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PRESENTATION

Operator

Good morning and welcome to the Voya Financial fourth-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, IR*

Thank you, Emily, and good morning, everyone. Welcome to Voya Financial's fourth-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 investors 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 Investments 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 and CEO*

Good morning and thank you for joining us today. Let's begin on slide 4 with some key themes. Our full-year ROE was 12.2%, excluding items we don't expect to recur. This was an improvement from the 11.7% in 2014. On a reported basis, our ROE was 12.1%. We are executing on the growth, margin, and capital initiatives that we shared with you at the Investor Day in June. These initiatives and the strategic investments we are making will enable us to achieve our plans. Alain will give you an update on our strategic investments and our growth initiatives shortly.

Briefly I would note that we remain committed to our 2018 ROE target of 13.5% to 14.5%. We have a great team, achievable plans and a strong focus on execution.

Turning to our results, our Individual Life business had favorable mortality experience in the fourth quarter due to lower claims frequency. This was a nice improvement following our experience in the third quarter of 2015. With the increase in equity and credit market volatility, it's worth noting that our capital position remains strong. We announced this morning that our board has increased our share repurchase authorization by $700 million.

In the fourth quarter, we bought back $250 million of our shares. For the full year, we repurchased $1.5 billion of our common stock.

Share repurchases, combined with our investments in Voya's future growth, represent our commitment to driving shareholder value. Our investment portfolio also has a high quality bias and a diverse mix of credits managed by a highly experienced team. Ewout will provide more details. And finally, our Closed Block Variable Annuity hedge program once again protected regulatory and rating agency capital from market movements, and it continued to protect capital as expected and designed through the January market volatility.

Moving to slide 5, you'll see an overview of our fourth-quarter and full-year results. For the quarter, we generated $196 million or $0.91 per diluted share in after-tax operating earnings. Excluding DAC and other intangibles unlocking, results were $0.82 per diluted share.

For the full year, we generated $665 million or $2.92 per diluted share.

On slide 6, you will see our key sources of shareholder value. We believe our Ongoing Business positions us well to help Americans get ready to retire better. It makes Voya an attractive investment opportunity. Tax benefits, excess capital and the potential value in our Closed Block Variable Annuity segment continue to be additional value drivers.

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

Alain Karaoglan - *Voya Financial, Inc. - COO and CEO of Retirement and Investments Solutions*

Good morning. Let's begin on slide 8. In 2015 our Return on Equity and Return on Capital increased to 12.2% and 10.1% respectively. This excludes items we do not expect to recur at the same levels.

We are executing on our growth, margin and capital initiatives to increase our returns. This includes a $350 million strategic investment program that we previously discussed, and in a moment, I will provide you with an update on these investments and our business growth initiatives.

On slide 9, you can see the attribution of increased Return on Capital from 2014 to 2015. Improvement in margin and capital was partially offset by growth and interest rates.

With respect to growth, 10 basis points of the negative impact was due to lower equity markets. The remainder reflects the non-renewal of some clients in Retirement and performance fees in Investment Management coming down from an unusually high level in 2014.

The equity market volatility that began late last year and that has continued into the first quarter poses a headwind. As a reminder, we have assumed a 7.5% annual appreciation in the equity markets in our plans. Every 1 percentage decline in the S&P 500 has a roughly $3 million to $4 million impact on our annual pretax adjusted operating earnings. While we cannot control the market, we are focused on the execution of our plans. We are confident that we can build upon our progress in 2015 to drive growth through 2018. Part of what will enable our growth is our $350 million strategic investment program.

Turning to slide 10, we completed in 2015 the foundational work for much of our strategic investment program. Last year, we invested approximately $80 million of the $350 million, and here you can see a summary of our actions in 2015 and our plans for the next few years.

We began to consolidate our IT platforms by reducing the number of administrative systems across our businesses and functions. This will not only reduce costs, but it will also create an improved experience for our customers and for our employees who are serving them.

We also have begun to migrate to the cloud-based environment, which will dramatically speed our time-to-market. This will allow us to shift from owning and operating a number of data centers to an environment where we can rapidly scale up or down our needs depending on the requirement of a project.

We are also digitizing a number of processes. This will allow us to reduce costs. It will allow us to increase efficiency and deliver better outcomes for our customers and enhance growth. Overall, we expect cost savings to emerge beginning in 2016. By year-end 2018, we expect our investments to generate approximately $60 million to $70 million in gross cost savings. On a net basis and after factoring in expenses to drive growth, the cost savings would be $30 million to $40 million.

Moving to slide 11, we have changed the format of our business segment slides at year-end to provide you more details on our growth initiatives. We recognize that we operate in highly competitive markets and that the expectations for US economic growth remain low.

Our growth initiatives reflect the following four themes: first, expanded distribution; second, increased productivity; third, new customer solutions; and fourth, new client segments.

Beginning with Retirement, we are confident in our sales momentum. The expansion of our sales team and increased productivity in 2015 will enable us to win more business in 2016. These wins will translate into increased net flows in 2017, reflecting the typical two to four quarter implementation cycles.

On the right side of the slide, we list our growth initiatives by market, including results in 2015, as well as goals for 2016. I will not go through all of these, but here are some key points.

In Small Mid-Corporate, we had record full-service deposits and strong retention in 2015 due to our expanded sales and service teams. During the first quarter of 2016, we expect deposits of $1.9 billion to $2.1 billion. That is down slightly from the first quarter of 2015 when we had a large case win. In full-year 2016, we expect to grow Small Mid-Corporate deposits by 5% to 10%, and this is on top of the record deposits that we had in 2015.

In Tax-Exempt, we successfully increased the productivity of our advisors and also had record full-service deposits in 2015. Despite the loss of a few large tax-exempt plans in 2015, our competitive capabilities were demonstrated by our win of one of the largest government plans that came to bid in 2015 and which will fund in 2017.

During the first quarter of 2016, we expect deposits of $1 billion to $1.2 billion, down from the first quarter of 2015 when we had the large government plan fund. For the full-year 2016, we expect increased salesforce productivity to drive growth of 5% to 10%. This, too, is on top of the record deposits that we had in 2015.

In Large Corporate, we are well-positioned and taking actions to grow by adding to the sales team and making investments in operations and in IT. This led to a 30% increase in client proposals during 2015. For 2016, we plan to expand our presence in the large markets where we currently serve plans with $500 million in assets or higher. We plan to add assets of $150 million or higher.

Finally, our margin initiatives from IT simplification and digital will also enable growth and help retention.

On slide 12, the Return on Capital for Annuities improved to 9.2% when you adjust for items that we do not expect to recur at the same levels. Our story in Annuities has been about growing distribution and expanding our capital efficient product portfolio, which helped customers plan, invest and protect their retirement savings. An example of our expanding portfolio, as well as our focus on driving cross enterprise initiatives, is a new retirement income product being jointly created by our Annuities and our Investment Management team to be offered through our Retirement platform, and we expect to launch this product later this year.

Distribution expansion has helped us drive greater sales. For example, we had $1.6 billion in annuity sales through independent broker-dealers last year, due in part to our focus on deepening relationships within our top 10 broker-dealers. Expanding our product portfolio and continuing to deepen relationships with broker-dealers and expanding in the bank channel will enable us to drive further growth in 2016. We expect these initiatives will enable us to increase sales by 10% to 15% for fixed indexed annuities and investment only products in 2016.

Moving to slide 13, Investment Management's operating margin was 29.1% in 2015 when you exclude results from investment capital. The 2014 margin included certain fees associated with the private equity fund launch and higher-than-expected performance fees. In 2015 investment capital added approximately 10 basis points to the margin, which is below our long-term expected contribution of approximately 200 basis points.

We continue to leverage our strong investment performance across a diverse set of strategies to drive our growth, and client interest remains high. In 2016 we will continue to expand our institutional distribution with global partners and grow further in new markets.

For example, in the insurance asset management channel, we have won $600 million in new mandates that we expect to fund in 2016. In addition, we will continue to grow our new products and solutions such as our unconstrained bond fund, which just received five stars from Morningstar. Also helping to drive growth are productivity enhancements such as the realignment of our intermediary channel to deepen our relationship with retirement-focused financial advisors. Compared with 2015, we expect to grow institutional and affiliated sales 10% to 15% and our intermediary sales by 5% to 10% in 2016.

Turning to slide 14, the Return on Capital of Employee Benefits was 26.6%, excluding items we do not expect to recur at the same level. Employee Benefits has achieved significant profitable growth over the past several years due to our efforts on implementing our continuous improvement programs across the business. This has led to increased productivity of our salespeople and improved claims and service experience for our customers. We remain focused on building our capabilities to grow in the midmarket.

In the private exchange market, we added three new exchange platforms in 2015, and we continue to establish and strengthen relationships to be well-positioned should growth in this market accelerate. We expect to grow our in-force premium by 8% to 10% in 2016. This is on top of 14% growth in 2015. Disciplined underwriting will continue to be our foundation as we drive profitable growth.

Turning to slide 15, Individual Life Return on Capital improved significantly from a year ago to 6% when you exclude items that we do not expect to recur at the same levels. In 2015, we executed across all of the initiatives we articulated at Investor Day. Some of the actions we took last year, such as the most recent sale of a block of term life policies, will continue to help the Return on Capital improvement in 2016.

Moving forward, we will continue to evaluate opportunities to reduce capital usage. We also will continue to grow sales of less capital-intensive indexed universal life products, which represented 72% of our sales last year.

In summary, we have created a strong foundation to grow sales and to further improve returns. We're confident in our ability to execute, despite the challenges posed by the equity markets or by new regulations.

As you know, the Department of Labor's fiduciary proposal has been sent to the Office of Management and Budget for review. While the final rule is not yet public, we remain confident in our ability to manage any impact on our existing business and to seize new opportunities that the changed rules may create. As we did with our original Return on Equity improvement plan, our focus on the execution of our specific initiatives, combined with our strategic investments, will enable us to provide greater customer and shareholder value.

Now I will turn it over to Ewout who will provide more detail on our financial results. Ewout?

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

Today I will discuss our financial performance for the fourth quarter of 2015. On slide 17, we will highlight several key items during the quarter and other items to consider. During the fourth quarter, in general, favorable prepayment income largely offset weaker alternative income. We identify the impacts by each business segment on this slide.

Individual Life experienced favorable mortality relative to expectations due to lower frequency, which marks a significant rebound relative to the last quarter. The business also benefited from a $21 million reserve refinement related to the adoption of market practices for FAS 133 accounting for IUL policies.

Moving ahead to 2016, we expect to incur $30 million to $40 million of strategic investments during the first quarter in the Corporate segment.

In Retirement, we expect $40 million quarterly run rate in recordkeeping fees. This estimate reflects case exits due in part to merger activities of our clients and the exit from the defined-benefit administration markets. We are encouraged by the increased momentum of the business, and that should lead to revenue growth in 2017. For Retirement, we expect first-quarter 2016 administrative expenses to be approximately $5 million to $10 million higher than the first quarter of 2015, reflecting the expansion of our sales and service teams that occurred primarily in the second quarter of 2015.

For the full year, however, we expect administrative expenses to be about flat with 2015 as we take actions to right-size expenses. For the Ongoing Business, we expect $14 million of seasonal expenses in the first quarter due to payroll taxes and other annual items.

Also, Closed Block ISP and Closed Block Other earnings will not be meaningful in 2016 as these blocks continue to run off.

Slide 18, our Retirement net flows were positive in all markets led by continued net inflows in corporate markets where we have generated inflows during 17 of the last 18 quarters.

Slide 19, we have strong net flows in our Fixed Index Annuities and Investment Only products, and we continue to run off capital-intensive, less profitable business. Our product and distribution initiatives are the key drivers for growth in 2016.

Slide 20, Investment Management's sourced net outflows of approximately $700 million reflected lower institutional sales. For the first quarter of 2016, we expect positive net flows based on improved client demands across a wide range of asset classes.

Slide 21, we had favorable mortality in Individual Life due to positive frequency experience. The graph on the right shows our fourth quarter actual to expected mortality ratio of 75.6%, a significant improvement relative to the third quarter's unfavorable mortality.

Moving to slide 22. Our loss ratios for Stop Loss and Group Life continue to be in line or better than our expected range of 77% to 80%. We're focused on continuing to grow the business while maintaining our underwriting discipline.

Then slide 23, in the Closed Block Variable Annuity segment, our hedge program continued to protect regulatory and rating agency capital as designed. As Rod mentioned earlier, the hedges continued to perform well in January. Our hedge program is designed for volatile markets like these.

Living benefits net amount of risk decreased to $5.2 billion during the quarter, primarily driven by improved equity markets and higher interest rates. We have estimated available resources of $5.7 billion, and these are all hard assets. The annualized net outflow rate in this closed block was 10.7% in the fourth quarter. We continue to undertake proactive steps to run off this block. For example, we are filing to waive the waiting period for the 2009 vintage of guaranteed minimum income benefits.

Slide 24, our tax assets represent another source of value for the Company. Our new estimate as of year-end 2015 for the net present value of the projected cash tax savings from our deferred tax assets is just under $1.6 billion, and this is down slightly from last year, primarily due to the actual use of tax benefits in 2015.

On slide 25, we have presented details on our energy exposure, and here are some key points. First, the portfolio is highly rated with 92% of the credits rated investment grade. Of the below investment grade, nearly all of it is NAIC 3, which is roughly equivalent to a BB rating. As a result, our net unrealized loss position of $500 million is small relative to our portfolio.

Second, our exposures in the energy sector in our fixed income investments are designed with a high quality bias. We target credits with strong balance sheets, lower leverage, higher profitability, operational scale, and diversified operations.

In addition, we diversify our credit risk by subsector as seen in the pie chart on the right. We took action during 2015 and into 2016 to mitigate the effect of potential downgrades. Our asset management teams are continuously looking at opportunities to reposition our exposures, to improve the portfolio's risk and capital-adjusted income based on their most current market assessment.

Then on slide 26, we have provided details on all the below investment grade exposures within our investment portfolio. Some key items to note. First, our exposure is approximately 3.6% of our total investment portfolio, and that is less than the peer average. Second, we have an investment team that is dedicated to managing high-yield bonds for us and external client mandates. The team has a strong track record of performance. And third, the team has constructed a highly diversified portfolio and credit selection focused primarily at the BB category. You'll see that the portfolio is barely in a net unrealized loss position.

Slide 27, our regulatory and financial leverage ratios remain better than our targets. Our estimated combined risk-based capital ratio increased to 485% at year-end driven by statutory net income, partially offset by an increase in risk-based capital charges and a $90 million ordinary dividend from our Connecticut entity.

On the right side of the slide, our debt to capital ratio as of the end of the fourth quarter was largely unchanged at 22.5%.

Slide 28, our capital position remains strong. Holding company liquidity stood at $674 million at the end of the fourth quarter. The middle chart shows our fourth quarter ending excess capital position at $1.1 billion, which consists of estimated statutory surplus and holding company liquidity above target.

The chart on the right shows we have repurchased $250 million of shares in the fourth quarter for a full-year total of approximately $1.5 billion. Our new share repurchase authorization is $700 million.

Then turning to slide 29, we continue to see opportunity in share repurchases. Since our 2013 IPO, we have shown improvement across many metrics, you'll see that our book value per share has increased by 42%, our Ongoing Business or ROE has increased by 390 basis points, our financial leverage and financial strength ratings have improved, and our businesses are healthy as seen by Retirement generating record deposits, Investment Management achieving strong investment performance, and Employee Benefits growing in-force premiums at attractive returns.

In addition, we have a plan to drive the Ongoing Business ROE to higher levels over the next three years.

In summary, we are pleased with our operating performance during the quarter and the year. We increased the ongoing business ROE in 2015, even amidst the challenging markets in the second half of the year. Our Closed Block Variable Annuity hedges continued to protect regulatory and rating agency capital.

Finally, our capital position remains strong, even after returning significant capital to shareholders in 2015, and we plan to continue to return capital in 2016. With that, I'll turn the call back to the operator, Emily, so we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan Krueger, KBW.

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

First, can you discuss your 2016 subsidiary dividend expectations, as well as the potential timing around them?

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

Sure, Ryan. Good morning. I will have Ewout take that.

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

Good morning, Ryan. If you look at the excess RBC we have in our operating entities, we expect that almost all of that is available in the form of ordinary dividends that we can take out after the filing of the blue books and take to the holding company. So there might be minimal extraordinary distribution activities afterwards, but the majority -- the vast majority is available in ordinary dividend capacity.

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

Okay. Great. And then has -- I guess in the past, you've indicated a desire and expectation to deploy all excess capital. Do you still feel that way, or has your thinking changed at all?

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

Ryan, what you should see out of the announcement of our new share repurchase authorization is a balance. On the one hand, our confidence in the excess capital position and on the other hand prudency given where markets are today. Let me expand on that answer a bit.

As you are seeing, the capital position of the Company is strong. We have excess capital of $1.1 billion, and it is over already very conservative capital standards that we apply. We're holding back $400 million because we would like to see how markets will develop during this year, and we can decide later in 2016 how we will deploy the $400 million.

I just want to point out that $700 million in terms of buying capacity is very significant, especially if you express it in the market capital of the Company today. This would translate into approximately 12% of the market cap in terms of the new authorization.

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

Understood. And then just real quick, is $110 million to $130 million still the right expectation for the investment spending for 2016?

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

That's correct. That is still $110 million to $130 million that we expect from the strategic investment budget in 2016. You see that we are a little bit frontloading this in the first quarter of $30 million to $40 million. If there are opportunities to accelerate the spend, we like to do that. This is a timing matter. This total of $350 million will not change, but if you can accelerate, we think it's a good development. So we always will monitor that.

Operator

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

Just wanted to follow up on Ryan's question about the buyback expectations. So the $400 million, Ewout, that you are quote-unquote holding back for market prudence, what in the market are you looking at that is causing you to reach that decision? Is it primarily credit concerns, or is there anything else that you are seeing that might lead you to take that level of buyback versus something greater?

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

Suneet, there's nothing particular that we are explicitly concerned about at this moment. What we are doing is just general prudency given the market volatility where we are today that we are confident that the excess capital position of the Company is $1.1 billion. As you know, we are very focused as management at generating excess capital. We will continue to do that during 2016. We will later in 2016 decide what is the best way to utilize the remaining $400 million, but there's no particular area of concern that we have today.

Suneet Kamath - *UBS - Analyst*

Okay. And then my follow-up is just on the VA captive. There's been some discussions in the market around obviously potential changes there. And just as I talked to investors, an issue comes up a fair amount. So any updated thoughts on some of the changes that are being considered and whether or not that might impact A), how you hedge the CBVA, and B), the available resources that you have in the CBVA?

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

Overall, the way I would look at the developments with respect to VA captives is that the outcome and timing with respect to new regulation remains very uncertain. Let me expand a bit on that answer.

Since last quarter, the main development with respect to the NAIC activities has been that they have appointed Oliver Wyman to do a quantitative impact study of the current draft proposal. Officially Voya as a large player is participating in this quantitative impact study.

Afterwards, the proposal has to go through the whole governance with the NAIC, and it's very unclear what exactly will be adopted and in what form. It's also unclear if this will only apply prospectively or also will be applicable retroactively. We have said before we believe the underlying proposals are constructive, especially what the proposals are trying to do is to deal with the underlying root causes of some of the issues in current regulation.

Facts and circumstances are different by market participant. In our particular situation, I would just like to point out that this is a Closed Block already for six years. It is in runoff. We don't write any new VA business, and so that is very important for our particular circumstances.

Suneet Kamath - *UBS - Analyst*

Got it. And then just one last follow-up on that. Just as we think about the 13.5% to 14.5% ROE target for the Ongoing Business, I just want to make sure -- I think in the past you've been pretty consistent that that target -- achieving that target assumes no capital withdrawal from the CBVA. I just want to make sure that that is accurate.

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

So this is Rod. That is an accurate assumption. What we've said before is to not anticipate any capital release from the Closed Block sooner than five years, and that was obviously from the IPO moment, and nothing has changed in that outcome. You have it perfectly correct.

Operator

Yaron Kinar, Deutsche Bank.

Yaron Kinar - *Deutsche Bank - Analyst*

First on CBVA, it seems like the current valuation seems to imply some negative value to the block. I was just curious to hear your thoughts on that, especially with regards to the spread of hard assets over NAR remaining thin relative to where it had been in prior quarters. And with the market moving in the direction it has the first month and a half of this year. So any update on that or how you are thinking about that?

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

Good morning, Yaron. Obviously I will not comment on market valuations, but what I can say is two particular considerations with respect to our Closed Block Variable Annuity.

The first is, as you see, we have significant hard assets over and above our statutory requirements, and the hedge programs are performing well. If you look at the actual hedge performance in the month of January relative to the statutory reserve liability movement, we still believe at the end of January we have significant excess assets over our statutory reserves.

Secondly, with respect to your question about net amount at risk, you have to take into account that net amount at risk is quite a simplistic way to express the risk in this particular book. Far more sophisticated are the rating agency models. Far more sophisticated are the statutory reserving models. Net amount at risk is a very simplistic, deterministic way to look at the risks. So comparing assets to the NAR is not always the best comparison. In fact, comparing us with rating agency and regulatory levels is better and is more sophisticated.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. That's helpful. And then just to clarify on that, as of the end of January, you still would not need to tap your credit facility?

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

Well, let me clarify some misunderstandings about the LOC. The LOC which we sometimes put up is purely a risk management approach. It doesn't say anything about are we short in terms of assets or not. The LOC doesn't count for rating agency purposes. Rating agencies do not take the LOC into account for their total asset requirements.

The difference between the rating agency view and the regulatory approach is rating agencies look at the total available assets we have across the enterprise for VA on a total aggregate basis.

On a regulatory basis, we have to be fine with respect to assets in each and every entity. So if you put up an LOC, it might be that it is purely due to geography with respect to the available assets. So if you put up an LOC, it might be that one entity is short. But in aggregate, we could still be fine with respect to our total available assets and that we still have in excess. So where we are, like I said before, according to our latest estimates by the end of January is that we have still significant assets over and above our statutory requirements.

Yaron Kinar - *Deutsche Bank - Analyst*

That's very helpful. And then my second question was on the energy investment portfolio. I think the slides you offered are very helpful. But one thing that I noticed is that your energy allocation relative to book value is slightly above where the group is, and I was curious to hear your thoughts on whether you were looking to manage that down further? And also maybe specifically, one data point now - what is your unrealized loss position on the below investment grade energy portfolio?

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

Yaron, overall we are comfortable with our energy exposure and position. We believe we have a high quality book. I already talked about the diversified book, high-quality names, higher profitability, and all other factors why we are confident in the exposures we have today.

What we, of course, proactively tried to manage is the anticipation of potential downgrades. So what you would like to avoid is credit migration and the impact that would have over time on the capital charges on this book. We're very actively managing that. The team -- the Investment Management team is really on top of it. We are taking tactical actions there to anticipate more potential downgrades, so those are the actions we are taking. But that has more to do with avoiding additional capital requirements. But overall in terms of the actual exposures, we are confident.

Your specific question on what is the unrealized loss on the below investment grade levels in the energy holdings, we have to come back to you on that question later on. So we will give you that answer at another moment.

Operator

Eric Berg, RBC Capital Markets.

Eric Berg - *RBC Capital Markets - Analyst*

I wanted to start, too, with the energy area. On slide 25, when you say that approximately 30% of the exposure, Ewout, has a fair market value in excess of book, does this mean that by -- that 70% -- that conversely 70% of the energy portfolio is currently trading or was currently training at December 31, 70% was trading below its book value?

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

That would be at or below. And Eric, as you know, that is very much driven by credit spreads widening in this sector. This has nothing to do with the actual losses. There is no need for us to realize those losses. Over time, we will have a buy-and-hold strategy, and once those securities will mature, we will just get the principal paid back. So the fact that there is an unrealized loss shouldn't be of a concern for an investor like us that has a buy-and-hold strategy.

Eric Berg - *RBC Capital Markets - Analyst*

I wanted to follow up. My follow-up question relates to a comment that Rod made a moment ago regarding the release of capital from the Closed Block Variable Annuity, CBVA. I certainly heard his comments, which he has made in the past, I think that it will be several years before capital could be released. But does that preclude a possible -- I interpret that comment to mean that this is how things will play out as the business runs off. But I also want to know does it continue to be possible? Do you continue to look at strategies to release capital relating to some sort of event prior to 2018? For example, a sale of part or all the business, reinsurance or securitization?

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

Eric, it's Rod. Thank you and I'm glad I was clear on the first part. Because that's what we said at the moment of the IPO, that it was simply on that book to not expect sooner than the five-year period of time.

In relation to the second part of the question, we have and we will continue to actively look at a range of alternatives. By way of example, we've done a number of enhanced annuitization offers, and we talked about on this call another filing for another yet consideration of that. I've said on a number of different prior occasions, and I think important to repeat, interest rates do matter with this block of business. So depending on one's view of interest rates over the next one, two or three years, that will make a real difference in terms of that. We will continue and have, as evidenced by the actions that we've taken, Eric, with our life insurance in-force block of business, look at actions.

We did one in 2015, as you know, and we did one in 2014 on the life insurance side. And we will continue to apply that same discipline and focus as it relates to this book of business also.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you.

Operator

Erik Bass, Citigroup.

Erik Bass - *Citigroup - Analyst*

For the Retirement and Investment Management businesses, can you just talk about how you are balancing making growth investments with maintaining margins, particularly given the market headwinds on revenues that we're likely to see in 2016?

Alain Karaoglan - *Voya Financial, Inc. - COO and CEO of Retirement and Investments Solutions*

So Jeff will take that question on the Investment Management side and Charlie on the Retirement side.

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

Hey, good morning. This is Jeff. From the Investment Management perspective, number one, we remain committed to our strategic spending, and as outlined on slide 13, that's an investment in distribution, new products and channels and continued infrastructure renewals. About a third of the Investment Management expense base is variable, so that is a factor. We are also managing expenses very carefully. As you know, the Investment Management business is a human capital business. So we evaluate and adjust hiring on an ongoing basis in line with revenue development as we did in the second half of 2015.

So we remain committed to our strategic investments. It's important to remain competitive, but we do have the mechanisms to manage the expense line and structure in line with revenue development.

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

Excuse me, from the Retirement side, we, too, remain very confident on our initiatives to execute on those, yet we are very realistic in terms of some of the challenges that the environment presents to us. I think if you look at our culture of prudent expense management across Voya for many, many years, I still do see some opportunities to improve our expense management discipline in the years ahead and in some of these difficult and challenging times that we may have. But they will really be more around positioning ourselves for our growth, margin and capital initiatives.

Some of the initiatives are not going to be necessarily impacted per se by the market, but will provide us some long-term cost efficiencies, i.e. some of the things we're doing on IT simplification and some of the digital initiatives and those types of things. So we're going to prudently pursue all of our initiatives to improve the retirement readiness for participants, which we think will drive our growth, and ultimately shareholder value.

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

And Eric, if you are thinking about the $350 million strategic investment program, that is going to continue -- that is going to allow us as some of the items that Charlie mentioned, to reduce our fixed cost structure and improve our variable structure going forward to provide the flexibility and opportunity for growth as well.

Erik Bass - *Citigroup - Analyst*

Thanks. And on that point, when you talked about some of the expense savings, am I right to think that the expenses will occur in the Corporate segment, but the savings would show up in the business lines?

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

Yes, that is correct. Until 2018 where everything will go into the operating segments.

Erik Bass - *Citigroup - Analyst*

Got it. Thank you. And then if I could just ask one follow-up for Ewout. You mentioned the risk of downgrades and the increases in required risk-based capital. Do you have any sensitivity that you could provide for the RBC ratio from downgrades? Whether it's BBBs to below investment grade broadly or specifically within the energy space?

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

If you would see a one notch downgrade across all of our securities with respect to our energy holdings, the impact on our RBC ratio would be 15 to 20 basis points. Again, we will proactively manage that to avoid that that is happening and to avoid that particular capital impact, but that would be the sensitivity.

I also would like to take the opportunity to come back to the question of Yaron. The answer, Yaron, on your question is the following. The net unrealized loss of our below investment grade energy fixed income holdings is $200 million net unrealized loss by year-end 2015.

Operator

Tom Gallagher, Credit Suisse.

Tom Gallagher - *Credit Suisse - Analyst*

Just wanted to come back --

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

Hey Tom, we could hear the first three sentences, but nothing further -- first three words. Are you muted?

Operator

Tom, your line is live.

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

Emily, let's circle back to Tom and go to the next one. Sorry, we couldn't hear Tom.

Operator

Jimmy Bhullar.

Jimmy Bhullar - *JPMorgan - Analyst*

Hi. Good morning. You discussed expectations for deposits and sales in the Retirement and asset management businesses. Should we assume commensurate growth in net flows, or are you expecting any material changes in your withdrawal rates in those two businesses?

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

Jeff will take the Investment Management and Charlie on the Retirement side.

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

Good morning. As you can see, Investment Management source net flows were negative in the fourth quarter of 2015. That said, our overall recent flows have been pretty well diversified, driven by our strong investment performance across the board.

There was a timing element to the fourth quarter as a number of large institutional mandates and their funding timing can vary. There were several mandates that funded in the first few weeks of January that we actually expected in the fourth quarter. We also priced a new CLO in January, and we have visible unfunded wins as Alain mentioned that we expect to find in the first and second quarter.

So we are optimistic about the first half of the year and the net flow aspect of it, and we -- our sales pipeline continues to be robust and strong with a number of different capabilities ranging from target date to fixed income core plus, securitized credit, senior bank loans, which is our floating-rate strategy, private credit, and also begun fundraising for our next private equity fund. So we have a very diverse pipe, and we expect a different net flow picture in the coming year.

Jimmy Bhullar - *JPMorgan - Analyst*

I think we've had negative flows for two quarters now. So at the level of deposit and growth that you are expecting, are you expecting flows to turn positive in 2016?

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

Yes, we expect positive flows in Q1.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay.

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

Excuse me and on the Retirement side, obviously our deposits were up a strong 12% in 2015 relative to 2014. And from a net flows perspective, we did experience some lumpiness primarily driven by a few non-renewals as has been articulated.

As we look forward into 2016, I think the net flows should be -- remain to be strong. We have no known significant major large plans that we think are going to be nonrenewed, so we've got a good pipeline both on our sales in the Large as well as in our Small and Tax-Exempt marketplaces. So we think we're in a strong position as we enter into 2016.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. Thanks. And just on your -- and the expense savings trajectory -- spending trajectory slide that you had, slide 10. I just want to make sure I'm reading 2018 correctly. So beyond 2017 or so beginning in 2018, you will have expenses of $70 million to -- $60 million to $70 million that will go from -- instead of being corporate, those will be in the businesses. But then net of those expenses, you expect cost savings of about $30 million to $40 million, right?

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

Jimmy, that's not a correct way how you should interpret those numbers.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay.

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

$60 million to $70 million is the gross savings we expect from the strategic investment program, so going up from $5 million to $20 million to $30 million to $60 million to $70 million. In 2018, we start to push down some of the developments and operating expenses related to those programs to the businesses. So net of those additional expenses and businesses, the net expense savings in 2018, therefore, will be $30 million to $40 million.

Jimmy Bhullar - *JPMorgan - Analyst*

So about $30 million of expenses is what you are implying, which is the difference between gross and net savings, right?

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

Approximately $30 million. That's, of course, also volume dependent on the additional growth of the businesses that will be generated. And there, of course, is also a revenue benefit offset to that.

Jimmy Bhullar - *JPMorgan - Analyst*

And they will be allocated to the businesses, not going in corporate?

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

Correct.

Jimmy Bhullar - *JPMorgan - Analyst*

And then just lastly, I don't know if you mentioned anything on the timing of the completion of the buyback program, but I'm assuming it's for 2016, right?

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

Well, obviously, Jimmy, we will take into account the attractive valuations of our stock price today. We will not be able to give you specific commentary on our tactics with respect to the buyback program. We will be measured.

In our normal course, what we always do, we have a valuation grid that will determine acceleration or slowdown of buybacks relative to valuation of our stock in the period before. Again, the valuation is very attractive today, so we will take that into account with respect to the timing -- how quickly we will utilize the $700 million.

Operator

Steven Schwartz, Raymond James & Associates.

Steven Schwartz - *Raymond James & Associates - Analyst*

I have got a few questions here. Usually you talk about the Investment Management performance in the quarter. Maybe you can touch on that -- how the operation did from a performance standpoint?

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

Sure. Jeff will take this.

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

Good morning. I assume you're referring to investment performance, which remains quite strong across all of our businesses and all of our platforms. Our target date funds across our passive and active suites performed very well in 2015. There was a recent story out this week that highlighted the handful of target date providers that were positive in terms of absolute performance in 2015 and we were among them. Our equity and fixed income franchises continue to perform quite well as does our bank loan franchise.

So investment performance remains quite good. I think it's a proof point for our style of investment management, which is really around higher consistency, lower volatility, what we call reliable investing, building reliable outcomes for our -- and solutions for our clients. So we're very proud of our investment performance.

Steven Schwartz - *Raymond James & Associates - Analyst*

Any big changes -- I'm sorry, any big changes in Morningstar performance since December 31 versus September 30?

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

Yes, we did gain a few more five-star -- four- or five-star funds, and that account continues to go up. It went up throughout 2015, and consultant endorsements did increase in the fourth quarter.

Alain Karaoglan - *Voya Financial, Inc. - COO and CEO of Retirement and Investments Solutions*

And Steve, on slide 40 you had some of the performance -- investment performance.

Steven Schwartz - *Raymond James & Associates - Analyst*

Is that there? Then I apologize, Alain. And then just on a couple of regulatory matters, maybe for Rod or Charlie, you came out very very much against the proposal to allow states to set up their own 401(k)s or whatever kind of structures they are talking about. Maybe you can touch on that?

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

Charlie?

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

Yes, certainly. We certainly believe that there is a coverage issue or challenge in America with small plans and that we are working actively in that marketplace to help improve that coverage by the implementation of new startup and 401(k) type plans.

However, the proposed regulation that the Department of Labor put forth really would support individual state solutions. We would suggest that a more positive solution for the marketplace rather than having 50 different state regulations or solutions would be to have one national solution. So we call upon, as you noted in our letter, for Congress, as well as the regulators, to work together on a national level to solve this challenge of coverage in America and not defer it necessarily to the states. We believe that workplace retirement savings programs are the appropriate place in which to promote coverage in America because it's not just about the coverage, it's also about being able to provide a vehicle with solid retirement readiness that's going to help the participants be retirement ready by being able to save the appropriate amount of income.

So both at a federal level, as well as the appropriate worksite savings program, is where we've focused and we think the opportunity is.

And then also for Voya in particular, with our capabilities around planning, investing, as well as protection services, we think all of these really position ourselves, as well as the industry, I think, to respond favorably on a national solution.

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

Stephen, maybe just a little more broadly on that, just the regulatory piece and just to build on what Charlie has said. There is a tremendous need to help Americans, as Charlie mentioned, plan, invest and protect. There is a huge need and opportunity to help them become retirement ready. We think Voya is uniquely positioned when you look at the proposed regulations with the DOL. So we don't know or have any insight into what the outcome is. We think, as we've been saying since the very beginning, we are uniquely positioned to take advantage of that, and we will keep you and others posted as these developments further occur.

Operator

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

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

Emily, thank you. To summarize, we've made significant financial, operational and cultural improvements, and we've been recognized for our achievements. We've highlighted several of these recognitions in the appendix of today's presentation. We've built on a strong foundation for future growth, including a strong product portfolio combined with a broad and diverse distribution reach. We have a strong capital position, clear initiatives to provide greater value for both our customers and our shareholders.

Moving forward, the strategic initiatives that we are making will help us achieve further growth and cost savings, and we remain well-positioned to achieve our 2018 ROE target of 13.5% and 14.5%.

Thank you and good day.

Operator

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