not expect to recur at the same levels, our full-year 2015 return on equity will be higher than our full-year 2014 return on equity. This is even after the strong fourth quarter of 2014 results rolls out of our 12 month return on equity calculation. Recall that in the fourth quarter of 2014, we benefited from a high level of performance fees in Investment Management, and very favorable underwriting results in Individual Life and in Employee Benefits.

Now, let's look at some details on our Ongoing Business return on capital improvement efforts.

On slide 9, Retirement's return on capital was 9.0%, or 8.9% when you adjust for items that we do not expect to recur at the same level. During the quarter, we continued to make investments to enhance distribution, to drive growth, and to differentiate Voya in the Retirement marketplace. To support growth initiatives in 2015, we expect to increase our Corporate Market sales and service team by 20% compared to 2014. This will help improve client service, as well as participant engagement. In fact, we are already seeing some positive results from this investment. For example, during the first nine months of 2015, new business proposal volume was up 18% in Small-Mid Corporate compared with the same period in 2014. This increase in proposal volume should lead to higher sales over time.

We also continue to enhance MyOrangeMoney. Functionality has now been added to help participants who are enrolling in their 401(k) plan see what level of future income their per-paycheck deduction could provide. This aligns with our approach of helping participants think of retirement in terms of monthly future income versus accumulating a lump sum. MyOrangeMoney enrollment also offers a "Step Up to Your Peers" tool. This helps participants see what others at similar ages and incomes, and who are on track in terms of retirement planning, are contributing. We've begun to add this new feature for enrolling participants. In early results from the new enrollment functionality, we've seen a 40% increase in contribution amounts compared with the former functionality and process. While this improvement is on a small sample, it does show encouraging results.

Finally, we have begun to roll out enhancement to our plan sponsor website. Specifically, we're one of the first in the industry to add an interactive tool that enables a plan sponsor to view the retirement readiness on their plan's participants. Specifically, this tool measures the ability of participants to replace their income in retirement. The tool uses data from participants defined contribution savings, social security, and other sources of savings or income provided by either the plan sponsor or by the participant. This enhancement lets plan sponsors see the overall ability of their employees to retire on time and with enough income in retirement. Using this tool, they can take actions to help their employees with their retirement readiness. It's also another solution that enables us to demonstrate to employers the value that Voya brings to their retirement savings plans and to their employees. Our focus on differentiating Voya will not only position us well in the market, but it will also enable us to achieve improved returns.

On slide 10, the return on capital for Annuities improved to 9.7%, or 9.6% when you adjust for items that we do not expect to recur at the same level. We continue to leverage our strong product portfolio, as well as expanded distribution to drive growth in Annuities. Compared with the second quarter of 2015, total Fixed Indexed Annuity sales grew 35%. This includes a 50% increase in sales of our flagship Fixed Indexed Annuity product, due to the popularity of spread-based strategies. In September, we further enhanced our product lineup by launching a new index crediting strategy in two of our Fixed Indexed Annuity product lines. This new crediting strategy enables customers to benefit from low spread rates with growth potential, while also receiving a level of protection from market downturns. To put this in context, more than 25% of industry sales currently elect similar volatility control strategies.

In terms of distribution, we continue to grow our reach in institutional channels. In particular, our growth in the bank channel has been helped by our expanded product portfolio and addition of new partners. We plan to build on this momentum in this and other channels.

Moving to slide 11, Investment Management's operating margin was 29.2%, or 28.7% when you exclude results from investment capital. The decline compared with 2014 was driven by certain fees associated with a private equity fund launch last year. In the trailing 12 months ending with the third quarter of 2015, investment capital added 50 basis points to the margin, which is below our long-term expected contribution of approximately 200 basis points.

During the quarter, our investment performance continued to be strong, and we made progress on a number of growth initiatives. Our expansion in offering our asset management expertise for insurance companies has had some early success, as we won several mandates that have not yet funded. These new mandates are with insurers across the reinsurance, health and property/casualty industry for investment grade and for high-yield private credit, as well as our senior loan strategies. We also have expertise in private placements, commercial real estate, structured credit, and several other asset classes that we offer to insurance companies and expect to capitalize on. We continue to leverage our specialty fixed income track records and long-tenured investment teams to serve this market.

In addition, we launched a Credit Opportunities Fund during the quarter that was developed with a leading pension consultant. The fund has a hedge-fund-like structure and seeks a high level of total return through a combination of current income and capital appreciation. Considered an alternative credit product for pension plans, we were able to leverage our diverse capabilities in fixed income and alternatives for this new fund. Finally, we also closed two successful collateralized loan obligations in the third quarter totaling close to $1.4 billion.

Turning to slide 12, Individual Life's return on capital was 5.2%, or 5% when you adjust for items that we do not expect to recur at the same level. As Rod discussed, our sale of a block of term life products will benefit the return on capital of both Individual Life and the Ongoing Business by 10 to 20 basis points, and will free up $230 million of capital. Also during the quarter, we entered into a new long-term letter of credit facility agreement which reduces costs. This will improve Individual Life's return on capital by an additional approximately 10 basis points in 2016. Finally, and in line with our strategy, we continue to increase indexed life insurance product sales, which grew 14% compared with the third quarter of 2014.

Turning to slide 13, the return on capital of Employee Benefits was strong at 32.5%. Loss ratios for both stop loss and group life were once again better than the expected range. During the quarter, we continued to enhance the customer experience by increasing our digital capabilities. For example, we launched a new online claims center to make customer interaction simpler and easier. We also continued to streamline the enrollments process by automating certain functions and by reducing the number of forms. While these capabilities were just recently launched, they're already helping to improve customer experiences.

Overall, we continue to make progress on several initiatives during the third quarter as we focus on achieving improved returns in all of our Ongoing Business. 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 third quarter of 2015.

Slide 15 -- we will first highlight key drivers and other relevant items that factored into our quarterly financial results. During the quarter, our more market-sensitive Retirement and Investment Management businesses weathered elevated market volatility to deliver solid results. Market declines pressured fees and affected pre-payment and alternative income. The impact has been identified for each business segment on this slide.

In Retirement, our results were consistent with the baseline levels indicated in the second quarter. While fees were affected by the two previously noted case exits, we managed administrative expenses sequentially lower. In Annuities, results benefited from a $12 million post-DAC reserve adjustment that significantly increased underwriting income. The reserve adjustment resulted from updating and harmonizing our valuation models as part of a conversion to an updated reserving platform. In Investment Management, we preserved margins by remaining disciplined on administrative expenses as lower market levels began to affect our top line. Individual Life experienced elevated mortality relative to expectations, and several large claims with limited reinsurance materialized during the quarter.

In Employee Benefits, the loss ratios for group life and stop loss continued to benefit from favorable claims experience relative to expectations. As reported in the Corporate segment, $32 million of the planned $350 million incremental investment was incurred this quarter. For the fourth quarter, we now expect to incur planned incremental investment spend of $25 million to $35 million. We will provide a more detailed update on the progress of our initiatives on our fourth-quarter call.

Slide 16 -- we conducted our annual review of assumptions and projection model inputs during the third quarter. Overall, the review had modest impacts on our Ongoing Business and Closed Block Variable Annuity segments. The Ongoing Business had unfavorable operating unlocking of $82 million, which primarily reflects updates to the following assumptions: a 25-basis-point downward revision to long-term risk free rates, asset value and unit cost updates, and valuation model refinements. The annual assumption review had a $65 million favorable impact on statutory results. In our Closed Block Variable Annuity segment, the financial impacts were within expectations.

Turning to slide 17, our Retirement net flows came in above our initial expectations. Although we were affected by two large non-renewed cases in Tax-Exempt markets, which we had identified previously, positive flows in all of our other Retirement markets provided a partial offset. Within Corporate markets, we've seen continued net inflows for 16 of the last 17 quarters. We had a $527 million pension risk transfer win that leverages our scale and cross-enterprise capabilities, and we saw inflows in our Retail Wealth Management business. In Stable Value, we attracted positive flows for the third consecutive 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 18 -- Fixed Indexed Annuities' net flows turned positive this quarter due to improved competitive positioning. One of our new products gained market traction, and customers were drawn to our spread-based crediting solutions. We continue to maintain pricing discipline while proactively adjusting caps and rates on our Fixed Indexed Annuities. Our Mutual Fund Custodial annuities also generated their 23rd consecutive quarter of inflows, supporting continued flows into our Investment-Only accounts.

Then slide 19 -- our strong Investment Management performance remains key to our value proposition. We leveraged our investment track record to secure $1.4 billion in subadvisor mandates across a number of equity and fixed income capabilities during the quarter. The subadvisory wins were offset primarily by non-performance-driven outflows totaling $1.2 billion in the quarter. Most of these outflows stem from portfolio reallocation decisions, and included specific liquidity needs of clients. Our affiliate sourced outflows were mainly due to the non-renewed Tax-Exempt cases in Retirement discussed earlier. We also saw $806 million of variable annuity outflows for the funds managed by Investment Management. CBVA outflows represent a headwind for the Investment Management business but are a positive for the larger enterprise. We'd like to point out that these CBVA outflows are largely in lower-fee funds.

Moving to slide 20, elevated mortality in Individual Life was due to unusually high severity, partially offset by favorable frequency experience, as illustrated by the graphs on the left. In particular, we had exposure to several outsized claims with limited reinsurance coverage. The graph on the right shows mortality fluctuations on an actual-to-expected basis. Our expected mortality ratio for our entire book is approximately 90% on an actual-to-expected basis, as shown by the orange horizontal line. Our third-quarter mortality ratio was 110.6%, representing more than two standard deviations above our 90% priced for expectations. We have not experienced a two standard deviation divergence from mortality expectations since the third quarter of 2009, when mortality emerged favorably in the other direction. Our most recent unfavorable two standard deviation divergence occurred in the third quarter of 2007, and that is eight years ago.

Moving to slide 21, our Employee Benefits loss ratios for group life and stop loss both continued to come in better than our expected range of 77% to 80%. As seen on the chart on the left, we continue to drive profitable growth by increasing sales, while maintaining our pricing and underwriting standards.

Moving to slide 22, in the Closed Block Variable Annuity segment, our hedge program continued to protect regulatory and rating agency capital as designed during a period of heightened market volatility. The living benefit net amounted risk increased to $5.8 billion during the quarter, primarily driven by lower interest rates and equity markets. We have estimated available resources of $6.3 billion and these are all hard assets. The annualized net outflow rate in this closed block was 10.2% in the third quarter.

We also wanted to provide an update on variable annuity captive reform developments. In October, the NAIC recommended modification of the statutory framework applicable to VA writers using captives. The conceptual framework contemplates a holistic set of reforms that would improve the current reserve and capital framework and address root cause issues that result in the use of captive arrangements.

Slide 23 -- our estimated combined risk-based capital ratio ended the third quarter at 472%. The decline from the second quarter is mainly due to $410 million of extraordinary distributions, which were approved by our Colorado and Minnesota regulators at the end of July, and noted on last quarter's earnings call. The distributions were offset by a $259 million increase in total adjusted capital, which was largely driven by statutory income. On the right side of the slide, our debt-to-capital ratio at the end of the third quarter increased slightly to 22.2%, driven by $581 million committed to share repurchases during the period. Our ratio remains better than our target of 25%, and the incremental cushion provides us with strategic flexibility.

Slide 24 -- our Holding Company liquidity stood at $555 million at the end of the third quarter, and remains above our 24-month Holding Company liquidity target of $450 million. The middle chart shows our third-quarter ending excess capital position at $753 million, which consists of estimated statutory surplus and Holding Company working capital above target. The chart on the right shows the amounts that we have deployed toward share repurchases since the beginning of the year. In the first quarter, we used $631 million to buy back shares. We deployed $128 million in the second quarter and then repurchased an additional $481 million of shares in the third quarter for year-to-date total of $1.2 billion.

In late September, we entered into and funded a $100 million share repurchase arrangement with a third-party financial institution. We expect the transaction to close and the shares to be delivered in the fourth quarter. The remaining balance on our share repurchase authorization is $170 million.

In summary, except for the elevated claim severity in Individual Life, our Ongoing Business produced results that met or exceeded our expectations, even with the heightened market volatility. Our Closed Block Variable Annuity hedges protected our regulatory and rating agency capital, and the impacts from the annual assumption updates were benign. Finally, we returned significant capital to shareholders to maintain solid capital ratios. 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)

Our first question is from Ryan Krueger of KBW. Please go ahead.

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

Thanks. Good morning.

My first question was on administrative expenses in Retirement and Investment Management. They both came down some sequentially. Can you help us think about where that might trend going forward from here?

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

Sure, Ryan. Charlie will take that.

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

Thank you, Ryan.

For the fourth quarter 2015 we expect expenses to be modestly higher than the third quarter, as we continue to exercise strong expense management discipline in our ongoing operations, as well as making our investments and our long-term growth initiatives.

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

Okay. Thanks.

Then, on Individual Life claims severity, did you see any concentration in older issue age business, in terms of the higher claims this quarter?

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

Ryan, Mike Smith will take that question.

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

Good morning, Ryan. Thanks for the question.

I think this quarter's volatility was driven by a number of large claims, as we've said, and I'll give you a little color on that. We did an extensive study of the claims that drove it and we have not found any connection, either in terms of issue years or older ages. Just to give you some color, I think to help understand how this fits in versus other quarters: this quarter we had 35 claims of over a million dollars net amount -- net of reinsurance -- for a total of $65 million. To compare that, in the third quarter of 2014, we had 25 claims for $34 million. In the fourth quarter, which is a very favorable quarter, fourth quarter 2014 we got 14 claims for $14 million.

So if you look at the number here, what really drove this is both an increased number and an increased average size of the larger claims. But again, we saw no connection between the two. We think this is a very unusual event that will not occur, or is unlikely to recur over time. And as Ewout also mentioned, it's been eight years since we saw a quarter with this level of mortality.

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

Thanks for the color.

If I could sneak in one quick one -- Ewout, could you give us the pieces of the CBVA resources?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Sure, let me give you those components. As we have indicated, the total available resources were $6.3 billion at the end of the quarter. $4.6 billion of that is statutory reserves for living benefits; $500 million is statutory reserves for death benefits. Then we had $500 million of cash flow testing reserves, and the unassigned hard assets on top of that were $600 million. So, $600 million over and above AG43 and cash flow testing reserves we hold on this book.

Operator

Our next question is from Thomas Gallagher of Credit Suisse. Please go ahead.

Thomas Gallagher - *Credit Suisse - Analyst*

Good morning. Just a follow-up on CBVA, Ewout. Did you draw down the LOC at all this quarter?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Yes, Tom.

As a matter of precaution and safety procedure we issued a letter of credit at a level of $300 million at the end of the quarter. We do that because we never know about large market movements at the end of the quarter; and we do that really to be in the safe zone with respect to our assets and to get the full reinsurance credit. Ultimately, that letter of credit facility was not needed and has been reduced in the meantime. So yes, it was issued, but there was no need in the end to use that facility and it has been reduced at this point in time.

Thomas Gallagher - *Credit Suisse - Analyst*

Got you. So that's no longer outstanding?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Correct.

Thomas Gallagher - *Credit Suisse - Analyst*

Okay. Is it fair to say, based on everything you've seen with regard to CBVA performance, that you still feel good that this is a self-contained entity -- meaning you don't have to maintain any of your excess capital to think about funding needs in CBVA?

Ewout Steenbergen - *Voya Financial Inc - CFO*

We are pleased how the Closed Block Variable Annuity has behaved in this quarter. As we all know, this was a quarter with heightened market volatility. The hedge programs have exactly done what they should do. They have dropped off sufficient resources to offset the additional requirements on the regulatory and rating agency basis. The hedge program effectiveness was very high, and what we have seen in terms of the outcomes are very much in line with our sensitivities. So we feel very good about how the Closed Block has behaved this quarter, and from our perspective it's very solid and stable.

Thomas Gallagher - *Credit Suisse - Analyst*

Then last one, on CBVA and the October proposal you mentioned on VA captives. What are your thoughts as to how this is likely to play out? Will it cause you to change the way you hedge? What impact do you see that having on the overall CBVA and risk management?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Let me provide you a bit more color on that particular proposal and our thoughts. In October, the NAIC Working Group, formally called the Variable Annuities Issues Working Group, issued a report that proposes adoption of what is called Variable Annuities Framework for Change. Several of its principles are very constructive and positive in our view, including a proposal for complete elimination of the standard scenario under C3 Phase II for RBC calculations. But there were other proposals also with further improvements on the regulatory requirements for reserving and capital standards.

However, the timelines for this proposed framework and adoption is very short. I think there's a lot of legal obstacles to overcome. There needs to be a proper transition period for the industry. And what is very important from our perspective is that we will continue with a holistic approach for solutions. I think the report is very much tackling the underlying root causes and it's important that no individual items later on will be taken out. Overall, we think the direction this has taken is positive and constructive. We are very actively involved in this through the industry through the ACLI in discussions with the NAIC. How this exactly will end up for us as a company is still hard to say. There might be fine tuning of our hedges; but again, we think the direction this is taking is positive and very constructive.

Thomas Gallagher - *Credit Suisse - Analyst*

And when you say very constructive, of the north of $6 billion of resources you have in CBVA, is it possible that -- or maybe it's too early to tell, but just want to get a sense from what you're seeing and hearing -- is it possible that this might end up resulting in a release of capital? Or do you think it's more likely to result in no change in terms of the way you're capitalizing it and the way you're thinking about the business?

Ewout Steenbergen - *Voya Financial Inc - CFO*

What we have said before is the following: We believe that the impact of this particular direction regarding VA captives will be ultimately manageable for us as a company relative to the well-capitalized position we have, because we are fully capitalized and we have the resources -- statutory resources -- as well as rating agency requirements.

Our main concern is regarding the volatility around this block going forward. We need to make sure that the RBC requirements are stable so we can run a stable and steady hedge program. What we see is with this proposal of the NAIC, that some of those underlying root causes of the volatility are being taken away. So that is, I think, our primary focus -- to make sure we can run a steady and stable program going forward and we believe the direction the NAIC is taking this is exactly in the right direction to solve those underlying issues.

Thomas Gallagher - *Credit Suisse - Analyst*

Okay. That's helpful. One last quick one.

Your excess capital position, $753 million -- do we need to deduct $100 million for the ASR? Or is that already factored in to the number?

Ewout Steenbergen - *Voya Financial Inc - CFO*

That is already factored in because the cash for such a program has already left the company and has been paid to the bank that is supporting us with the program. What is not included in that number yet, Tom, is the $230 million we will release on the basis of the second life block transaction. So that transaction is expected to close at year end.

So $750 million of excess capital at the end of the quarter, plus $230 million that will be freed up based on the life transaction. Think about closer to $1 billion, if you include that item. We think that's very solid and very good position to be in as a company, especially after buying back close to 15% of the market capital of the company through our activities in the first nine months of this year.

Operator

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

Jimmy Bhullar - *JPMorgan - Analyst*

Good morning. I just had a couple questions.

But first I just wanted to get an idea on what caused the uptick in capital in the closed block? It was up a decent amount sequentially.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Jimmy, that's a very technical matter. Let me try to explain this. There's two offsetting elements here. First of all, because the markets went down, we were able to report hedge gains. Those hedge gains are being amortized over time. That reduced the deferred tax assets in the corporate area.

The flip side of that was that we saw in the Closed Block Variable Annuity an increase of the GAAP reserves over the tax reserves for the Closed Block Variable Annuity, therefore increasing the capital in the closed block itself. So, you should see that those two movements were more or less offsetting.

Jimmy Bhullar - *JPMorgan - Analyst*

Thank you. Then just on your flows in the Retirement business, especially in the Tax-Exempt area -- they have been negative for five of the past seven quarters. What's really driving that? And what's your expectation for that business? Not sure if it's because of pricing that your flows have been negative, or other things going on in the market.

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

Charlie.

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

Well, we're not necessarily going to discuss individual situations, because obviously plans leave for a variety of reasons. I think the fact is that we're winning lots of business of various sizes from small to large across our market segments. And we see a lot of great activity in our Tax-Exempt business. So we're looking forward to continuing our growth initiative that we spoke about on Investor Day, with the expansion in our Tax-Exempt market focusing on some of the sub-segments in the private sector K to 12 and other segments, as well as what we're doing in the Small Corporate.

Jimmy Bhullar - *JPMorgan - Analyst*

Could you just give us some color on why the withdrawals have been going up, so we can determine whether this is something that will improve, or is it something systemic?

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

Candidly, it's due to primarily just the lumpiness of the large plan market. Large plans can skew long-term results because they come in and out at unpredictable times. Plans go to bid on -- not on necessarily on a set schedule for both additions, as well as plans that might be moving on as well. It's difficult to forecast that from quarter to quarter because that large plan lumpiness. But the other side of the equation is, you go look at our Corporate Mid-401K, where we've had, I believe, 16 out of the last 17 quarters it was mentioned we've had net positive flows. That can get skewed or kind of masked by some of this large plan movement.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. Then just lastly for Ewout -- typically in the fourth quarter your performance fees in asset management are higher. Would you expect that to happen in this type of year, where overall investment performance hasn't been that good, as we're looking into the fourth quarter -- assuming no major changes from here?

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

Jeff Becker is going to take that question.

Jeff Becker - *Voya Financial Inc - CEO, Voya Investment Management*

Good morning, Jimmy.

Certainly the fourth quarter is typically the highest in terms of our quarter's performance fees. And even while absolute levels of return are down on a relative basis, we're actually performing quite well across our platforms. So we do expect some of that trend to continue, perhaps not as we've discussed in prior calls and quarters at the level we saw in 2014, which were elevated levels. However, we do have portfolios that only recognize performance fees in the fourth quarter and we do expect to see some.

Operator

Our next question is from Seth Weiss of Bank of America Merrill Lynch. Please go ahead.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Thank you.

If I could ask a question about the Employee Benefits and specifically the stop loss business -- your benefit ratio has been consistently below that 77% to 80% target. Is there any reason to believe that it returns to that targeted level? Or could we be running at a better run rate?

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

Mike will take that question.

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

Good morning, Seth. Thank you.

Let's start with the experience we've had so far on the 2015 block. We're very pleased with that. We think those trends hopefully will continue through the next few quarters. However, as we go in, as I think you all are aware, the stop loss business is an annually renewing business; and in particular right now we're early in the process of renewing the January business, which is about 75% roughly of the overall block. We're very early in that process and seeing where the market is going. So we're probably more in anecdotes than we are data at this stage.

We're seeing some signs of increased competitiveness, but we're also feeling like we're going to get our share; and most importantly we've gone in to the renewal process this quarter as we've done for the last several years with a strong focus and commitment on maintaining our pricing and underwriting discipline and will not chase market share. So given that we're seeing some signs of increased competitiveness and that the industry has performed relatively well the last couple of years, we'll need to see how the renewal and sales cycle ultimately unfolds, and we'll have a better sense of how the 2016 block is going to look in a few months, I think is where we'll be.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay. Thanks.

Then on capital, one for Ewout. The timing -- what's the timing of when the $230 million from the reinsurance will be available to the holding company?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Different timing for different components. So capital will be freed up in different ways. There will be some tax equalization payments done by the operating entities to the holding that will be done at the point of the close, so that would be before the end of the year. There's some trapped capital in a captive that will be released over time once we dissolve the captive. Then there's some capital tied up to the primary business operating entity itself, and that can be released when the closing will happen. But then we need to release that formally through a process where we will ask for approval of extraordinary distributions to the regulators.

So different components, but as you know we're always very committed as management to ultimately free up all the capital and to return that to our shareholders in the most value-enhancing way.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, great. Thanks so much.

Operator

Our next question is from Yaron Kinar of Deutsche Bank. Please go ahead.

Yaron Kinar - *Deutsche Bank - Analyst*

Good morning, everybody.

I want to go back to the effect of the annual assumption review. You mentioned the 25 basis-point reduction in long-term risk-free rates. Is that something that you did both for the general account and separate accounts?

Ewout Steenbergen - *Voya Financial Inc - CFO*

That is an underlying base assumption change, Yaron, that we make with respect to the long-term risk-free rates. There's many other components. You have also short-term risk-free rates; there is also spreads; and ultimately that might also end up in some of the separate accounts. But that's obviously a mix between our fixed income long-term assumption, as well as other assumptions, for example, with respects to equities. On top of that you have grading periods between the actual yields we have on the books that are grading over time to those long-term risk-free assumptions.

But you're right. We've reduced our assumption for long-term risk free by 25 basis points and the new level we are applying as a company is 4.75% and we're very comfortable with that level.

Yaron Kinar - *Deutsche Bank - Analyst*

4.75% -- that's a long-term interest assumption.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Long-term risk-free we reduce by 25 basis points to 4.75%. And the impact of that, just to give you more specificity around that, the impact with respect to the assumptions update was just under $20 million on the GAAP basis, and that's very much in line with the sensitivities we have provided before, and you, for example, could find in our 10-K.

Yaron Kinar - *Deutsche Bank - Analyst*

The other portion of the assumption review or large impact or large drivers for the impacts -- could you maybe talk a little bit about policyholder behavior? And maybe this is more specific to the Closed Block Variable Annuities, but what specifically has changed there that drove the losses?

Ewout Steenbergen - *Voya Financial Inc - CFO*

With respect to the ongoing business -- just to repeat the numbers, $82 million negative on a GAAP basis; $65 million positive on the statutory basis. Besides that long-term risk-free rate change, nothing particular that is spiking out; just a bunch of smaller assumption updates. I won't mention all of them but nothing particular that was spiking out.

With respect to the Closed Block Variable Annuity, $43 million negative on the GAAP basis for policyholder behavioral assumptions, $43 million for other assumptions, and $21 million positive on a statutory basis. If you zoom in on the policyholder behavioral assumptions, we have a small update with respect to our lapse rate. What we're making this at an actual to expected, at 100% level of the last three years. We are truing up to the most recent experience of the last three years. That impact was a small negative. Then we have made an update with respect to annuitizations. We have seen some earlier annuitizations, which were positive. That led to a small positive impact. There was a small change with respect to partial withdrawals. And we did not change this year the utilization assumption for the withdrawal benefits.

Altogether that was that $43 million negative, very much in line with the guidance we have provided before and we think the impact is very minimal. And the other assumption updates for VA is, again, just a bunch of smaller changes: mortality, unit cost, strategic asset allocation, macroeconomic, and so on. Again, nothing particular to mention here.

Yaron Kinar - *Deutsche Bank - Analyst*

Great. Thank you very much.

Operator

Our next question comes from Erik Bass of Citigroup. Please go ahead.

THOMSON REUTERS

Erik Bass - *Citigroup - Analyst*

Thank you. You mentioned a large pension risk transfer win in this quarter. Can you talk about your aspirations for that business? And how much of a growth opportunity you see there?

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

Charlie will take that.

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

Thanks. The pension risk transfer business is very opportunistic to us. We can leverage our distribution, our asset management and risk management skills, I think, throughout the organization; so there's a lot of synergies with some of our core skill sets within the organization. Our current plan is really to focus on the small mid-sized pension risk transfer business. Call it roughly $5 million to approximately $500 million.

The challenging part in giving any guidance around the pension risk transfer business is that the activity in the market is very erratic. From quarter to quarter you can see a lot of activity and then some quarters you see nothing that comes up. So it's not as consistent to predict there. But for us it's part of an extension for our core, is how I would think about it, relative to our capabilities. It allows us to remain focused on helping people get ready for retirement. Our growth initiatives -- this is part of some of our growth initiatives that we've outlined as well, as well as leveraging some of the broader enterprise solutions for our customers.

Erik Bass - *Citigroup - Analyst*

Great. Thank you.

Can you also talk about the growth opportunity you see in Fixed Indexed Annuities? I guess, particular, how much growth potential is there in the bank and broker channels? And do you think there could be a shift from variable annuities to indexed annuities, given the difference in how they're being treated under at least the current DOL proposal?

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

Alain will take this.

Alain Karaoglan - *Voya Financial Inc - COO & CEO, Retirement and Investment Solutions*

On the annuity business, we're actually very pleased with the progress we're making. As we talked about at Investor Day, it's about expanding our products, finding new distribution for our annuities business; and we've been quite successful in both expanding our products as we've talked about, and accessing new distribution. We talked a year ago about Allstate; we've accessed Farmers; and now we're entering the banks channel. So there's new areas we haven't been in before that will provide us nice growth opportunities, especially with how we go about our Fixed Indexed Annuities, how we go about our investment management platform, reliable investing, very consistent good products that provide good value to our customers.

It is a little too early to comment on the DOL situation, but to the extent that, that can actually happen, that could be an opportunity for us with additional sales. I think we have opportunities today, whether the DOL decision rule comes through or not in the bank channel.

Operator

Our next question is from Suneet Kamath of UBS. Please go ahead.

Suneet Kamath - *UBS - Analyst*

Thanks. Good morning.

Wanted to start with the investment spending. I think your prior guidance was $50 million to $70 million for 2015. Based on your deck, it seems to me that you're going to be at or above the high end of that range based on guided fourth-quarter spending. So question is, why? And then, second, is there any change to your 2016 investment spend target, which I think was $110 million to $130 million?

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

Alain will give you an update.

Alain Karaoglan - *Voya Financial Inc - COO & CEO, Retirement and Investment Solutions*

Thank you, Suneet.

It's an additional spending from what we had highlighted we expected to spend in 2015. But really, this is consistent still with our plan and the ranges that could be possible. So when you step back, it's still within our $350 million that we expect to spend. We're spending a little bit more than we had highlighted at the time, but it's in line with our plan and expectations. And so with these sort of funds, to the extent that we're hiring in 2015, we will have less spending in 2016 and beyond. We're not specifically today going to highlight how much it's going to be in 2016. We'll come back at the end of the fourth quarter call and we'll give you additional guidance.

But everything is working within our plans, within the envelope of $350 million that we expect. And our initiatives are being executed in line with our expectations and our plan to achieve the expected targeted return on equity; and very importantly, enabling our businesses to grow as fast as they can as these return on equity.

Suneet Kamath - *UBS - Analyst*

Got it. Then, separate question on the buybacks. How should we be thinking about the $170 million of remaining authorization? Over what timeframe would you feel comfortable using that? Just noting that the stock price today is quite a bit lower than the average price at which you bought back stock in the third quarter.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning. This is Ewout.

You're right -- $170 million available still in terms of the authorization to buy back shares. What we're planning to do in the normal course of business, to continue with our buyback activity -- obviously we will not comment specifically about the speed of buying back shares, but we do that normally on a relative basis -- relative to the share price, where it is compared to periods in the past. We think the most logical next step is we close the year; we look at our annual accounts, where we will end up with respect to the excess capital position of the company. We'll come back to the market then, somewhere at the beginning of next year, with our capital return plan for 2016.

So we're planning to work through in the normal course of business $170 million. I just want to point out that we are able, as long as we work through the same bank that's running that accelerated share repurchase for us. If we work through the same bank, we can also do discretionary buybacks over the next period.

Operator

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

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

Emily, thank you.

We remain focused on executing our plans to achieve improved returns and provide greater value for both our customers and shareholders. We took a number of steps this quarter, including the Individual Life transaction we've discussed, to drive improved returns. We continue to execute on our growth, margin, and capital initiatives. Combined with our cultural transformation, our efforts will position us to achieve our 2018 ROE target of 13.5% to 14.5%.

We look forward to sharing more details on our progress in February. Thank you and good day.

Operator

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