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PRESENTATION

Operator

Good morning and welcome to the Voya Financial fourth-quarter 2016 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 and Head of Investor Relations. Please go ahead.

Darin Arita - *Voya Financial, Inc. - SVP and Head of IR*

Thank you, Rocco, and good morning, everyone. Welcome to Voya Financial's fourth-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 operating and financial results and the business and the products of the Company and its subsidiaries.

Voya Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties, including those from time to time in Voya Financial's filings with the US Securities and Exchange Commission.

Slide 2 also notes that the call today includes non-GAAP financial measures. In particular, all references on this call to ROE, return on equity; ROC, return on capital; or other measures containing those terms are to Ongoing Business adjusted operating return on equity or return on capital as applicable, which are each non-GAAP financial measures. An explanation of how we calculate these and other non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures can be found in the press release and quarterly investor supplement available on our website at investors.voya.com.

Joining me this morning on the call are Rod Martin, Voya Financial's Chairman and Chief Executive Officer; Alain Karaoglan, Voya Financial's Chief Operating Officer; and Mike Smith, 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 section are other senior members of management: Charlie Nelson, Chief Executive Officer of Retirement; Christine Hurtsellers, Chief Executive Officer of Investment Management; and Carolyn Johnson, Chief Executive Officer of Annuities and Individual Life.

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. My apologies; I have a bit of laryngitis. I appreciate your patience. That said, I am eager to share our progress on our plans, so let's begin on slide 4 with some key themes.

During 2016, we continued to execute on our plans to improve our ROE and better position Voya to meet our customer needs. We increased our ROE to 12.3% at year end and we are confident that we can achieve our 2018 target of 13.5% to 14.5%. Our confidence comes from our growth, our capital efficiencies, and our opportunities to simplify Voya. Let me briefly expand on each of these.

First, we remain confident because of the growth that we are generating. During the fourth quarter and full year, Retirement and Investment Management generated strong net flows. Retirement has benefited from our distribution expansion and our increased productivity. Investment Management has grown in part by developing solutions for new customers. We also grew in Annuities and Employee Benefits.

Second, we remain confident because of the capital efficiencies we produced. These efficiencies have been greater than our initial plan. And finally, we remain confident because of the opportunities to simplify Voya to better serve our customers and to achieve at least $100 million in cost savings through 2018.

In addition, our capital position remains strong. At the end of 2016, we had $941 million in excess capital. In the fourth quarter, we entered into a $200 million discounted share repurchase agreement that we mentioned in November. This agreement priced earlier in the first quarter of 2017. We intend to utilize our remaining $633 million share repurchase authorization over the course of this year.

During the fourth quarter, our hedge program continued to effectively protect our Closed Block Variable Annuity capital, and the resources backing the block continue to exceed our regulatory and rating agency requirements. We completed our fourth Enhanced Annuitization Offer during the quarter to further run off the block. In total, we have accelerated a cumulative runoff of $1.5 billion through 4 Enhanced Annuitization Offers.

In January, we launched a GMIB Enhanced Surrender Value Offer. This will provide an option to those customers who may find more value in liquidity than the potential income stream of the annuity. This offer period concludes at the end of March, and we will share the results with you during our first-quarter earnings call.

Moving to slide 5, we reported operating earnings per share of $0.91 for the fourth quarter. Prepayment fees and alternative investment income above our longer-term expectations, as well as a gain associated with the Lehman Brothers bankruptcy settlement collectively increased earnings by $0.17 per share.

For the full year, we reported operating earnings per share of $2.61. There were several items that on a net basis decreased earnings by $0.39 per share. The most notable was due to our DAC/VOBA unlocking related to our annual review of actuarial assumptions in the models in the third quarter. Finally, our ROE for 2016 was 12.3%, up from 12.1% for the trailing 12-month period ended September 30.

Overall, 2016 was another successful year of the transformation of our company. We improved our financial results by helping our customers plan, invest, and protect their savings. Our capital position remains strong, and we continue to be recognized by third parties for our high ethical standards, our commitment to gender equality and our focus on corporate responsibility, and for being a great place to work.

I will now turn it over to Alain, who will give you some details on our actions.

Alain Karaoglan - *Voya Financial, Inc. - COO*

Good morning. Let's begin on slide 7. In 2016, our return on equity and return on capital increased to 12.3% and 10.2%, respectively. During the year, we continued to execute on our initiatives and to take actions to simplify our Company to create greater value for our shareholders and for our customers.

On slide 8, we have provided the underlying drivers that will enable us to improve our return on capital. Beginning with our year-end 2014 return on capital of 9.9%, you can see how each component will contribute to our 2018 return on capital target of 11.5% to 12.5%.

We are now highlighting cost savings in a separate category, since this will be a significant driver of our return on capital improvement in 2017 and in 2018. Cost savings are expected to add 90 basis points to 100 basis points to our return on capital expansion.

Capital initiatives were the biggest driver of our returns in 2015 and 2016. The full benefit of the 135 basis points to 155 basis points will largely be reflected in our return on capital by the end of 2017.

Other initiatives, which include growth and margin initiatives outside of cost savings, are expected to increase our return on capital by 80 basis points to 100 basis points. This category also captures the effect of equity market returns, which have been below levels that were anticipated in our original plan, creating a drag of 30 basis points to 50 basis points relative to that plan.

Although up since November of last year, interest rates are expected to create a headwind of 125 basis points to 145 basis points. This is an increase from our original expectation of 70 basis points to 90 basis points.

You will note that cost savings and capital initiatives are now the biggest drivers. Growth remains a core part of our plans, and we have begun to see some benefits of our investments in achieving more profitable growth. We expect growth will accelerate once we have completed our strategic investment program and taken further actions to simplify our company.

As outlined on slide 9, we are making progress on our $350 million strategic investment program as well as our efforts to simplify the organization. Most of our initiatives will be more than 50% complete by the end of 2017, with our current plans to consolidate IT platforms at 90% completion.

As we shared in November, these collective efforts will enable us to achieve annual run rate cost savings of at least $100 million to be realized in 2018 and subsequent years. And importantly, will allow the company to continue to become more nimble.

On slide 10, we have provided an update on our 2016 growth initiatives and our expectations for 2017. I will highlight a few of these initiatives. In Retirement, we achieved an all-time high in full-year net flows amidst a low rate environment and sluggish industry sales.

We increased the number of our client relationships by 6% in a market that was relatively flat last year, according to LIMRA. Through September 30, 2016, Voya was one of the top three companies in terms of new plan growth in plans under $5 million as measured by assets. We expect deposit growth to continue in 2017.

In Investment Management, we expect total institutional sales, which were very strong in 2016, to be slightly down to flat in 2017 as certain flows, such as CLO issuances and a private equity launch, may not repeat at the same level. Our retail intermediary sales held up well last year, while a challenging market environment caused industry sales to be down 5% through September 30, 2016. In 2017, we expect retail intermediary sales to be flat to up 5%.

Affiliate Sourced sales increased in 2016, partly due to greater partnership between Retirement and Investment Management as well as strong interest in our target date offerings. We plan to build on this in 2017 and expect sales to be flat to up 5%.

In Annuities, our sales forecast for 2017 may be conservative, as it assumes the Department of Labor's fiduciary rule is implemented in April. We are assessing the potential effect of last Friday's presidential memorandum to review the rule.

Let's take a closer look at each of our businesses, starting with Retirement on slide 11. Retirement's return on capital for 2016 was 8.8%, up slightly from 2015. We are making great strides in helping our customers achieve greater retirement outcomes. We have invested in new tools for plan sponsors and participants to help them get ready to retire better.

In October, we launched the Voya Behavioral Finance Institute for Innovation. This is a new research initiative focused on gaining deeper insights into Americans' financial and retirement planning activities. The Institute's work will merge behavioral science with the speed and scale of the digital world.

Moving to slide 12, in Investment Management, the underlying operating margin was 28.2%, down from 29.1% in 2015. The year-over-year decline largely reflects lower average asset levels during 2016, particularly during the early part of the year.

We have successfully leveraged our strong investment performance to drive sales and net flows. We also have brought our investment expertise to new clients, including expanding in the insurance asset management channel.

In 2016, we generated $850 million in net flows, up from $200 million in 2015, through our work with insurance companies. Growth in this channel was driven by strong interest in our US equity, mortgage derivative, and private credit strategies.

Moving to slide 13, the return on capital for Annuities was 9.8%, up from 9.3% in 2015. In addition to greater distribution reach, we have significantly transformed and improved the profitability of our product line in Annuities to require less capital and better meet customer needs.

For example, nearly 100% of our annuity sales are now from newly developed products with improved capital efficiency compared with about 60% in 2015 and 40% in 2014. At the same time, we have been closely managing crediting rate to align with our return targets. We expect the combination of our Annuities and Individual Life businesses to lead to future synergies, particularly on the distribution front.

Turning to slide 14, Individual Life's return on capital increased to 6.6% from 6.2% in 2015. During 2016, we continued to benefit from a number of actions we have taken to reduce capital usage and refinance redundant reserves.

We completed the refinancing transaction ahead of schedule, and this provided approximately 15 basis points of benefits in the fourth quarter. The annual run rate benefit continues to be 150 basis points to 200 basis points. This will be slightly offset by higher reinsurance costs of 25 basis points to 50 basis points in 2017, as we noted last quarter.

In November, we announced our decision to cease sales of term life insurance at the end of 2016. Focusing solely on indexed universal life insurance will require less capital going forward while enabling us to continue offering our customers a valuable protection solution.

Moving to slide 15, the return on capital for Employee Benefits was 23.3%. Our loss ratios in 2016 returned to our expected annual range after having been unusually good in 2014 and in 2015.

As we look to build upon our in-force premium growth in 2017, we also will continue to remain disciplined with our underwriting and with our pricing. We see several opportunities to continue to improve customer and distributor experiences as well as lower unit costs by simplifying our operations.

In summary, we made solid progress on the execution of our various initiatives, our strategic investment program, and our actions to simplify our Company. As I have noted before, our ability to achieve our plans depends in large part only on our continued commitment to execution.

Now I will turn it over to Mike to go over our financial results. Mike?

Mike Smith - *Voya Financial, Inc. - CFO*

Today I will discuss our financial performance for the fourth quarter and full-year 2016. On slide 17, we highlight several key items that occurred during the quarter and other items to consider.

Prepayment fees and alternative investment income were both above our long-term expectations. Both Retirement and Investment Management benefited from rising equity markets and positive net flows. In addition, Investment Management generated strong performance fees during the fourth quarter.

In Retirement, plan participants continued to shift assets from variable to fixed accounts, which partially offset increased fee income and acts as a drag on investment spread and return on capital. In Individual Life, elevated severity affected our mortality results. In Employee Benefits, our loss ratios for full-year 2016 were in line with our expected annual range, while our quarterly loss ratios were mixed.

Looking ahead to first-quarter 2017, we expect $25 million of seasonal expenses for our Ongoing Businesses due to payroll taxes and revised upfront recognition of equity compensation for retirement-eligible employees. For our Annuities segment, administrative expenses in first-quarter 2017 will increase by approximately $5 million relative to first-quarter 2016. This will be mostly offset by lower DAC amortization due to a reduction in the amortization rate from changing business mix.

Moving away from expenses, we anticipate approximately $750 million of Retirement tax-exempt market net outflows, driven by a merger-related departure of a case with high guaranteed minimum interest rates. In Investment Management, our 2017 performance fees are expected to normalize, as our full-year 2017 performance fees exceeded annual expectations by $14 million on a gross basis. In Employee Benefits, we expect our full-year 2017 loss ratios for stop loss to be at the higher end of our annual target range, reflecting less-favorable development on business written in 2016.

Finally, Institutional Spread Products will be almost entirely run off by year-end 2017, and the quarterly results are reported in Corporate. The block is expected to record operating losses in 2017, primarily from corresponding deferred prepayment penalties due to the accelerated runoff.

Turning to slide 18, our quarterly Retirement net flows were positive for the fifth consecutive quarter. In corporate markets, we have generated net inflows for 21 of the last 22 quarters. These net flows have exceeded $6 billion over that period.

Turning to slide 19, Investment Management sourced net inflows exceeded $1.5 billion in the fourth quarter and were positive for every quarter in 2016. These results were driven by continued client demand across a broad range of our products and solutions, including fixed income, CLO, and private equity funds. These net inflows have a higher revenue yield than the variable annuity outflows, which are primarily in indexed-based strategies.

Variable annuity net outflows for the funds managed by Investment Management were $908 million, which were accelerated by $338 million due to our fourth Enhanced Annuitization Offer in CBVA. Investment Management, however, retained all AUM related to this offer as the assets go into the general account.

As shown on slide 20, our Annuities net flows recovered in the fourth quarter, led by continued investment-only inflows and a rebound in fixed-indexed annuities flows. As rates rose during the quarter, we were able to increase fixed-indexed annuity sales while meeting our return targets.

On slide 21, we experienced unfavorable mortality in Individual Life due to elevated severity. We have added reinsurance on larger policies to reduce severity exposure and mitigate potential underwriting volatility. The graph on the left shows that our fourth-quarter actual-to-expected mortality ratio was 99%. This is relative to our expected mortality ratio of 90%.

Moving to slide 22, our fourth-quarter loss ratio for Group Life was better than our expected annual range of 77% to 80%. The loss ratio increase for Stop Loss was driven by higher claims frequency. While quarterly loss ratios can fluctuate, our full-year loss ratios were in line with our expected annual range.

As slide 23 shows, our Closed Block Variable Annuity hedge program continues to focus on protecting regulatory and rating agency capital and is performing as designed. During the quarter, the hedges offset changes in reserves.

We had estimated available resources of $5 billion, which are entirely supported by hard assets, and statutory reserves of $4.5 billion at the end of the fourth quarter. The change in values from third quarter was largely driven by higher interest rates. The annualized net outflow rate in this closed block was 16.3%, which included a 6.8% benefit from our fourth Enhanced Annuitization Offer.

Also during the quarter, we had two items affecting the GAAP results. First, a nonperformance risk loss reflecting credit spreads tightening. And second, a loss recognition event, which led to a write-down of deferred acquisition costs driven by higher interest rates, which actually benefit the block from an economic perspective. And an increase in GAAP payout reserves. These GAAP items did not affect our regulatory or rating agency capital position.

Turning to taxes, we are paying close attention to potential changes to corporate tax policy. While the new administration has not revealed tax reform specifics, we can comment on directional impacts.

In a hypothetical scenario in which corporate tax rates fall to 20% without renewal of the dividends received deduction, we would expect our tax rate for operating earnings to be 20%, all else being equal. As a reminder, our current operating earnings tax rate of 32% reflects only one-third of our dividend received deduction benefit as derived from our ongoing businesses. The remaining two-thirds of the benefit accrues to our Closed Block Variable Annuities segment, the potential value of which is reflected by the separate NPV chart on the bottom right of the slide.

With respect to the net present value of the projected cash tax savings from our deferred tax assets, our new estimate is approximately $1.6 billion as of year-end 2016. This is up slightly from last year, primarily due to additional hedge losses from higher rates and the impact of our Individual Life redundant reserve refinancing.

On slide 25, you can see that our regulatory and financial leverage ratios are strong and remain better than our targets. The RBC ratio increased to 493% at the end of December, mainly driven by statutory net income. On the right side of the slide, our debt-to-capital ratio as of the end of the fourth quarter was 24.4%, reflecting lower retained earnings.

On slide 26, our capital position is strong. Holding company liquidity stood at $463 million at the end of the fourth quarter. The middle chart shows our excess capital at $941 million, which consists of estimated statutory surplus and holding company liquidity above target. We expect to upstream most of the estimated statutory surplus to our holding company in the second quarter.

We have over $600 million available for share repurchases through year-end 2017 after funding a $200 million discounted share repurchase program in the fourth quarter. The transaction priced in the first quarter.

In summary, we continue to take proactive steps to improve ROE and focus on cost management. We have a strong balance sheet and significant excess capital. And our Closed Block Variable Annuity hedges continue to protect regulatory and rating agency capital as we pursue additional de-risking measures.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan Krueger, KBW.

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

My first question was on the 2018 ROC target of 11.5% to 12.5%. The slide mentions by the end of 2018. I just wanted to clarify, I guess, if that's a distinction from the prior guidance. I think it was just for full-year 2018.

Alain Karaoglan - *Voya Financial, Inc. - COO*

Thank you for the question and the clarification. Yes, it's full-year 2018.

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

Okay. So it's still full year?

Alain Karaoglan - *Voya Financial, Inc. - COO*

Yes.

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

Got it. Okay. And then on CBVA, the amount of statutory resources in excess of the reserves declined by about $500 million in the quarter. Is it fair to say that you would expect generally to have less resources in excess of reserves when interest rates rise because the economics are more sensitive to interest rates than the actual statutory reserve move? So we should expect generally a greater gap between the two when rates are low and a smaller gap when rates are high?

Mike Smith - *Voya Financial, Inc. - CFO*

I think generally, yes, that you are thinking of it the right way. Just to give it some perspective, the reserves at the end of the third quarter were 5.3 -- yes, reserve of $5.3 billion. Resources were $6.3 billion. And we dropped to reserves of $4.5 billion and resources of $5 billion as of the end of the fourth quarter.

The way to think about that is really in, I think, three buckets: there's the liabilities, there's the hedges, and then there's the underlying assets. The change in liabilities is generally offset by the change in the hedge, as you can see on the slide. And then the value of the assets is adjusted as interest rates move up and down because those are mark to market in that example.

And so that led to the decline in the margin. More importantly, we are focused on managing to the CTE 95 level. And as we said, we are more than sufficient at CTE 95.

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

Thanks. Last quarter I think you said you were at CTE 98. Is that still where you are now?

Mike Smith - *Voya Financial, Inc. - CFO*

So we did say that. And we are still sufficient at CTE 98, but we do not target that. And there will be quarters where we fall above and/or below that level. We are comfortable with CTE 95; it's consistent with our ratings and has served us well thus far.

Operator

Erik Bass, Autonomous Research.

Erik Bass - *Autonomous Research LLP - Analyst*

I had a question for Retirement. How quickly should we start to see spreads benefit from the rise in interest rates? And how much further would rates need to rise to offset the headwind from spread compression?

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

Charlie will take that, Erik.

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

Good morning and thank you. Our forecast and plan assumes the forward curve, essentially, at year end. So it has embedded in it the rising rates. And rising rates and spreads certainly impact things relative to the duration of the portfolio and the time and the amount that those -- any rising rates would come in. And we've got to balance that with our crediting rates, once the crediting rates potentially get above a guaranteed minimum interest rate.

So in short, all things being equal, rising rates above the forecast is going to be good. How impactful depends on so many factors that it's tough to provide some specific guidance on that relative to an increase.

Relative to overall in terms of how we think about it, we are going to continue to manage our general account liabilities with agility to balance, I think, relative to the overall market, environmental, and our business metric. So just thinking about it in total: difficult to forecast, but certainly, in total, a good thing if it gets above our forecast.

Erik Bass - *Autonomous Research LLP - Analyst*

Got it. And is there a rate to think about where the drag would disappear? I know some companies have talked about a 10-year Treasury rate of 3% or higher would eliminate the drag on spread compression. Is there a shorthand way to think about that for you?

Alain Karaoglan - *Voya Financial, Inc. - COO*

So maybe just to give you some context on the overall impact on rate on the Company, the original plan -- we had an expectation of interest rate headwind of 70 basis points to 90 basis points. And today what we are highlighting, it's 125 basis points to 145 basis points during the period.

What has happened, obviously, during 2015 and 2016, we have been investing in this lower rate environment. And that you don't make up until the duration of your assets mature.

So what we've done in order to offset that impact of interest rates what you've seen so far is focus on cost savings and capital initiatives to offset the impact. And despite the headwinds of the interest rates and the equity market -- as I mentioned, will cost us close to 50 basis points because equity markets haven't appreciated as much as our plan -- we expect to still achieve the original plan of return on capital of 11.5% to 12.5% or an ROE of 13.5% to 14.5%.

And Mike, maybe you want to talk about the portfolio yield versus newer rate and where does it stand today. That may give you some additional perspective.

Mike Smith - *Voya Financial, Inc. - CFO*

Yes, I think the other way to think about this is the degree of erosion in the portfolio rate as we put new money to work. And that continues so long as the new money rate is below the overall portfolio yield.

Right now, we're putting new money to work at around 4%, give or take. The portfolio rates vary from business to business, but think of that as in the high 4s%. So we would need spreads to widen a bit and/or the Treasury to go up in order to get to the place where we are at sort of a neutral position.

So I think, you think about it in those terms, that's -- to the extent others are guiding around 3%, that's probably not a bad benchmark. But it's not quite that easy. You have to think about spreads, too.

Erik Bass - *Autonomous Research LLP - Analyst*

Perfect, that's helpful. And just one quick clarification. On the $25 million of seasonal expenses in the first quarter, is that $25 million of higher than previously expected expenses? Or are you just alluding to the typical seasonal pattern with higher expenses in the first quarter?

Mike Smith - *Voya Financial, Inc. - CFO*

Yes, thanks for giving the chance to clarify. That's versus 4Q. It's an increase relative to 4Q. Typical seasonal pattern.

Operator

Suneet Kamath, Citi.

Suneet Kamath - *Citigroup - Analyst*

I wanted to go back to page 8, where you provide that ROC walk. So if I look at this slide that you gave us at the Investor Day a couple years ago, it looks like that growth bucket that you used to call out was 150 basis points to 180 basis points of improvement.

And now it seems like cost savings are higher, capital is higher in this other bucket, which I'm assuming encapsulates the growth is lower. So maybe you could just tell us what's going on in terms of the differences in that bucket in particular.

Alain Karaoglan - *Voya Financial, Inc. - COO*

In that bucket, it relates to the comment that I just made earlier: the level of interest rate being lower than what we had expected in the plan. So what does it mean?

As you know, we are very disciplined, for example, in our fixed-indexed annuities. And therefore, as interest rate decline, we will lower our crediting rate and adjust our cap rate to reflect the spreads that we can earn. The same is true when interest rates go up. So some of the growth opportunities within the Annuities business have moderated from our original plan.

The equity market return is in that bucket as well. And that's going to cost us, as I mentioned, 30 basis points to 50 basis points of return on capital. So when you think about the growth opportunities, the lower macro environment is affecting it meaningfully, and especially since now we have had two years that have passed with a macro environment out of the four years that has been below that.

The other thing that I want to emphasize is how we adapt to this environment. We are not a victim of that environment. This environment changes -- we've adapted, we have adjusted our plan, we are going to achieve the same expected returns that we expected at that time.

And that's what we are really trying to do with the organization overall. We are simplifying our IT infrastructure. We are digitizing our processes. And that's going to allow us to be more nimble, and going forward to even be more adaptable in order for us to adjust to any changes in the environment from wherever it may come from. And that's true overall and for each of our businesses.

Suneet Kamath - *Citigroup - Analyst*

I got it. But I guess the Annuities business is already at your target. So is any of the slowdown in growth affecting the Retirement business?

Alain Karaoglan - *Voya Financial, Inc. - COO*

Absolutely. Some of that is affecting the growth in the Retirement business. Some of that growth affects, obviously, both the Retirement business and Investment Management business on the equity portion of that.

Suneet Kamath - *Citigroup - Analyst*

Okay, got it. And then my follow-up is just on the capital. It looks like the gap between your excess capital of $941 million and your current share repurchase authorization of $633 million is pretty big. And you had mentioned that you plan on sending most of that $941 million, I guess, up to the holding company.

So any thoughts on the pace of buyback? I know you like to be pretty consistent quarter in and quarter out. But just given how strong the excess capital is, any thought to increasing the pace of share repurchases?

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

Thanks for the observation. And frankly, the comment that we have been consistent -- you've heard me refer to it regularly. I think we are very good stewards of capital.

By way of example, we've returned $2.9 billion since we've been a public company in share buybacks. And we're going to continue that philosophy. So we're going into the year. We feel very good about the financial position. And you will see us use good judgment as the year unfolds.

There's a lot in play as we go into the year with a new administration. We're cautiously optimistic as a result of what we are hearing, but we are listening and learning as we go.

I really want to underscore the point that Alain made. We, I think, have demonstrated great agility in responding to the environment that we are presented. And that's why we feel so good about the balance of our plan through 2017 and 2018. And you'll see that reflected in our share buyback activity in addition to all the other decisions we are making.

And I just would add one other element to what Alain pointed out. Certainly the equity markets, as he said, over the last few years have affected our Retirement business and Investment Management. But if you look at the net inflows that we had in the full year of 2016 as well as the good management we've done in our indexed products in terms of flows, we feel very good about how that is boding well in terms of our broad distribution platform as this economy continues to improve.

Mike, anything to add?

Suneet Kamath - *Citigroup - Analyst*

Okay. Thanks, guys.

Operator

Jimmy Bhullar, JPMorgan.

Jimmy Bhullar - *JPMorgan - Analyst*

So first I had a question on just the medical Stop Loss business. You'd had obviously very strong earnings and better than expected generally over the last few years.

So if you just talk about what's causing you to be a little bit less optimistic, and what's causing your view of margins to be lower than what they have been before? And is it pricing more or loss experience or competition?

And then also comment on how trends were in the market, both in stop loss and just employee benefits in general as you went through renewal season for this year.

Alain Karaoglan - *Voya Financial, Inc. - COO*

Thank you, Jimmy. As you noted, we've had truly spectacular results in our Employee Benefits business, and in particular in stop loss. And that's reflected in the loss ratios and the return on capital that we have been achieving in their businesses.

And we have been pointing since 2014-2015 that these were great earnings, but we expected the loss ratio to get in line with our expected targets. Because this is where we are pricing the business at, and this is what we expect the environment to lead to.

The fact that our profitability is better; also our competitors, their profitability was better during these years. And the clients also are seeing that profitability that is better. And it's normal to adjust pricing to reflect the loss ratios that are better than anybody expected.

So essentially, it's -- the business has some cyclicality. You are seeing that reflected in 2014-2015. 2016 is getting back to within our target range. And that's what we are expecting in 2017 - to be at the high end of our target range.

What we want, what we will do, what we will ensure doing, we are going to remain disciplined on our underwriting, on our pricing. And if the market gets too competitive, if the market is less attractive, we are going to be willing to shrink business.

Jimmy Bhullar - *JPMorgan - Analyst*

And just on your slide on the macro headwind from rates in the equity market, how much of that is really the equity market versus rates? Because the market has actually been fairly good the last several years. I think three of the last four have been over 10% total return in the market. 2015 was the only sort of weak year. So how much of that is really rates, or has the market done worse than your assumption as well?

Alain Karaoglan - *Voya Financial, Inc. - COO*

On slide 8, you could see the headwind from interest rates, which is 125 basis points to 145 basis points of return on capital. While the equity markets have increased, they have not increased in line with expectations of 7.5% that we had at the beginning of 2015.

And that lower-than-expected appreciation cost us 30 basis points to 50 basis points by 2018. Obviously, some of it will depend as to what happen in 2017-2018. So if beginning of 2018 the asset level go back to where the plan was originally, then that will help overcome some of that. So it's both that have affected.

Jimmy Bhullar - *JPMorgan - Analyst*

But I'm just trying to understand, because the market was up more than that. Are you talking about your own performance within your funds or just average daily balances, or what is it that you are referring to?

Alain Karaoglan - *Voya Financial, Inc. - COO*

Yes. So it's the -- we had expectation of market appreciation from 2014 to today. And the market actually has not appreciated as much as our assumption of 7.5% that we had laid out at the time of the investor day.

Jimmy Bhullar - *JPMorgan - Analyst*

Got it. Thank you.

Operator

Yaron Kinar, Deutsche Bank.

Yaron Kinar - *Deutsche Bank - Analyst*

I actually want to maybe continue on this last question's path. So if I look at the interest rate impact and equity market impact, all in, you got the 150-basis-point to 200-basis-point drag relative to the investor day expectation.

I think last quarter you talked about roughly a 140-basis-point drag. So just given the move we've seen in the market and equity rates and interest rates this last quarter, I'm just surprised to see that headwind has increased by that much over a quarter.

Alain Karaoglan - *Voya Financial, Inc. - COO*

The 140 basis points last quarter was additional drag. It was not absolute drag. So what we are showing here is the absolute drag. So what we talked about, it was 140 basis points on top of what we had expected.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay, that's helpful. And then with regards to the CBVA and the CTE 95, CTE 98, I think last quarter you talked about roughly a $400 million buffer above CTE 95. Is it fair to think that as interest rates rise, you don't need -- the dollar amount to get to CTE 98 buffer shrinks?

Mike Smith - *Voya Financial, Inc. - CFO*

I think the short answer is it will come in a little bit, but it won't be -- the major effect will be the overall reduction in CTE 95. Certainly rates going up is a great thing for the block and will ultimately lead to a better result in terms of ongoing cash flow and so on. So I think that's a good thing.

The gap between CTE 95 and 98 will largely be driven more by time effects. As the block shrinks, as the amount of CTE 95 itself shrinks, then I think you can think about it as a proportional reduction. So the dollars will go down, but the relativity will be probably about the same.

Yaron Kinar - *Deutsche Bank - Analyst*

Got it. That's very helpful, thank you.

Operator

Seth Weiss, Bank of America.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Could you update us on the statutory capital that's currently blocking -- backing the closed block institutional spread business?

Mike Smith - *Voya Financial, Inc. - CFO*

We'll have to get back to you on that one. I don't have that number right at hand, but we'll look it up. I don't think it's a large number, but we'll get that for you.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, thank you. And if we look at the sensitivities to regulatory capital on page 23, at the bottom side there of the chart, those have changed a good deal, especially the equity market sensitivity, since what you presented last quarter.

I know markets have changed. But if you could just help us think through what that change means from an economic perspective versus a regulatory capital perspective, how to use this disclosure?

Mike Smith - *Voya Financial, Inc. - CFO*

I think as markets evolve and as the degree of moneyness changes, you are going to see some shifting in this. That will be one effect. A second will be the relative amount of hedging that we've got in place.

We did make a modest increase in our interest rate hedges during the quarter, so that's part of the impact that you may see on the interest rate exposure. But I think the main way to think about this is that as markets move, there will be this instantaneous change in the relative capital levels.

But as equity markets go up, as interest rates improve, the overall value of the business is improving. So to the extent we're thinking in terms of a broad economics, I think you want to think about it in that way. And the point of this disclosure is just give you a sense of instantaneous shocks.

But the economics are probably more in line with the -- you can think of some of the cash flow disclosure we've given as giving an indication of that. And the overall level of CTE 95 and reserves, that as that goes down, that's a good way to understand the economics. We have the number, back on your first question. The ISP is a little under $500 million.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot. But just to the second question, in terms of the asymmetry here on regulatory capital and interest rate moves, negative move boosting the immediate impact. That's the same dynamic, going back to Ryan Krueger's question, in terms of looking at the gap between available resources and stat reserves. Is that right? I just want to make sure I'm thinking about the economics and accounting all in the right frame of mind here.

Darin Arita - *Voya Financial, Inc. - SVP and Head of IR*

Seth, I'm sorry; we just had some difficulty there. Could you repeat that question? Thank you.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Just in terms of when you look at the immediate impact to regulatory capital, where interest rates falling causes a boost up in regulatory capital but you don't get the counter effect. That goes back to Ryan Krueger's question in terms of the gap we see between available statutory resources and statutory reserves. Is that right?

Mike Smith - *Voya Financial, Inc. - CFO*

So what you are seeing in the -- if rates go down in the regulatory capital, that's purely a benefit of the hedging positions. Right? And I think the difference between the sensitivities there.

Seth Weiss - *BofA Merrill Lynch - Analyst*

I'll take it off-line from there. But that's helpful. Thanks a lot.

Operator

Sean Dargan, Wells Fargo Securities.

Sean Dargan - *Wells Fargo Securities - Analyst*

I just was wondering if you could give us an update on any potential CBVA solutions with the rise in the 10-year since the last time you talked about it. Just wondering if there's any change in the willingness of potential counterparties to do a partial or complete transaction.

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

Certainly the rise in interest rates is a very good thing for our customers, for Voya, and frankly for the optionality associated with this. And that continued rise will help. We continue to be very open to a range of conversations associated with this. And as you would expect, we are not going to comment as we are going through that journey.

We are encouraged about the direction of interest rates. We've said repeatedly: interest rates on this book matter. We certainly experienced that with you in the context of what we went through in 2016. So if you think about something that's 3% or better, we think that creates a good bit more optionality and potential interest in part or potentially in full for the market. And we will keep you posted.

Sean Dargan - *Wells Fargo Securities - Analyst*

Okay, thank you. And then if I can just ask a question about the below-the-line losses associated with the fixed-indexed annuity product. The way I understood the basis risk in hedging that product was being underhedged in a strongly rising equity market. Can you just explain the mechanics of what happened in the quarter?

Mike Smith - *Voya Financial, Inc. - CFO*

Sure. And I don't think we would describe it as underhedged. I think the difference here is really one of timing and accounting. The way we hedge this business is we buy instruments for the guaranteed period that has been set.

So every year, we reset the cap rates, we reset the participation rates, and we buy instruments to offset that. So they are usually one-year instruments, and so the change in the value of those instruments is accordingly driven by that.

The liability, however, requires us to project forward what crediting rates will be and discount that over the lifetime of the contract. And so it basically creates a mismatch that will work its way out over time, and in the end, it settles out. But it's just a timing differential. It's not an economic exposure or concern.

Sean Dargan - *Wells Fargo Securities - Analyst*

Okay, thank you.

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.

Mike Smith - *Voya Financial, Inc. - CFO*

This is Mike. One correction -- there was a miscommunication at our end. So the answer to the question earlier about the amount of capital related to the ISP. The liabilities are just under $500 million. The capital is about $20 million. So apologies for that misstep. Thank you.

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

As we look ahead to 2017, we are focused on continuing to execute our plans, manage what we can control, and achieve our financial targets. We have strong businesses, clear objectives, and a commitment to take actions that will benefit both our shareholders and our customers. We look forward to continuing to share our progress with you. Thank you and good day.

Operator

And thank you, sir. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines, and have a great day.