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VOYA - Q1 2017 Voya Financial Inc Earnings Call

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## PRESENTATION

**Operator**

Good morning, and welcome to the Voya Financial First Quarter 2017 Earnings Conference Call. (Operator Instructions) Please also 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.

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**Darin Arita** - *Voya Financial, Inc. - SVP, Head of Investor Relations and FP&A*

Thank you, Rocco, and good morning everyone. Welcome to Voya Financial's First Quarter 2017 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 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 U.S. 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 in reconciliation 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 session are other senior members of management: Charlie Nelson, Chief Executive Officer of Retirement 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.

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

Good morning. Let's begin on Slide 4 with some key themes. 2017 is off to a very good start as demonstrated by our ROE reaching a record 13.2% for the trailing 12 months ended March 31. During the quarter, we continued to generate profitable growth. Retirement and Investment Management-sourced net flows were positive. Annuities produced positive net flows in our more profitable fixed indexed and investment-only products. And we grew in-force premiums in our Employee Benefits. We're benefiting from expanded distribution, a strong product portfolio and increased distribution productivity. Our returns also reflect our improved capital efficiency and prepayments and alternative investment income above our long-term expectations. We are continuing our efforts to simplify Voya, and as we announced in November, achieve at least $100 million in cost savings through 2018.

Turning to our balance sheet. We concluded the quarter with $949 million of excess capital. This was after repurchasing $247 million of our common stock and funding a $150 million discounted share repurchase agreement during the first quarter. The most recent agreement closed early during the second quarter. Following all of this repurchase activity, we have $436 million remaining of our share repurchase authorization, and we plan to utilize this over the rest of the year.

With respect to our Closed Block Variable Annuity segment, we continued to reduce risk and accelerate the runoff of the block. Total net outflows in the quarter were $2 billion, and this included $1.2 billion related to our GMIB Enhanced Surrender Value offer. Our hedge program also continued to effectively protect CBVA capital. Importantly, we reduced our exposure to interest rate risk by adjusting our hedge program following the rise in interest rates last November.

Moving to Slide 5. We reported operating earnings per diluted share of $0.81 for the first quarter. This includes $0.04 per share of positive DAC/VOBA unlocking. It also reflects $0.03 per share of prepayment fees and alternative income above our long-term expectations. There were also some favorable investment income items that offset unfavorable mortality in Individual and Group Life. Overall, we are pleased with our performance, which included growth across our businesses. We are generating improved financial results. Our capital position remains strong, and we're confident we can achieve our 2018 financial targets and continue to create greater value for both our customers and our shareholders.

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

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

Good morning. Let's go to Slide 7. For the trailing 12 months ended March 31, our return on equity and return on capital increased to 13.2% and 10.8%, respectively. Our results reflect the execution of our plans to grow earnings and improve capital efficiency. Our return on equity for the trailing 12 months also benefited from 49 basis points of prepayments and alternative investment income above our long-term expectations. We are pleased with the strong business performance we delivered during the first quarter. We continue to execute on our growth initiatives, on our strategic investment program, and our simplification and cost saving efforts to achieve our 2018 financial targets.

On Slide 8, we provide an update on our progress towards achieving our 2017 growth initiatives. In Retirement, we continued our growth momentum in the first quarter. Compared with a soft first quarter 2016, Small/ Mid-Corporate deposits grew by 46% to reach a new record as our investments in distribution are enabling us to identify more opportunities and new sales, particularly in the Mid-Corporate market. In Tax Exempt, deposits grew 40% and reflect a large full service mandate that funded during the first quarter. In Investment Management, we grew Institutional Sales as investment performance remained strong across our diverse range of fixed income and equity solutions. Within Retail Intermediary, demand was strong for Voya-managed funds, but was offset by a decline in sales of funds managed by third parties. Affiliate-sourced sales growth was helped by continued selection of our target date fund offerings, reflecting the collaboration between Investment Management and Retirement. In Annuities, Fixed Indexed Annuity sales were solid during the quarter. But as we expected, they were lower compared to the first quarter of 2016, reflecting uncertainty over the Department of Labor fiduciary rule. Sales of investment-only products were up 24%, due in part to higher asset levels for rollovers compared with the first quarter of 2016. In Employee Benefits, in-force premiums were up 11%. Excluding the impact of rate increases, in-force premiums were up single digits.

Looking more closely at each of our businesses, let's begin with Retirement on Slide 9. Retirement's return on capital for the trailing 12 months ended March 31 was 9.3%, up from 8.8%. The increase was driven by higher fee-based income and prepayment fees and alternative investment income above our long-term expectations. With broader broker/dealer relationships as well as expanded sales and service teams, we have increased proposal volume, we have improved sales force productivity and increased sales. For the trailing 12-month ended March 31 compared with the prior 12-month period, Small/ Mid-Corporate new plan sales have increased 24% as we now have more advisors selling our plans as well as more advisors returning to us to generate additional sales to more clients. We are seeing more advisors attracted to our Retirement solutions, which are driving improved Retirement outcomes for plan sponsors and for plan participants. Retirement also continues to collaborate with Investment Management to illustrate the compelling value proposition and competitive advantage Voya can bring to its customers. As a result, 46% of the assets invested in target date funds in new Small/ Mid-Corporate plans sold by Retirement during the 12 months ended March 31 were invested in Voya Target Date Fund compared with approximately 5% in the prior period. We also are benefiting from our scale in the marketplace as well as our focus on simplification. For example, first quarter 2017, average participants increased approximately by 5% and unit costs decreased approximately 4% compared with the first quarter of 2016.

Moving to Slide 10. In Investment Management, the operating margin was 29.3%, up from 26.9% in 2016. The increase reflects improved investment capital results. Our strong investment performance drove our Investment Management sourced sales of $3.8 billion this quarter and has contributed to robust pipeline activity. During the first quarter, sales activity was notable in fixed income, particularly our senior bank loan offerings. We also had strong sales in a broad range of public equity strategies and in private equity. We continued to win new mandates with insurance companies during the quarter by offering our specialty solutions, and many of these mandates will fund this year. We are continuing to focus on ways we can expand client solutions and recently launched 2 retail versions of a high dividend/low volatility equity strategies. These funds, which align with our approach to active asset management, are designed to deliver higher dividend income along with greater risk-adjusted returns and lower levels of volatility than the overall market. These new funds help round out our income-oriented solution products. In addition, the number of consultant buy ratings and recommended products increased across our investment platforms during the first quarter.

Moving to Slide 11. The return on capital for Annuities for the 12-month period ended March 31 was 10.6%, up from 9.8%. Like Retirement, Annuities benefited from prepayment fees and alternative investment income above our long-term expectations. The 24% year-over-year increase in deposits for investment-only products was a very strong results this quarter, and we are pleased with our level of fixed indexed annuities sales. We are also continuing to advance our growth strategy in Annuities with an expanded range of products across a wider group of distributors. During the first quarter, we launched our Voya Journey Fixed Indexed Annuity, which has an innovative design that allows customers to enjoy the full growth potential of the index without fear of losing their original premium. This product was primarily designed for the bank and broker/dealer channels, and while it's early, we are seeing positive reactions from distributors. At the same time, we continue to provide new digital tools to our distributors to support sales and service.

Turning to Slide 12. Individual Life's return on capital for the 12-month ended March 31 was 6.6%. This was unchanged from 2016 and reflects unfavorable mortality in the first quarter. During the first quarter, we took further actions to reduce capital usage, and this will provide approximately 20 basis points of additional return on capital improvement for Individual Life by the end of 2017. Combined with our other actions to improve capital efficiency, we are well positioned to achieve our 2018 return on capital targets for Individual Life. At the same time, we are advancing Individual Life's strategic focus on indexed life products, which provide higher returns and are less capital intensive. Compared with the first quarter of 2016, total indexed life sales increased 20% to $21 million.

Moving to Slide 13. The return on capital for Employee Benefits for the 12-month ended March 31 was 21.6%, reflecting a higher loss ratio for Stop Loss. We will remain disciplined with our underwriting, and we will continue to take pricing actions, including on renewals to achieve our 2018 return on capital target for Employee Benefits. Voluntary sales were up over 50% in the first quarter of 2017, reflecting improved participation and a more than a 40% increase in enrollment rates compared with the same period in 2016.

In summary, 2017 is off to a good start. Our commitment to execution will enable us to drive greater value to our customers, to our distributors and to our shareholders.

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

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

Our first quarter results showed continued progress toward our 2018 targets, with strong net flows in Retirement and Investment Management. The quarter included favorable investment income items that offset unfavorable Individual Life mortality and a seasonally higher loss ratio for Group Life. The recent adjustments to our hedging program and significant take-up rate on our enhanced surrender offer reduced our Closed Block Variable Annuity exposure. Our updated CBVA cash flow results were in line with our expectations. Finally, we returned capital to shareholders while maintaining a strong capital position.

On Slide 15, we modified the format to focus on potential adjustments to our first quarter results and key considerations for subsequent quarters. We wanted to help with modeling our financial results by consolidating information onto one page. Our expectations for 2017 and 2018 results have not changed from those we shared last quarter. On the slide, we have highlighted the items affecting the investment spread as alternative investment income was stronger than expected in the first quarter. We also benefited from other favorable variances, including an equity security distribution and securities settlements. These items helped to offset softer underwriting income in Individual Life due to higher term life severity.

Looking ahead to second quarter 2017, we expect a sequential decline in the underlying investment spread for our Retirement segment, primarily reflecting the impact of low new money rates. For Individual Life, our normalized full year expectation in 2017 for underwriting gains net of DAC and intangibles amortization would be $200 million. The normalized projection excludes $14 million in net unfavorable mortality we experienced in the first quarter and any favorable or unfavorable variances in mortality we might experience through the remainder of 2017.

On an annual basis, a 1 standard deviation variance in mortality experience would affect net underwriting gains in Individual Life by approximately $20 million in either direction. To further help explain our seasonality, expected underwriting gains typically are lower in the second and third quarters and higher in the first and fourth quarters due to the timing of premiums on our term blocks. In the second quarter, we expect $20 million to $30 million of investment spend related to our $350 million strategic investment program, and we also expect a sequential decline in seasonal expenses.

Finally, we forecast GAAP capital for ongoing businesses to be in the high $7 billion to low $8 billion range by the end of 2018. The change from prior expectations is largely attributable to stopping sales of pension risk transfer and term life. We are primarily focused on improving our ROE via higher earnings and increased capital efficiency. As a result, the year-end GAAP capital expectation could continue to change.

Turning to Slide 16. Positive Retirement net flows were supported by record quarterly Corporate markets net inflows that benefited from strong transfer in recurring deposits and lower-than-expected surrenders. While the departure of the Tax-Exempt markets merger-related case discussed on our fourth quarter earnings call did occur, that outflow was partially offset by a sizable new Tax-Exempt markets client win.

Turning to Slide 17. Investment Management-sourced net inflows were nearly $600 million during the quarter. These results were driven by continued client demand across a broad range of our products and solutions, including various fixed income and equity mandates as well as private equity fund closings. Variable annuity net outflows for the funds, managed by Investment Management, were $1.4 billion, which included $788 million related to the GMIB Enhanced Surrender Offer.

As shown on Slide 18, our fixed indexed annuities produced positive net flows as the interest rate environment remained favorable. Our investment-only products also continued their streak of positive flows.

Moving to Slide 19. The loss ratios for Group Life was consistent with historically observed seasonality, and we expect subsequent quarters in 2017 to show significant improvement consistent with 2016. The loss ratio for Stop Loss improved from 4Q '16 and was modestly above our annual target range of 77% to 80%.

On Slide 20, we've made several changes to this quarter's presentation to better portray how we currently manage our Closed Block Variable Annuity hedge program. While our hedge program protects both regulatory and rating agency capital, currently the primary target is the rating agency CTE95 level. Since our IPO, the rating agency requirement has generally been higher than the regulatory requirement. During the first quarter, the hedges continued to offset the changes in rating agency requirements as shown by the bar graph. We are showing the past 5 quarters to indicate the range of hedge performance for both the interest and equity hedge programs. If we were to go to back to 2015, the net impact by quarter was similar for our experience in 2016. We ended the first quarter with estimated available resources of $4.1 billion, which meets both rating agency and regulatory requirements. Starting with this quarter, we will disclose available resources as measured on a book value basis. We believe book value more consistently aligns with CTE95 and statutory accounting than market value, which we have disclosed in prior quarters. For purposes of comparison, the market value of our available resources was slightly higher than book value. During the first quarter, net outflows in the Closed Block were $2 billion. Included in this figure is $1.2 billion of net outflows from our enhanced surrender offer that Rod mentioned earlier. The surrender offer had a take-up rate of approximately 25%, and we expect an additional $100 million of surrender offer related outflow in the second quarter. We are very pleased with the take-up rate and the interest that policyholders showed in this opportunity. We are considering additional offers to other GMIB policyholders to offer more options to our customers and to continue accelerating the runoff.

On Slide 21, you can see how our targeted GMIB offers combined with a natural run-off have led to a significant decrease in the size of the block. Since our IPO, the living benefits' policy count has declined by over 1/3. Over that same 4-year period, the living benefits account value has also fallen to $24 billion, which includes approximately $6 billion of net market appreciation.

On Slide 22, we show the results of our annual update or projected cash flows on the Closed Block. The value shown reflects changes to our hedge program and a change in our long-term interest rate assumption. Compared to a year ago, the range of the results is tighter. Higher values for scenario 1 show how the additional hedging program adjustments provide additional protection in a sharply depressed interest rate and equity market scenario. The reduction in the long-term interest rate assumption, which was part of our 2016 annual assumption review, lowered the values for scenarios 2, 3 and 4. We do not plan to regularly update the 1% flat interest rate scenario that we showed in our second quarter '16 earnings call, but the result of that scenario similarly improved with a net present value of positive $200 million, representing an improvement of approximately $1 billion. On the far right, we added another view to value the cash flow scenario at a static 3.75% discount rate. That rate is consistent with our long-term statutory interest rate assumption and roughly consistent with our portfolio yield on assets supporting the block.

Slide 23 puts the 4 deterministic 50-year cash flow scenarios in perspective as we have done previously. Compared to this stochastic distribution from a year ago, there are fewer negative outcomes, and the spread of results is tighter. The adjustments to our hedging program, the lowering of our long-term interest rate assumption and the shrinkage of the block are the main drivers behind the year-over-year change in results. Deterministic scenario 1 is an outlier and remains on the far left of the graph. They are only 3 stochastic scenarios worse than scenario 1.

On Slide 24, you can see that our regulatory and financial leverage ratios are strong and remain better than our targets. The RBC ratio increased to 526% at the end of March, mainly driven by statutory net income. On the right side of the slide, our debt-to-capital ratio was relatively unchanged at 24.5% at the end of the first quarter, even after factoring in the capital already committed to share repurchases.

On Slide 25, our excess capital, which consists of estimated statutory surplus and holding company liquidity above targets, was $949 million at the end of the first quarter. Additionally, we repurchased $90 million of debt in the quarter. We had $436 million available for share repurchases at the end of March after funding $150 million discounted share repurchase program in the first quarter. The transaction closed in the second quarter. Since our IPO, we have returned $3.2 billion of capital to shareholders. In summary, we continue to progress towards our 2018 ROE goal. We have a strong balance sheet, and we continue to return capital to shareholders. And we made significant progress in de-risking our Closed Block Variable Annuity exposure.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Today's first question comes from Seth Weiss of Bank of America.

**Seth Weiss** - *BofA Merrill Lynch - Analyst*

Mike, question for you on the updated capital levels for the Ongoing Business expected to be in the high 7 to low 8 range. I believe the previous expectation was around $8.7 million when you gave us a couple of quarters ago. And I know you've mentioned this was largely a function of lower term life, and I believe it was pension-risk transfer sales. But on an EPS basis, if we take kind of the midpoint of your ROE guidance, this isn't insignificant change in terms of earnings, I mean, I get about $0.50 a share out in 2018. So I'm just trying to put in context a bit to understand the change here in guidance?

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

So Seth, you've got the numbers straight in terms of our capital expectation. And as I said, the original estimate was a projection based on a number of assumptions, including relatively capital-intensive businesses, particularly the PRT and term life that you mentioned. So I think from our standpoint, this is a better representation of where we think we're ultimately going to get to. We remain confident in achieving our targets in terms of the ROE goal, which, as I said, is what we're primarily focused on, and that is, to just reiterate $13.5 to $14.5 in 2018. And so I think, ultimately, the math is the math, but our focus is on ROE and driving the ROE improvements story that we started back at the IPO.

**Operator**

And our next question today comes from Erik Bass with Autonomous Research.

**Erik Bass** - *Autonomous Research - Analyst*

I had a question on CBVA. Just given the success of the Enhanced Surrender Value program and the other initiatives that you've undertaken coupled with the improvement in the stressed cash flow scenarios, do you have any more clarity on when you maybe able to start withdrawing capital from the block?

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

Thank you, Erik. The short answer is that we'll continue to work on driving the business down, and we've made, as you said, significant progress. In terms of future guidance on capital, I think we'll do that at an appropriate time. But at this point, we're still in the 5-year period that we started at IPO. Where we don't expect within 5 years, I think I've said this before, that didn't mean in year 6 that was when it's going to start. I would point out that at the time of the IPO, we had a certain expectation about interest rates. Interest rates have performed meaningfully below that. And so that's put some pressure on the expectations that we had at IPO. But we're very pleased with the results of our offer. We're going to, as I mentioned, going to look at other opportunities to do that. We offered half of the block the first time through. We got a 25% take-up rate. I think there are ample opportunities for us to continue to accelerate that run-off.

**Erik Bass** - *Autonomous Research - Analyst*

Got it. I appreciate the comments. And then quickly if you could talk about the pricing and loss cost environment and Medical Stop Loss where the loss ratio has now been over 80% for 2 consecutive quarters. So what gives you the confidence that this will improve and get back to the 77% to 80% range for the remainder of the year?

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

Erik, it's Alain. Yes, the first quarter loss ratio was elevated on the Stop Loss business. As you know, the Stop Loss business in 2014 and 2015 went through a period where claims were quite favorable. And claims have accelerated in '15 and '16. It used to be in the very low digits. In the prior, it increased around 7% range. We're actively performing analysis on our book of business to allow more precision in the renewals and in where we need to take actions going forward. We're quite confident in our ability to achieve our 2018 targets in terms of the loss ratio. Now should the trends in claims that you've seen in the last 2 quarters in Stop Loss continue in 2017, you should expect to be at the higher end of our targeted loss ratio range or slightly above that for 2017. But looking at the book of business, and as you know, this is a 1-year book of business renewal, you're able to take actions quite significantly to adjust the ratio. And as you know, we are willing to give up premium in order to improve our underwriting results, and we will do that if we need to.

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**Operator**

And our next question comes from Ryan Krueger with KBW.

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

I have a couple of expense questions. First, could you quantify the amount of what you consider to be seasonally high 1Q expenses that would come down going forward?

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

Sure, Ryan, this is Mike. The seasonal expenses we guided to in the fourth quarter was $25 million. We expect that to reverse.

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

Got it. And then secondly, how should we think about the pace of the $50 million cost saves guidance for 2017? And was there any material impact from the cost saves that were included in the 1Q results?

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

We're on track to achieve the $50 million to $60 million, and I think there will be impacts throughout the year, and I think it'll build over time. And we are also, I think, very confident on achieving the 2018 goals that we've set out of over $100 million or more. So on track, and it'll grow over the course of the year.

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**Operator**

And our next question comes from Tom Gallagher with Evercore ISI.

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**Thomas Gallagher** - *Evercore ISI - Analyst*

First just a modeling considerations question. I just want to make sure I have this right. On Slide 15, you have this other favorable variances to net investment income and those are all adding up to about $21 million, and it's footnoted, saying equity security distribution and security settlements. Should we expect $21 million less of pretax earnings heading into 2Q? I mean I know there is a lot of other adjustments to be made here, including mortality and some of the other issues. But if I just isolated to that one issue, should I not expect that lump? Should we assume on a normalized basis that goes to close to 0? Or should some level of that related net investment income expected to recur?

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

Tom, this is Mike. So first thing, make sure you catch that these are pre-DAC numbers, too. So you need to make a DAC adjustment in terms of the overall, where appropriate. But I think you've generally got it right. These are items that are unusual flows to us that come through investment income. That is not to say they won't occur in the future, but we there is not an expectation of a steady stream of them. They tend to be lumpy, and we wanted to flag it as something, and particularly, in the environment we are in, where there is -- the new money rates are putting some pressure on spread. We wanted to make sure it was clear what was going on. As you correctly observed, there are other unfavorable items, particularly mortality in Individual Life and the seasonal mortality bump in Group Life that need to be adjusted the other way. It so happens that they were basically washed out in the quarter as the way we're thinking of them.

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**Thomas Gallagher** - *Evercore ISI - Analyst*

Got it. And Mike, the DAC offset to those, could I take something like 50% for DAC amortization, or would it not be that high?

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

It's quite a bit smaller than that. I think you should be thinking in the low double digit kind of rate, if any.

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**Thomas Gallagher** - *Evercore ISI - Analyst*

Got it. And then just on thinking about seasonality, I know the medical Stop Loss at least last year, saw over a 1,000-point improvement in loss ratio, if I looked at from 1Q to 2Q. And I know you guys have already given out your full guidance, so I assume it's not going to be that pronounced, but would you see even with trends you're seeing, would you still expect to see a material improvement and the loss ratio adjustment from a seasonal standpoint and Stop Loss in 2Q versus 1Q?

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

Tom, we typically don't think of Stop Loss as having a seasonal component. I think it will potentially change over time as experienced from the block continues to emerge. This is an evolving block where we have policies re-underwritten every year. And so as experience emerges on subsequent cohorts of business, you'll see some changes. But there is not really a seasonal element of Stop Loss, if I understand your question correctly.

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**Thomas Gallagher** - *Evercore ISI - Analyst*

Yes. No, that's helpful. And then final question. Just thinking about the metrics you put out on CBVA look pretty encouraging on reduction in risk and a better outcome on the worst-case scenario and your stress scenario. The one thing I wonder though is, at some point, could this be a gating item on capital return, just from a debt-to-cap standpoint? Because looking at your leverage, it's now nearing 25%, and if you have say successful execution of some future buyout programs that result in GAAP losses, it could push your debt to capital over 25%. Is that not an issue? Or is that an issue that could become a gating item?

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

It's the first time we are encouraged by the results that you're seeing, and I'm glad that you're seeing it that way as well. I think there is a lot to feel good about here, and we've made great progress. I think we have more opportunities to make further progress. In terms of debt-to-cap, a couple of things to consider first. We set this level at IPO in the 25%. I think we would view as a conservative level, in part, in consideration of the CBVA exposure. Another thing to keep in mind is that we calculate that debt-to-capital ratio on a conservative basis. We don't give equity credit for the subordinated debt. If you did that, then the 24.5% becomes 23.1%. We're not going to change our presentation of that, but that's just something for you to keep in mind. Third is that this is one measure of our leverage. There are lots of other measures that the rating agencies look at and that the market considers. And so, certainly, it's a consideration. We'll continue to manage that accordingly, but it's not something that we view as a near-term issue.

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

Tom, the only other thing that I would add is consistent with what Mike said on the conservative nature of what he just discussed, recall that when we went public, we also, for we think very good in valid reasons, we're very prudent in keeping 24 months liquidity at the holding company. That is much higher than most of our competitors. We think it has served us well, but it's just another factor that I think you ought to consider as you evaluate just available resources.

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**Operator**

And our next question comes from John Nadel with Credit Suisse.

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**John Nadel** - *Credit Suisse AG - Analyst*

So a couple of questions. On CBVA, you referenced taking some incremental interest rate protection actions back in the latter part of the fourth quarter. And clearly, it seems like that in combination with a couple of other things here in the enhanced program, et cetera, has had a positive impact. How long is the duration of that incremental hedging that you put on? I mean, should we think about that as a time-specific? We expect it to run off at a point, or should we expect that to be long term in nature, and it's going to be an ongoing contributing factor to the favorable stress scenarios here?

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

Good morning, John. A couple of things to keep in mind. Yes, we added to our long-tendered swap positions. So the tenor of those are relatively consistent with that, which we've done in the past, which I think was in the roughly 18 years, is that correct? So that I think is -- that position is now larger than it used to be. So to your point, there is more long duration protection. In addition, you'll recall last summer, we talked about a hedge to protect in the low-for-long scenario, that was a one-sided shorter duration hedge. We adjusted our hedge position to -- we've basically liquidated that position and added more swaps in place of that. So we lengthened the protection that we had in that space as well, too.

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**John Nadel** - *Credit Suisse AG - Analyst*

And then my question just on the housekeeping item on the $50 million to $60 million of expense saves for 2017. Can you just remind us, is that a $50 million to $60 million save that we should view as a run rate by the time we get to the fourth quarter? Is that $50 million to $60 million in absolute dollars in '17 versus '16?

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

We've consistently said and to be clear, it is in 2017 and the 100 plus is in 2018, not a run rate.

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**Operator**

And our next question today comes from Yaron Kinar with Deutsche Bank.

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**Yaron Kinar** - *Deutsche Bank - Analyst*

Just want to go back to the enhanced surrender offer and its results. Can you maybe give us a little more color as to what the take-up rate there? And then specifically, I'm guessing that you mostly targeted in-the-money policyholders. So what kind of impact did that have on these scenario, the cash flow scenarios that were offered on Slide 22?

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

Yaron, so we offered this to a specific cohort of our GMIB. It's roughly half of the policyholders. We're not able to distinguish between the level of money-ness if we offer it to any policyholder who bought it with under that perspectives, then we have to offer to all. The take-up rate was 25%. That as we said was -- it be ultimately $1.3 billion and take up about 13,000 policyholders roughly speaking. In terms of in-the-money-ness, I guess, the way to think about the block is that the vast majority of the GMIB is in the money as it is. And so it was a pretty meaningful impact. We didn't really spike it out in terms of the cash flow. So that's not really factored in. Not really something that I can comment on. What I can say is that it was a meaningful reduction in the net amount of risk to just give you some perspective. The buyout reduced the living benefit net amount of risk by about $300 million, so that's a pretty substantial change from our perspective. So we're very pleased with the take-up, and look forward to seeing what other opportunities we can exercise on.

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**Yaron Kinar** - *Deutsche Bank - Analyst*

Got it. And then maybe one other one on the Closed Block. On Slide 20, you talked about a sufficient at CTE95. I just want to confirm that at the current levels, we are so -- the company is still above that CTE95 target and maybe also touch on the $50 million that I think were put into the block of assets -- that were put into the block. Maybe you can talk about why that was necessary?

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

Yes, Yaron, first, yes, we're still sufficient at CTE95, and frankly, a relative position in terms of level of sufficiency hasn't changed a whole lot over the last several quarters and it's been fairly steady. The $50 million was really a rebalancing that we go through between the entities: the writing entity, the Iowa company and our downstream captive. We periodically have to shift the cash flows between the 2 entities, just to keep things in balance. I guess it's the easiest way to say it.

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**Yaron Kinar** - *Deutsche Bank - Analyst*

Okay. And just to circle back for a second, the sufficient CTE95 so, is the company now at CTE95 because I thought a quarter or 2 ago, you were closer to 98?

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

Thank you. We also, while we target CTE95, we are sufficient at CTE98.

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**Operator**

And our next question comes from Suneet Kamath of Citi.

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**Suneet Kamath** - *Citigroup - Analyst*

I wanted to start with capital, if I could. So if I look at your excess capital position of $949 million, I think about your remaining buyback authorization of $436 million, it looks like there's still another $500 million difference between those 2 numbers. So I just wanted to confirm that you're still committed to returning that incremental excess capital to shareholders, say, over the next year or so?

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

Suneet, it's Rod. I think you should look at the record of our past. We've been very consistent with that approach. We've got an authorization. We intend to utilize the authorization. At that point, we'll evaluate both market conditions and where we are in the year. We will go back to our Board and have an active conversation as we've done in many previous times and continue to return excess capital to shareholders as we deem appropriate, given the market conditions. As Mike pointed out, I think we've returned already $3.2 billion, which we're proud of, and we will continue to be active in that as well as judiciously managing the capital of the Closed Block in a similar manner.

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**Suneet Kamath** - *Citigroup - Analyst*

I understand. I mean the reason I asked the question is, because I think in your definition of ROE, your denominator excludes any excess capital over $425%. So I guess, the reason I ask the question, I want to make sure that there is not like an additional cushion that you're holding that, in theory, we should be adding back to that denominator when we calculate the ROE?

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

You have it correct.

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**Suneet Kamath** - *Citigroup - Analyst*

And then my other question is just in terms of, I think, going back to Seth's question at the start of the call, if we take your ROC guidance and then the new capital number for 2018 and sort of back into an implied EPS, it still seems like there is a pretty sizable difference between where you're run-rate right now and where that number is, which is probably in excess of $1 per quarter. So I just want to get a sense of, as you think about modeling the company, when do you think we should start to see that inflection point, i.e., EPS run rating from around somewhere in the $0.70 to $0.80 to something north of $1?

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

So Suneet, I think I understand the point of the question. I think the improvement will continue to be seen gradually over the course of 2017, and probably more so in 2018 is the way I would think of it. I think it's an accelerating curve. It's not a straight linear to the endpoint.

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**Suneet Kamath** - *Citigroup - Analyst*

And that acceleration would start probably second half of this year?

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

Yes, I think the way to think about it, Suneet, is the cost saves will start to build, the benefit of the growth we're seeing will start to build. The efficiencies and other benefits that we've built should also continue to compound. So think of it that way as something that will continue to build upon the success of the prior quarters and so on.

**Operator**

And our next question comes from John Barnidge from Sandler O'Neill.

**John Barnidge** - *Sandler O'Neill - Analyst*

As I think about divestment of the CBVA, I was curious about AUM of note from CBVA managed by Investment Management.

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

Yes, I think the number is about $21 million that's managed in -- $21 billion, excuse me, $21 billion that is managed by Investment Management.

**John Barnidge** - *Sandler O'Neill - Analyst*

Okay. And then with the sale, the potential sale rather, how should we think of expenses that are in Investment Management because it's presumably at a certain level that are fixed?

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

Well, we are starting to get way ahead of ourselves in terms of a sale, but let's think that through. The funds would continue to be managed if we does the straight sale of the entity. At least for some period of time, the funds will continue to be managed by Voya Investment Management. And then there may or may not be a transition of that management to some other player. So it's not a given that, that goes away in the case of a transaction like that. And its also not even a given that the general account assets would move. It would really depend on the nature of the transaction, the nature of the potential buyer. But, again, that's a little ahead of where we are today and hard to speculate. I just say don't assume that, that has to go away.

**John Barnidge** - *Sandler O'Neill - Analyst*

Okay. And then maybe 1 question on the DOL. So the DOL rule has delayed. And at what point does uncertainty of whether the rule happens or doesn't happen become more disruptive in some ways than implementation of the rule itself?

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

It's Rod, and I will hand it to Charlie. We can't predict what and how and in what form Washington is going to -- how this is going to emerge. I think if you look at the results that Carolyn and her team produced in the first quarter of this year as at relates to Annuities by way of an example, we've got a very good platform. I think some good momentum. There clearly is uncertainty. The sooner that's resolved it's better. But we will continue to be very agile as we move through this, and we are, I think, appropriately managing our expenditures associated with that as reflected in what has been revealed in our financials and Charlie more specifically on DOL?

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

Thanks, Rod. In terms of disruption, I don't see it quite as disruption because I think we're -- until there is a definitive change or modification, we're marching towards compliance. We've long been an advocate for the role of the adviser and how they can help improve outcomes as well as advancing access to advice. So if you think about that, regardless of how the rule ultimately plays out, a delay as is or even gets canceled, our commitment is to continue to make prudent investments to enhance our functionality and capabilities with our advisers to improve automation of compliance, documentation, fiduciary disclosures for advisers, administration and security transactions, of which, I think the result for our business and the client experience is really going to benefit our customers, the advisers, as well as Voya long term.

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**Operator**

And our next question comes from Sean Dargan of Wells Fargo Securities.

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**Sean Dargan** - *Wells Fargo Securities - Analyst*

If I can just come back to the CBVA extreme stress scenario present value improving. To be clear that the main driver of that is the hedge modifications that you described to John Nadel and not the surrender value offers or market changes?

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

Yes, it is correct. It is primarily driven by the hedging that we've added to the block.

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**Sean Dargan** - *Wells Fargo Securities - Analyst*

Got it. And can you just remind us our NPR adjustments, does that flow through statutory capital?

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

Sean, that does not. That is a GAAP-only construct. And as we've said, we view it as a non-economic feature of some of these liabilities on a GAAP-basis only.

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

We'll take one additional question.

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**Operator**

Thank you, sir. And the final question comes today from Humphrey Lee from Dowling & Partners

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**Humphrey Lee** - *Dowling & Partners - Analyst*

Just related to the CBVA accelerated surrender offer, can you talk about some of the feedback that you've got from clients and distributions and maybe what you can think about -- what are your thoughts regarding in future rounds of enhanced offering, what you can do to even attract a high take-up rate?

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

I'll begin, this is Rod, and then Mike, certainly, can jump in. If you recall, we've had 4 previous offers at different incentives as an enhancement offer. And we viewed this always as and continued to as a beta test to secure feedback from our customers and the distribution partners that are associated with that. This was the first buyout offer that we had done. And part of the feedback we've received in the previous offers where some were absolutely interested in the enhancement and some suggested if a buyout offer was made, and it was considered appropriate in their view that they would be -- it would be welcomed and well-received. And certainly, we're very pleased as Mike and Alain have talked about. We are evaluating further offers. We'll follow the same path and process that we've done earlier, and we will keep you posted as we go through this. So we will continue to be very thoughtful about approaching the customers in the same manner, the same thorough process, and we're going to consider additional buyout offers in the context of 2017 and beyond. Mike, anything to add?

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

I think the reaction was enthusiastic. I think the simplicity of the offer is something that appeals to customers and to distributors. I think the only -- one of the primary lessons is that we will -- if we do future offers, it's possible we'll lengthen the offer period, just given the degree of reaction. It will make it a more, potentially even more successful. I think, we'll have to wait and see how the offer is ultimately received. Not everybody is in the same position, not all parts of the block are the same. So it's not necessarily true that the reaction from the other part would be the same as this. It might be better. It might be a little bit lower. But I think we're really encouraged by the results and looking forward to the future opportunities.

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**Humphrey Lee** - *Dowling & Partners - Analyst*

And then just as a follow up, how should we think about the potential cost, or how we saw this around the cost to Voya in terms of these enhanced offering?

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

Well, we think of the cost in a purely statutory way, right, and I think we would describe that, and I think we've described in the press release as modest impact to resources. You can see that in the comparison of resources to reserves and how that really didn't change. The relationship didn't really change quarter-over-quarter. I'll take a minute just to explain the GAAP impact, the GAAP reserves are lower than the statutory reserves. And so while the statutory impact, the amount that we pay relative to stat reserves is relatively close. There is a further distance between what we're paying in the GAAP reserves. And so we release meaningfully less than the actual amount we pay on a GAAP basis and that led to the GAAP loss. But we think of the cost purely in terms of statutory, and we're very pleased with kind of the way we were able to get a pretty significant take-up at a pretty modest price.

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**Operator**

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

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

Rocco, thank you. We're pleased with the results we've achieved this quarter. The year is off to a good start with strong performance across our businesses. We will continue to execute our plans and will remain confident in our ability to achieve our financial targets, provide valuable solutions to our customers and continue to deliver value for our shareholders. Thank you, and good day.

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**Operator**

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

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