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PRESENTATION

Operator

Good morning and welcome to the Voya Financial second-quarter 2016 earnings conference call. (Operator Instructions) Please note today's event is being recorded. I would now like to turn the conference over to Darin Arita, Senior Vice President of Investor Relations. Please go ahead.

Darin Arita - *Voya Financial, Inc. - SVP, IR*

Thank you, Ben, and good morning, everyone. Welcome to Voya Financial's second-quarter 2016 conference call. A slide presentation for this call is available on our website at investors.voya.com or via the webcast.

Turning to slide 2: on today's call we will be making forward-looking statements. Except with respect to historical information, statements made in this conference call constitute forward-looking statements within the meaning of federal securities laws, including statements relating to trends in the company's operations and financial results and expectations regarding its future financial condition. 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 described 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. Reconciliations of these and other non-GAAP financial measures to the most directly comparable GAAP measures can be found in the press release and in the reconciliations section of the 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 and CEO*

Good morning. Let's begin on slide 4 with some key themes. During the second quarter, we continued to make progress toward our 2018 ROE target. Our ROE for the trailing 12 months increased slightly from the first quarter of 2016. And we made further progress on several of our sales, deposit, and in-force premium growth initiatives. And this was despite the challenges posed by both volatility in the equity markets and a low interest rate environment.

We've also taken further action to refinance the redundant reserves in our Individual Life segment. This will meaningfully reduce expenses and increase returns of Individual Life and our Ongoing Business. Alain will provide more details shortly.

Voya's capital position remains strong. At June 30, we had excess capital of $775 million, even after repurchasing $267 million of shares during the quarter. We also undertook additional steps to protect us against a lower interest rate environment. As Ewout will discuss further, even if the 10-year Treasury yield declines to 1% and remains there through 2019, we still expect to generate excess capital.

With respect to our Closed Block Variable Annuity segment, our hedge program protected regulatory and rating agency capital from market movements. The resources backing the block continue to exceed our statutory reserves by more than $900 million.

We've also provided a new cash flow scenario that shows the effect of the 10-year Treasury yield remaining constant at 1% over 50 years. Ewout will also cover this in more detail.

During the quarter, we launched our Third Enhanced Annuitization Offer. As a reminder, we offered a 10% enhancement to the benefit base to policyholders of the 2006 and 2009 GMIB series. Preliminary results show the take-up rate to be approximately 9% of the account value eligible for the offer.

We believe this to be a favorable response. It compares with a take-up rate of almost 7% in our previous offer, which included a 5% enhancement rate. Looking ahead, we are exploring opportunities for additional enhancement offers.

Moving forward, we remain focused on our 2018 ROE target. Although the decline in interest rates increases the headwind, we have many initiatives that can still deliver improvement. We will continue to work on opportunities beyond our initial set of initiatives to improve our returns. And finally, we will remain diligent in calibrating our expenses with our revenue opportunity to drive greater efficiency and scale benefits.

Moving to slide 5, for the quarter we generated $160 million or $0.79 per diluted share in after-tax operating earnings. There were several items noted on that slide that on a net basis reduced earnings by $0.03 per share. As I mentioned, our ROE for the trailing 12 months improved sequentially. Adjusting for prepayment fees and alternative investment income relative to our long-term expectations, our ROE grew by approximately 20 basis points. Moving forward, we remain focused on all of our initiatives and the investments we're making in our business to drive greater returns. Let me now turn it over to Alain to provide more details on our progress.

Alain Karaoglan - *Voya Financial, Inc. - COO of the Company and CEO, Retirement and Investment Solutions*

Good morning. Let's begin on slide 7. Our return on equity and return on capital for the 12 months ended June 30 were 11.5% and 9.6%, respectively. The decline compared with the full-year 2015 primarily reflects the effect of lower alternative investment income. Adjusting for prepayments and alternatives, our returns increased from year end.

We continued to execute on our more than 20 growth, margin, and capital initiatives during the quarter. We grew our assets and premiums across Retirement, Annuities, Investment Management, and Employee Benefits. We also have made progress on efforts to further reduce capital usage in our businesses. Our continued focus on execution will help us improve our returns, even as interest rates have declined.

On slide 8, we provided an update on our 2016 growth initiatives. In Retirement, we generated a 10% year-over-year increase in deposits in Small/Mid Corporate Markets. In Tax-Exempt, second-quarter deposits were down 2% year-over-year; however, this is largely due to the implementation timing of new plan sales. We are seeing strong proposal volume driven by our expanded distribution, our improved sales force productivity, and customer solutions.

In Annuities, sales of index annuities in the second quarter grew 34% year-over-year, driven by our expanded product portfolio and increased presence with specific distribution partners, particularly broker-dealers. We continue to be proactive in adjusting our product features, as interest rates have declined rapidly. We expect our pace of index annuity sales to temper as we continue to maintain discipline on our rates of return.

In the second quarter, sales of investment-only products increased 14% compared with the first quarter of 2016, reflecting our expansion in the broker-dealer channel. In Investment Management, institutional sales increased 7% year-to-date and reflect our strong investment performance across a diversified set of asset classes. Retail intermediary sales were flat.

In Employee Benefits, we grew our in-force premiums by 7% over the second quarter of 2015. As competitive activity has increased in stop loss, we will maintain our commitment to underwriting discipline.

Let's look more closely at each business, beginning with Retirement on slide 9. Our return on capital has been flat since 2013, adjusting for the effect of prepayment and alternative investment income. The decline in interest rates is a headwind for the business. Despite this challenge, our growth, margin, and capital initiatives remain under our control. We are encouraged by our commercial momentum and our progress on simplifying our infrastructure to reduce costs.

In addition, we identified and executed an opportunity to increase efficiencies and release capital from the business. This will provide a benefit to Retirement's return on capital over time of 15 to 20 basis points and a similar benefit on our ongoing business. Only 2 basis points were reflected in impact this quarter.

With respect to commercial momentum, we will be helping more people save for retirement, as a number of states, cities, schools and corporations have selected us to be their plan provider. For example, we were selected to be the Full-Service provider for the state of Delaware plan in June. We were chosen because of our focus on service as well as our technology, particularly Voya's MyOrangeMoney participant website experience.

We expect this new plan to fund during the second half of the year. We further expanded our advisor distribution in Corporate Markets, and the addition of several large plans at the end of this year and early next year will help grow our recordkeeping revenues for 2017.

Moving to slide 10, the return on capital for Annuities was approximately 9%. During the quarter, we launched the Quest series of our fixed index annuity, which improves our capital efficiency and helps us better serve customer and distributor needs. Specifically, changes we've made to the surrender schedule and fees align well with the preferences of distributors such as the broker-dealer channel that are best positioned for growth following the implementation of the Department of Labor's fiduciary rule.

Moving to slide 11, in Investment Management the operating margin, excluding the effect of investment capital, has remained fairly constant at 29% versus 2015, even as fees have declined. We have maintained our margin by actively managing our expenses.

The full reversal of accrued carried interest related to a private equity fund where we are also the general partner has negatively affected investment capital in 2016. Our long-term expectation of approximately 200 basis points of margin contribution from investment capital has not changed.

On the commercial front, we continued to benefit from our strong investment performance. During the quarter we achieved Investment Management sourced sales of $3.5 billion, reflecting the strength of our fixed-income capabilities across channels, the funding of several mandates for third-party insurance clients, and a new private equity fund closing.

We also continued to win several new mandates during the quarter, and our pipeline of sales remains strong across a diverse range of asset classes. We expect these new mandates to fund over the next several quarters. Increasing asset levels from positive net flows and higher markets will help to grow our revenues, to grow earnings and our operating margin toward our 2018 target.

Turning to slide 12, the return on capital for Employee Benefit continues to be healthy. Our loss ratios have migrated closer toward our annual target over the past several quarters, and we have grown our in-force premiums at these attractive returns. We continue to make strong progress on our growth initiatives in Employee Benefits, achieving high returns and capital generation.

For example, our first-half 2016 sales in the mid-market more than doubled compared with the prior-year period. In addition, voluntary sales increased 50% year-over-year due to a rise in participation rates. We have also achieved better-than-expected persistency as we have improved our service levels and implemented new digital resources to enhance the customer experience.

Turning to slide 13, the return on capital for Individual Life is approaching our 2018 target. As we have discussed, our initiatives to increase the returns for Individual Life fall into three categories: improve it, fix it, or sell it.

Under the category of fix it, we are restructuring a significant portion of our redundant reserve financing. While subject to regulatory approval, this action will lead to an additional 150 to 200 basis point improvement in Individual Life's return on capital. We expect 75% of the benefit to emerge in 2017, with the remaining emerging in 2018. This will have a significant impact to returns in Individual Life and will also increase the return on capital of the Ongoing Business by approximately 50 to 60 basis points in 2018.

In summary, many of our initiatives to improve our returns are demonstrating progress. Several of our businesses are already close to or at our 2018 targets. We remain focused on executing our initiatives, and we will continue to look for new opportunities to improve returns and to deliver greater value for our stakeholders.

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 second quarter of 2016.

Slide 15: we highlight several key items that occured during the quarter and other items to consider. Prepayment fee income was above our long-term expectations, and alternative investment income was below.

The alternative investment income results included the reversal of remaining carried interest in a sponsored private equity fund that we discussed last quarter. Fee income, particularly in Retirement and Investment Management, benefited from rising equity markets during the second quarter. Fee income for Retirement was also helped by positive net flows, partially offset by plan participants shifting their assets from variable to fixed accounts.

In Individual Life, our mortality results emerged favorably. In Employee Benefits, our loss ratios were better than our annual target.

Expenses for the Ongoing Business sequentially declined by $23 million, driven by proactive expense management and lower seasonality compared to the first quarter. And then, looking ahead to the third quarter, in the Corporate segment we expect to incur $35 million to $40 million of expenses related to our strategic investment program. We also anticipate a loss of approximately $6 million in our Closed Block Other segment, due primarily to the accelerated recognition of the deferred financing cost following our decision to terminate three funding agreements. Our full-year expectation of minimal earnings for Closed Block Other remains the same.

Then, slide 16: we have diverse sources of operating earnings. The majority of our Ongoing Business operating earnings is from fee and underwriting income, both of which are not sensitive to interest rates. Fee and underwriting income contributed approximately 60% of our last 12 months sources of operating earnings.

Slide 17: we illustrate a number of tools and levers we have been utilizing to lessen the impact of prolonged low interest rates. Even if rates fall further and do not rise over a multi-year period, we believe the impact of our Ongoing Business, operating earnings, and our overall excess capital generation for the total company will be manageable.

For example, we estimate that if the 10-year Treasury yield would drop to 1% and remains at that level through 2019, relative to our baseline scenario of Treasury forward curve as of the end of 2015, the stand-alone financial impacts would be as follows: our Ongoing Business operating earnings would be lower by 2% in 2016 and by 9% in 2019 as compared to our baseline scenario, which reflects growing operating earnings.

And while we continue to generate excess capital, we would expect some reduction from our baseline levels. The excess capital impact translates into a cumulative 65 to 70 points drag on the RBC ratio for the total company, including the Closed Block Variable Annuities. The pace of utilizing our deferred tax assets would not be meaningfully affected by this interest rate scenario.

With respect to our Ongoing Business, 2018 ROE targets of 13.5% to 14.5%: if the 10-year Treasury yield declined and stayed at 1% through 2018, there would be an additional 80 basis points of headwind. Even with those potential factors, our initiatives can still increase our return on capital over the period. And we will proactively look for additional management actions to offset these headwinds.

And then, turning to slide 18, our quarterly Retirement net flows were positive across all markets for the third consecutive quarter. This included positive net flows in Corporate Markets, Tax-Exempt markets, stable value, and pension risk transfer.

In Corporate Markets we have generated inflows for 19 of the last 20 quarters, and these net flows have totaled more than $5 billion over that period. While flows can be lumpy from quarter to quarter, our recent net flows highlight our market competitiveness, which has benefited from expanding our distribution and increasing productivity.

Slide 19: we had another positive quarter of fixed indexed annuities net flows, driven by strong deposits. Investment-only inflows also remained positive, and we continued to run off capital-intensive less profitable business.

Slide 20: Investment Management sourced net flows were positive for a second consecutive quarter. These net flows have a higher revenue yield than the variable annuity outflows, which are primarily in index-based strategies. We are encouraged by continued client demand across a broad range of our products and solutions.

Slide 21: we experienced favorable mortality in Individual Life due to lower frequency. The graph on the right shows that our second-quarter actual to expected mortality ratio was 88%, and this is relative to our expected mortality ratio of 90%.

Then slide 22: the loss ratio for group life improved from the first quarter, which is seasonally the highest quarter of the year. And the loss ratio for stop loss continued to be better than our expected annual target range.

Turning to slide 23, we outline our risk management approach to our Closed Block Variable Annuity segment. The block has been in run-off for the last 6.5 years. Our focus is on protecting the block's statutory and rating agency capital from market movements and accelerating the run-off of the block.

The right part of the slide shows the different parts of our hedge program that we have in place. For example, we have interest rate hedges that have an average tenor of 18 years. Recently we modified our capital hedge overlay program to provide additional risk protection against lower rates. We also use dynamic assumptions, such as lapses, when adjusting the level of statutory reserves for the block.

For example, we lower -- we assume lower lapse rates if the living benefits have more potential value to the policyholder. Since placing the block in run-off, we have reduced the size of the block from $47 billion to $34 billion. The deferred policy count has also fallen by nearly half, from just over 600,000 policies to approximately 340,000 policies.

Slide 24: our Closed Block Variable Annuity hedge program continues to perform as designed. During the quarter, the hedges offset the change in reserves. Our estimated available resources, which are entirely supported by hard assets, increased to $6.8 billion. We had over $900 million of resources above our statutory reserves of $5.9 billion at the end of the second quarter.

The living benefit net amounted risk increased to $7.2 billion during the quarter, primarily driven by declining discount rates. As a reminder, net amount at risk is not our hedge target. Net amount at risk represents a simplistic measure that assumes all policyholders annuitizing and utilizing their benefits at once. We also did not have a letter of credit need at June 30, and no letters of credit were issued.

Slide 25: we supplemented the net present value of cash flow scenarios we provided last quarter. We included a new stress scenario based on 10-year Treasury rates dropping to 1% and staying at that level over the forecast period, combined with a 5% annual equity market return. Even with rates remaining flat at 1% over a 50-year period, the net present value of the scenario is approximately a negative $800 million.

Slide 26: you can see that our regulatory and financial leverage ratios are strong. The RBC ratio was 461% at the end of June. The change from the first quarter reflects $701 million of dividends to the holding company during the second quarter, partially offset by the statutory capital we generated. On the right side of the slide, our debt to capital ratio as of the end of the second quarter was 23.0%. The change from the first quarter reflects the debt transactions that we completed at the end of June.

Then, on slide 27: our capital position remains very solid. Holding company liquidity stood at $722 million at the end of the second quarter. And the middle chart shows our excess capital at $775 million, which consists of estimated statutory surplus and the holding company liquidity above target.

The chart on the right shows we spent $267 million on share repurchases during the second quarter, which consists of $117 million of stock buybacks and the funding of a $150 million share repurchase agreement with a third-party financial institution in June. We expect this June transaction to close and the shares to be delivered in the third quarter. The remaining capacity of our share repurchase authorization is $233 million. We plan to deploy the remaining share repurchase capacity through the second half of the year.

In summary, we're making progress on our various ROC improvement initiatives. We continue to generate significant excess capital, which we have been using to repurchase shares. Our Closed Block Variable Annuity hedges continue to protect regulatory and rating agency capital, and we will continue to proactively manage our expenses.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan Krueger, KBW.

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

Thank you for the additional low-interest rate disclosure. I have a couple of questions on it. One, how should we think about the pace at which the 65 to 70 points of RBC drag would occur over the four-year period? Would it be fairly gradual?

And then, I guess, can you help us think about how it would continue beyond 2019? I know you've given the longer-term cash flow scenario, but I'm trying to understand how to map that up with kind of more of the nearer-term capital types of impacts that would occur beyond 2019. Thanks.

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

Ryan, Ewout will take that.

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

On your two questions, let me first go to the first question, the pace of the impact of the 65 to 70 RBC points. We expect the impact to be minimal in 2016, then to see it going up in 2017, and then gradually increasing into 2019. So that is more or less the pattern you should expect.

I do want to point out that the 65 to 70 RBC points include the impact of the Closed Block Variable Annuity, although technically it's not part, that block, of our entities that fall under the RBC framework. We have also expressed the impact of the Closed Block as part of the overall RBC impact that could be affected.

I also would like to point out, in that respect, that we do have some additional assets over and above the statutory and rating agency requirement in the Closed Block Variable Annuity. That effect has not been factored in in terms of the overall impact. So, in fact, you could say we have some buffer in terms of assets that we could first use before it will impact the overall capital position and excess capital generation for the company, but that has not been factored in. So the 65 to 70 is excluding those buffers. Of course, we will continue to generate excess capital over this period to offset this particular effect.

With respect to your question about how will the sensitivity continue beyond 2019 -- we haven't specifically put out that guidance, so I have to be careful not to be very specific. But what you have seen is, in terms of my first answer, that you see a jump in terms of the impact in 2017 and the gradual increase in the years following. So I think that should give you some direction in terms of your second question.

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

Okay, great. Thanks. And then related but separate, going into your third-quarter policyholder behavior review, I guess, does your prior commentary about generally expecting plus or minus $150 million impact from updated assumptions -- is that still a good frame of reference going into the third quarter?

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

Ryan, as you know, we do our assumption review every third quarter. We have provided guidance, and that's guidance with respect to directionally the impact that we expect year-over-year is still applicable. The reason is that we took a very large charge with respect to our policyholder behavioral assumptions in 2011 before the IPO. You might recall that. And then we said our actual assumptions are very close to the most recent observations and experience we have as a company. And we are truing that up every year during the third quarter. So we will continue with that normal course, our normal practice.

We feel very comfortable where we are with our assumptions relative to the most recent observations. Our assumptions are very, very much in line with most recent experience. And therefore, the overall impact and that guidance range with respect to the policyholder behavioral assumptions is still applicable.

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

Thank you.

Operator

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

Just wanted to start back on slide 25 with the present value cash flow scenarios. Certainly appreciate the 1% low rate stress scenario; that's helpful. But I guess the question is: if we really wanted to look at a stress case where we stress both the equity markets and the 10-year Treasury yield, maybe sort of combining scenario one with this low rate scenario, how bad would those present value of cash flows get? In other words, if we assumed equity returns down 25% in the first year and then sort of zero thereafter with the 1% 10-year Treasury scenario?

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

Let me answer your question in three different ways. First of all, we appreciate your feedback that you like the transparency that we provide. I would like to point out that besides 1,000 stochastic scenarios, we now have five deterministic scenarios. So in other words, 1,005 scenarios that we are providing to the market. Of course, there are still other scenarios that are out there as well, and we will continue to try to be as transparent as possible around the Closed Block Variable Annuity.

Second part of my answer is: there are two ways how you can look at some of the sensitivities around those macro factors. So if you look at scenario two and scenario three, you see that the difference between scenario two and three is isolating the difference in equity market returns. So that should give you some guidance with respect to sensitivity for equity markets.

And if you look at the new stress scenario of 1% low rates versus scenario two, which is interest rates at year-end 2015 -- so think about the 10-year Treasury rate of 2.27% at that point -- and grading up following the forward curve versus 1% flat, that should give you some direction in terms of sensitivity, the difference between the new stress scenario and scenario two in terms of the rate impact. Of course, those impacts are not linear, but at least directionally that can give you a feel of the overall impact.

So my last comment is the following: so clearly these are very adverse scenarios. The impacts will be impacts that are coming in over 50-year period of time. So we will have 50 years as a company to be able to deal with those impacts, and we think that is absolutely an impact we can deal with.

But from a broader context and perspective, if those scenarios will happen, I think there are many other very large issues around the world, maybe much larger than the impact we have to deal with with respect to the Closed Block Variable Annuity. So overall, yes, these are elements that have an impact on the company. But I would say in the broader context there will be many other factors in the broader financial markets as well at such a point in time.

Suneet Kamath - *UBS - Analyst*

Okay, no, that makes sense. I guess on the buyback, just curious -- the pace of buybacks in the quarter was a little bit less than I would have expected, given how weak the stock has been. And it seems like you are sticking with the current authorization as opposed to providing a new one.

So just curious: given your prior commitment to redeploying all of the excess capital, I mean, should we think about another authorization at some point in the second half of the year? I just want to get a sense of what the timing is for the remaining authorization and how we should think about another one coming through at some point.

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

Suneet, that's a very fair question, certainly, looking at the very strong excess capital position that the company has, the $775 million of excess capital at the end of the second quarter. So if you would deduct $233 million of remaining buyback authorization, you could say there is still $540 million of excess capital that is not earmarked at this point in time for a particular purpose.

I do want to point out that if you look at the buyback pace that we have implemented in the first half of this year, close to $490 million of buyback activity. That's close to 10% of our market cap today -- close to 10% in only half a year of time. So from that perspective, relative to the market cap, we believe we have a very high pace.

What we will try to do is to balance, balance to take advantage of the attractive share price of the company. So that's why we will continue with the current buyback authorization and utilize that. And, on the other hand, also to be prudent. We want to be prudent given the overall macro environment. So we will monitor how that macro environment will develop during the second half of the year, and then later this year or the beginning of next year decide how to deploy the remaining $540 million of excess capital.

You know the track record we have as management; you know what we are focused on. I think over the last few years we are very active in excess capital generation. We are very actively returning capital. Nothing has changed in that respect. We will continue to do that as management going forward as well.

Suneet Kamath - *UBS - Analyst*

Okay, thanks, Ewout.

Operator

Yaron Kinar, Deutsche Bank.

Yaron Kinar - *Deutsche Bank - Analyst*

I had a question regarding the supporting assets in the CBVA. So you currently have $900 million of resources supporting -- or at least in excess of statutory reserves. I think you have said in the past that your hedge target is to protect capital against the higher of either statutory or rating agency requirements. So I just want to get some clarification if the $900 million is against the higher of the two requirements today.

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

Yaron, that's a great question. Indeed, we will focus on the higher of the two standards. Our target, our hedge program is tailored to offset both effects -- both regulatory and rating agency requirements. Where we are with respect to the rating agency requirement: it's not a particular number we are disclosing, but what I can say is the rating agency requirement is today the higher of the two standards. We still have very significant assets.

If you look at the $6.8 billion of assets, we have significant assets available over and above the rating agency requirement as well. So you're right; if there will be a low-for-long scenario, some of these scenarios, as we explained and disclosed to you this morning, we will have a buffer with respect to the assets available in CBVA that we can utilize. The higher requirements will determine how much we can utilize. The rating agency requirement will probably be the limiting, constraining factor there. But we do have very significant assets over and above the rating agency levels as well as we speak.

Yaron Kinar - *Deutsche Bank - Analyst*

So just to clarify, then, even in the 1% rate scenario that you provide, you still believe that your asset buffer -- or there will be an asset buffer against the rating agency requirement?

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

Yes, so if you look at the 65 to 70 RBC points impact, which includes the capital effect of such scenario on the Closed Block Variable Annuity, we have not factored in that 65 to 70 that we first can use the buffer of available excess assets in CBVA. So from that angle, we do have some additional buffer in CBVA that has not been reflected and included in that effect of the 65 to 70 RBC points.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. And then my second question is probably more of a strategic question and relates to the Closed Block or the interest in keeping the Closed Block in-house, essentially. Given the significant pressure that we've seen in Voya's share price in recent months, clearly there is some concern that emanates from this block. And I realize you have said in the past that you don't want to sell this at a loss, that you have already strengthened this to the point that you feel like it adequately reflects the potential economics.

But at the end of the day, wouldn't you be better off by lowering your cost of equity by removing some of the overhang by getting rid of the closed block, even at a potential loss? Wouldn't the long-term value there to shareholders be rewarded?

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

It's Rod. Very fair question. And just to maybe reframe what and how we positioned this previously: we have put a substantial amount of resources, hard resources, against this in preparing both the business and the balance sheet to go public, as we've discussed on multiple occasions.

We will continue to be very good stewards of that capital. That said, we are looking for, always, alternatives and options that make sense in running this book off as fast as practical against those resources. The three enhancement offers that we've done are an example of that. The fact that the book has gone from $47 billion to $34 billion in the policy count, substantially reduced over that period of time, another example of that.

So we're not in any way trying to stand on principle. None of us were here when this book of business was written. We are just going to continue to be good stewards of the capital. And as we shared with you, interest rates do matter on this book of business. So we've got 2.5 years prior to 2018 in terms of our next phase of our plan. I think it's very difficult to predict where interest rates will be. And if interest rates cycle, that will create more alternatives and options. What we've tried to do is be very sensitive to the very good questions that we're being asked by you and others on a lower interest rate environment, and what are the reserves and resources that we have available to manage this book? And we feel very comfortable, as Ewout just quite clearly pointed out, with our present position. So all options remain on the table.

We will continue to be vigilant in terms of the management of that capital. We will continue to look at those alternatives and make the right choice at the right time for further accelerating the run-off of this block of business.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Thomas Gallagher, Evercore ISI.

Thomas Gallagher - *Evercore ISI - Analyst*

Thanks for the new disclosure on CBVA. I think that was pretty helpful. My related question to that is kind of pretty straightforward. So if equity markets were to correct, say, 10% or 20%, and interest rates remain here or possibly decline to the 1% level, do you still feel pretty confident that you'd be in a position to return capital for the next few years here?

You know, really what I'm getting at is the one thing that's left out of the discussion right now, I think -- whether it's through the capital stress test or the CBVA appraisal -- is the impact of an immediate equity market correction. So I just want to make sure that if we think out over the next few years, that that wouldn't dramatically alter the discussion we are having today, and to see how you would think about excess capital and capital return. If you kind of take the entire discussion, but then we assume some kind of equity market correction -- and I'm not looking for down 40% or 50%, but more a modest equity market correction of, say, down 10% or 20%, would that alter your thoughts on capital return?

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

This is Ewout. Let me try to give you a couple of pieces that might help you with an answer on the question. We haven't given you a precise scenario and sensitivity, so I cannot give you a precise answer; but let me try to give you a couple of pieces that might help you to understand such a scenario.

So first of all, I think you know our hedge objective. Our hedge objective is to offset immediate market shocks with respect to equity markets and interest rates on regulatory and rating agency capital. And I think what you seen over the last multiple quarters and years is that the hedge program is working. It is exactly doing what it's supposed to do. So if there will be a large equity market shock, our hedge program will be able to provide sufficient gains to offset immediate capital requirements in such a scenario.

And what you also have seen is we added additional interest rate protection. We like that. That is a protection that deals with a low-for-long scenario. So it isn't a perfect hedge, as there is no perfect hedge in this world. But certainly it will give significant -- more protection in a scenario where rates will stay low for a longer period of time.

Maybe the last element I wanted to explain to you is we are giving you very specific guidance today that in a scenario where interest rates will be at a 1% level for the foreseeable future, that the company will still generate excess capital that would be available to return to shareholders. You know our philosophy as management.

We are very much focused on this. We will take additional management actions if we get additional headwinds. So we will do everything we can do in our capacity in order to continue with a promise to the market in order to be able to deliver free cash flow to our shareholders in the future. Obviously, if market scenarios get worse, that will be more depressed, more constrained; but at the same time, we are confident in respect to the future capital generation of the company as well.

Thomas Gallagher - *Evercore ISI - Analyst*

And I guess just as a follow-up to that, I presume, just based on your actions today, the fact that you continue to be, I would say, shareholder-friendly with regard to capital return and the plan through the balance of this year -- is it fair to say that if we did get a equity market correction, and again, I'm not asking for a specific answer, but just more of a general answer, that the right way to think about it might be a reduction in capital generation and a reduction in excess capital, but not in an abrupt halt to a capital return plan if we thought about 2017/2018.

That was certainly the impression I got when you talked about the lower-for-longer scenario without considering the -- you know, some kind of equity market shock. But I just want to make sure that it wouldn't radically change the answer if we layered in an equity market decline on top of it?

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

That's correct. I think the expectation would be that the capital generation and the buyback see a slowdown than an immediate stop at a certain point in time. I would like to point out that this very much depends on some scenario. So an immediate shock -- again, the hedge programs are there to offset. The question is: will it then stay at that level for a longer period of time? Will it grade up? If it will grade up, it's very different than if it will stay at the lower market level, equity market level, at that point. But the immediate effect of an equity market shock -- the hedge programs are designed to deal with that to the fullest extent.

Thomas Gallagher - *Evercore ISI - Analyst*

Got it. So the --.

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

Let me add to that, if I could, Tom.

Thomas Gallagher - *Evercore ISI - Analyst*

Sure.

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

We've been, humbly, in my view, very good operators since we've been public. As you know, we have increased the ROE by over 400 basis points. We've got a strong balance sheet, as we have talked on this call. We've returned over $2.8 billion to shareholders during that period. We've had absolutely flat expenses and will continue to through 2016, and we're very focused on execution. And I'm saying all that to reinforce the point that Ewout is making: that we will continue to be strong operators with firm hand on the wheel as we go into this next period of time.

Thomas Gallagher - *Evercore ISI - Analyst*

I appreciate that, Rod. And if I could just sneak in one last question. I think you guys took a very sizable charge, or at least ING Group did before the spinoff, in terms of policyholder behavior assumptions for VA. And as I -- as we think about a lot of these guarantees hitting max benefits in 2018 through 2022, when you think about the sensitivity there in regard to, okay, if something happened adversely with policyholder behavior and policyholders ended up being very -- we'll say, monetize the guarantees in an incredibly efficient manner, would that represent a significant risk? Or do you think it's a -- you know, you've taken most of that potential pain already, based on that change that was done three or four years ago?

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

What we have done is taking a large charge to true up our assumptions in 2011. And since then the updates have been more, what we call, in the category of refinement. And we still believe we are exactly in that same place. And in fact, over time, since the IPO, we have become more comfortable where we are with respect to our policyholder behavioral assumptions.

You're very right in one element that you're pointing out -- that the risk of this book is going up gradually by itself because of some of the roll-ups. The good news is those roll-ups hit their maximum levels somewhere between 2017 and 2019. So not too far away anymore.

So if you look at that compared to the offset of the run-off of the block itself, the lapses we are seeing, the 10.5% of outflows now that we reported during this quarter, which is more or less in line with previous periods as well, the level of annuitizations and early annuitizations, which are economically good news for the company. And that is what we are trying to stimulate with the Enhanced Annuitization Offer.

We think how the block is behaving from a policyholder behavioral assumption perspective and where we are today, that things are in a good place. And we're certainly comfortable that, like I said earlier during the call, if we have to make changes and updates as we do every year to reflect the most recent experience, that it will continue to be in the category of refinements.

Thomas Gallagher - *Evercore ISI - Analyst*

Great, thank you.

Operator

Seth Weiss, Bank of America.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Alain, I was hoping you could give a little bit more context on the Individual Life redundant reserve restructuring. I believe the 150 to 200 bps of ROC improvement -- I mean, this is more than double than the positive impacts you got from the RGA deals over the last couple years. So I was pretty shocked by the amount and the fact that you're able to keep earnings within the block. So the benefit seems to be on the top line of earnings, not on the bottom line of capital. So just curious if you could describe the dynamics in the marketplace that allow you to hit this kind of accretion?

Alain Karaoglan - *Voya Financial, Inc. - COO of the Company and CEO, Retirement and Investment Solutions*

I'm going to let Mike Smith answer that question, but it is a significant benefit to us and significant improvement in our ROC on the life business and on the Ongoing Business of 150 to 200 basis points on the life side and 50 to 60 basis points on the Ongoing Business.

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

I think the way to understand this is in the context of the overall level of redundant reserve financing we have in place. As you have seen in our disclosures, there's about $4 billion of reserve financing. This transaction affects about half of that, and so we are very pleased that we are able to make this kind of progress.

I think the other thing that has changed is Voya's position in the market and our ability to secure more attractive terms relative to where we were three or four years ago, when we were refinancing. So we're very pleased with the outcome here. We think that this represents the balance of what we'll be able to achieve in fix it.

From here on out, I expect small, more incremental kind of improvements -- not only from that possible additional refinancing, as well as improvements in business mix and just general management of the block, but we are very excited to take the business from an ROC of 4.9% to, once this is in place, to something closer to 8.5% or 9%.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Great. Appreciate that. And any adjustment to that 7.5% to 8.5% target, then, with the benefit from this transaction?

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

It's Rod. We revised upward the targets in June of 2015, and we are not changing those targets at this point. But great question.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot. And if I could just ask one real quick one on the new scenario for the low interest rate environment, the 1% forever. What does that assume in terms of lapses?

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

Dynamic lapses. And what that means -- Seth, that means that lapse rates will be lower, because in such a scenario, policies will show higher levels of in-the-moneyness. Policyholders will expect some level of rational behavior and in that respect, that is reflected in such a scenario as well.

That is, by the way, applicable on all those scenarios we put out -- both the stochastic, the 1,000 stochastic and the five deterministic scenarios. It reflects dynamic policyholder behavioral assumptions. So the actual experience, what we expect in those scenarios, will reflect a change in behavior, depending on if policyholders see the policies being more in-the-money or more out-of-the-money.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, so when we look at scenario one that says lapses down 5%, that's above and beyond any impact already in place from the dynamic assumption. Is that right?

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

Yes, thank you for pointing that out. So scenario one is already assuming a very large decline in lapses, given the dynamic underlying assumption. What we have done there is an additional stress on top of that of another 5% of those already lower-lapse expectations and assumptions in that particular scenario.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Great. Thanks for the clarification.

Operator

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

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

Thank you all for your participation. We remain confident in our ability to drive greater value for all of our stakeholders. We are progressing toward our 2018 ROE target. Our capital position is strong, and we will continue to be nimble as the environment evolves. Thank you and good day.

Operator

And thank you, sir. The conference has now concluded, and we thank you all for attending today's presentation. You may now disconnect your lines.

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