THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VOYA - Q2 2017 Voya Financial Inc Earnings Call

EVENT DATE/TIME: AUGUST 02, 2017 / 2:00PM GMT

CORPORATE PARTICIPANTS

Darin Arita *Voya Financial, Inc. - SVP of Investor Relations*

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

Alain Karaoglan *Voya Financial, Inc. - COO*

Mike Smith *Voya Financial, Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

Erik Bass *Autonomous Research LLP - Analyst*

Humphrey Lee *Dowling & Partners Securities, LLC - Analyst*

Jamminder Bhullar *JP Morgan Chase & Co - Analyst*

John Nadel *Credit Suisse AG - Analyst*

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

Seth Weiss *BofA Merrill Lynch - Analyst*

Suneet Kamath *Citigroup Inc - Analyst*

Thomas Gallagher *Evercore ISI - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Voya Financial Second Quarter 2017 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 of Investor Relations. Please go ahead.

Darin Arita - *Voya Financial, Inc. - SVP of Investor Relations*

Thank you, Paula, and good morning, everyone. Welcome to Voya Financial's Second 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's 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 session 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.

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

Good morning. Let's begin on Slide 4 with our key themes for the second quarter. We achieved significant improvement in our ROE during the quarter, achieving 14.3% for the trailing 12 months ended June 30. This is the highest level of performance since our IPO in 2013. Just 4 years ago, we began our journey, starting with an ROE of 8.3%. Since then, we've made considerable progress. Our improved ROE reflects our focus and commitment to execution. And specifically, results reflect achievements we've made in growing our business, improving our capital efficiency and improving margins. We remain focused on executing the remainder of our plans through 2018 to deliver more value to our customers and shareholders. These plans include delivering on our growth objectives, improving our customer experiences and achieving our cost savings targets.

The intended outcome is to operate consistently and sustainably at high levels of return. During the quarter, we generated strong sales growth and net flows in all of our businesses. Our strong momentum reflects the benefits of the strategic investments, which include expanding our distribution, digitizing operations and leveraging our skill sets in new markets.

Turning to our balance sheet. Our capital position is strong. We concluded the quarter with $877 million of excess capital after continuing to repurchase shares during the quarter. With respect to our Closed Block Variable Annuity segment, we took further actions to reduce risk and to accelerate the runoff of the block. We will be conducting a second GMIB enhanced surrender offer, with policyholders receiving mailings next week. That offer will conclude in mid-December.

Moving to Slide 5. We reported operating earnings per diluted share of $0.67 for the second quarter. This includes $0.39 per share of DAC/VOBA and other intangibles unlocking. The actions resulting from this unlocking are a positive indicator of our future operating earnings, and Alain and Mike will provide more details in just a moment. Earnings this quarter also reflect $0.11 per share of prepayment fees and alternative income above our long-term expectations, including a recovery of the carried interest reversed in prior periods.

Overall, we're pleased with our performance and encouraged about our momentum. We're generating improved financial results by operating more efficiently and delivering a strong value proposition to our customers. Our capital position is strong, and we continue to take actions to de-risk our Closed Block Variable Annuity.

Our employees and their values have been a key to our success. This was well demonstrated in May, when we held our fourth annual national day of service. Over 4,000 of our employees volunteered 13,400 hours to benefit more than 200 nonprofit organizations dedicated to a variety of good causes. This effort illustrates the strong culture that we've created and is just one of the initiatives we undertake as a way to demonstrate our values. With our employees' support, we will continue to work hard and execute our plan.

I'll now to turn it over to Alain, who'll provide more details on our progress.

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

Good morning. Let's begin on Slide 7. For the trailing 12-month ended June 30, our return on equity and return on capital increased to 14.3% and 11.7%, respectively. The return on equity for the trailing 12 months also reflects approximately 100 basis points of prepayments and alternative investment income above our long-term expectations. We are pleased with the significant improvement in our return on equity. Our results reflect the execution of our plans, including strong business growth in the second quarter as well as the benefits of our strategic investment program and our cost savings efforts. We are very excited about our positive momentum and are committed to executing on our plan in each of our businesses.

On Slide 8, you can see that growth was strong during the second quarter. In Retirement, we continue to drive new business growth through our expanded distribution reach, higher productivity and greater ease of doing business as a result of our investments in digital solutions.

Our Small/Mid-Corporate deposits grew 40% compared with the first half of 2016 and 33% compared with the second quarter of 2016. In Tax-exempt, deposits, while level with the second quarter of 2016, are up 20% compared with the first half of 2016.

In Investment Management, sales grew across all channels, particularly in Institutional, where several mandates funded during the quarter. We saw continued interest across a diverse range of strategies in both domestic and international markets.

In Annuities, we generated solid performance. Sales of Investment-Only products were up 18% compared with the first half of 2016, due in part to improved equity markets. As we expected, sales of fixed indexed products are below 2016 levels as firms adapt to the implementation of the Department of Labor fiduciary rule, and we expect this to continue during the second half of 2017.

In Employee Benefits, in-force premiums grew 11% compared with a year ago, which is consistent with growth in the first quarter of this year.

Turning to Slide 9. Retirement's Return on Capital for the trailing 12 months was 9.6%, up from 8.8%. The increase reflects higher fee-based revenues, prepayment fees and alternative investment income above our long-term expectations and lower administrative expenses. We continue to achieve positive outcomes for our growth -- from our growth efforts, from our scale and our focus on simplification. We also have continued to lower unit costs.

As Rod mentioned, DAC/VOBA unlocking this quarter was driven by actions we took to improve future earnings. Specifically, it reflects further actions we're taking in Retirement to address the impact of persistently low interest rates. We have been working with our clients to do 2 things: first, to preserve the guaranteed minimum interest rates on existing fixed account balances; and second, to direct new deposits and transfers to a new fixed accounts with a lower guaranteed minimum interest rate that is more in line with market rates. This approach aligns with our commitment to help plan participants save for retirement while also making adjustments that reflect the challenges of persistently low rates. We are expecting to complete most of these initiatives by the end of 2017. Collectively, actions like these support our focus on partnering with our clients while also executing on initiatives to increase returns and earnings growth.

Moving to Slide 10. In Investment Management, the operation margin for the trailing 12 months was 34.2%, up from 26.9%. The increase reflects improved investment capital results, including the recovery of carried interest that was reversed in prior periods. Excluding investment capital, our operating margin was 28.7%, up from 28.2%. We are expanding our operating margin by growing revenues and maintaining discretionary expense discipline. In addition to market appreciation, our revenue growth will reflect the benefit of net flows from higher-fee new business offsetting lower fees on outflows from variable annuities. Our strong investment performance continues to drive sales growth. In addition to benefiting from more consultant buy ratings, we also are growing by broadening distribution of alternative products, such as private equity and CLOs.

Moving to Slide 11. The Return on Capital for Annuities for the trailing 12 months was 10.9%, up from 9.8%. The increase reflects actions we have taken to improve capital efficiency, which includes introducing new products and running off less profitable products. We also have been disciplined on expenses and benefited from prepayment fees and alternative investment income above our long-term expectations.

Looking ahead, we will be further evolving our product portfolio to address the needs of advisers compensated on asset-based fees rather than commissions. For example, we will be launching a fee-based version of one of our investment-only products in the third quarter. At the same time, we're continuing to provide strong support for our distribution partners in part through expanding digital capabilities.

Turning to Slide 12. Individual Life's Return on Capital for the trailing 12 months was 7.5%, up from 6.6%. We are seeing the benefits of the actions we have taken to reduce the cost of reserve financing and capital usage. In addition, we have reduced the capital intensity of our product portfolio, and this helped to improve our rates of return on new sales. We are also realizing cost savings as a result of bringing our Individual Life business together with our Annuities business.

Moving to Slide 13. The return on capital for Employee Benefits for the trailing 12 months was 20.8%, reflecting favorable Group Life and Voluntary results offset by a higher loss ratio for Stop Loss. Our Group Life and Voluntary underwriting experience has remained favorable. In addition, we have grown Voluntary premiums as these products are meeting a growing need in the benefits markets. We are managing our Employee Benefits business, including Stop Loss, closely. As we go through the renewal season, we will remain disciplined and take pricing action as needed. We expect our efforts will help us improve the loss ratio in 2018.

In summary, we continue to improve the returns of our Ongoing Business, and we remain focused on the continued execution of our plans to drive greater value for our customers, our distributors and our shareholders.

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

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

Our second quarter results demonstrated strong growth in underlying earnings. Rising fee income, favorable net underwriting and realized cost savings all supported operating earnings growth.

Slide 15 is new this quarter and is intended to help investors think about the upcoming third quarter. We intend to update this slide in future quarters.

Our second quarter reported operating EPS was $0.67, which includes the following 2 items. First, it included $0.39 of DAC/VOBA and other intangibles unlocking. As Alain mentioned, this item is primarily related to changing terms on a portion of our Retirement contracts, with above-market guaranteed minimum interest rate provisions. We view these changes positively from an economic standpoint because we will have greater flexibility to adjust crediting rates in line with the evolving portfolio yields. However, GAAP accounting rules require us to accelerate the amortization of DAC and VOBA on contracts that have been modified. We aim to mostly complete this important initiative by the end of 2017. There is approximately $220 million of DAC/VOBA remaining on the targeted assets, of which a portion could be subject to further accelerated amortization.

Second, combined prepayment and alternative income was above long-term expectations. This outperformance was driven mostly by a $28 million pre-tax recovery of carried interest in one of our private equity funds. This carried interest was previously reversed during the first half of 2016.

Looking ahead to third quarter 2017, we expect our earnings per share to be helped by additional cost savings in our Ongoing Business and a reduction of operating losses from institutional spread products. The impact of those beneficial items could be offset should certain items revert to normalized levels. For example, we may see fewer favorable expense items for the third quarter. A breakout of these items by business segment is shown on the next slide. If favorable mortality returns to in-line levels, the potential effect could be approximately $0.04 per share.

Investment Management performance fees could also decline. Performance fees tend to be minimal for the first 3 quarters of the year and then highest in the fourth quarter, when returns are measured against annual year-end benchmarks. Finally, we expect a sequential decline in the underlying investment spread for our Retirement segment, primarily reflecting the continued impact of low new money rates. While we have provided some items to consider, there will, of course, be other factors that affect third quarter results.

On Slide 16, we provide a business segment-level breakout of the operating items that we discussed on the previous slide to further help with modeling our financial results. Looking ahead, we provide updated expected spend for our $350 million strategic investment program and fiduciary rule implementation costs.

As mentioned on the previous slide, there will also be additional net run rate cost savings for the third quarter, which we expect to be in a range of $3 million to $5 million. Through June 30, we have realized total savings of approximately $30 million.

Turning to Slide 17. Positive Retirement net flows were supported by strong quarterly deposits in corporate markets that were at their second highest level ever. Combining strong deposit growth with a sharp focus on retention, our Corporate markets team continues to generate inflows. This was partially offset by negative Stable Value flows, which can be lumpy in any given quarter.

Turning to Slide 18. Investment Management sourced net inflows were nearly $2.4 billion during the second quarter. These results were driven by continued client demand across a broad range of fixed income and equity mandates. Institutional quarterly flows can be lumpy depending on when mandates fund. Our second quarter flows included 2 new collateralized loan obligations and additional commitments for a new private equity fund. Our Affiliate-sourced outflows were primarily from Stable Value departures related to our Retirement segment.

As shown on Slide 19, our Annuities segment generated another quarter of positive Fixed Indexed Annuities flows, underscoring the strength of our distribution relationships. Relative to certain competitors, we have traditionally offered fixed indexed solutions with shorter surrender periods and lower commissions that align well with the new Department of Labor fiduciary framework. Encouraged by favorable equity markets, clients also continue to invest in our Investment-Only products.

Moving to Slide 20. The loss ratio for Group Life showed significant improvement after a seasonally high first quarter. The loss ratio for Stop Loss increased in the second quarter due to the following factors: first, we have added to reserves on our 2016 business, whereas in previous years, we have benefited from reserve releases on prior year vintages; second, based on the experience of the 2016 business, we have been setting our reserves on current year business at a higher initial level than prior year vintages. As a result, we expect the full year loss ratio for Stop Loss to be above our target range of 77% to 80%.

On Slide 21, as shown by the bar graph, our hedge program continued to offset the changes in rating agency requirements during second quarter. As a reminder, while our hedges are designed to protect both regulatory and rating agency capital, the primary target now is the rating agency's CTE 95 level. Since our IPO, the rating agency requirement has generally been higher than the regulatory requirement.

We ended the second quarter with estimated available resources of $4.1 billion, which meets both rating agency and regulatory requirements. Our statutory requirement was $3.3 billion, which is pro forma for a $250 million release of cash flow testing reserves after the second quarter. The release has no impact on excess capital or the available resources backing CTE 95 and statutory reserves.

During the second quarter, net outflows in the Closed Block were approximately $900 million, which includes about $100 million remaining from our first enhanced surrender offer that we mentioned on our previous call. We are pleased with the 10% annualized outflow rate in the quarter, which excludes the $100 million from the surrender offer.

As Rod mentioned earlier, we are in the process of making a second enhanced surrender value offer to GMIB policyholders. This offer will provide more options to our customers and continue accelerating the block's run-off. Policyholders will have until mid-December to make a decision.

On Slide 22, you can see that our regulatory and financial leverage ratios are strong and remain better than our targets. The RBC ratio was 480% at the end of June. The change from the first quarter reflects $770 million of dividends to the holding company during the quarter, partially offset by the statutory capital we generated. Our debt-to-capital ratio remained at 24.5%.

On Slide 23, our excess capital, which consists of estimated statutory surplus and holding company liquidity above target, was $877 million at the end of the second quarter. We had $211 million available for share repurchases at the end of June after $225 million of share repurchases during the quarter. This is in addition to completing the $150 million discounted share repurchase we'd announced on our first quarter call. Since our IPO, we have returned $3.4 billion of capital to shareholders.

In summary, the realization of our growth initiatives and focus on efficiency are driving higher ROE. We continue to generate excess capital and protect regulatory and rating agency capital while running off the Closed Block.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Ryan Krueger of KBW.

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

I had a question about the Retirement guaranteed interest rate action. Can you help us think about the impact to future earnings that would occur as a result of this? I assume it will help future crediting rates but can you give any sense if it will also reduce DAC amortization going forward as well?

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

Yes, Ryan. Charlie will take that.

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

Ryan, certainly, we're on this journey relative to our GMIR initiative, and yes, you can expect that there will be a net amortization on a pre-tax benefit basis of about $10 million to $15 million annually. That's for this tranche that we've dealt with through June 30. And as you indicated, there will be benefits from a crediting rate perspective, but that will evolve over time and really not start to be noticeable, I think, until early 2018 and maybe later this year as well. There's about a 90-day notice period for participants when we make these types of changes at a plan level, so there's a bit of a lag in terms of when that crediting interest component can kick in. We're really pleased with the progress that our team has made on the GMIR initiative as we look broadly across our business. But our value proposition has been and is much broader than just our GMIR. I mean, certainly the value proposition, I think, is resonating in the market and is driving some strong growth in deposits and flows as well. Certainly, there was a little lumpiness this quarter in some of our Stable Value flows. If you looked at our Stable Value flows, about 70% on the negative side were driven by participant direction, and that happens from quarter to quarter with reallocation of participant accounts. But as Alain mentioned, on our Tax-exempt business, with deposits up 20% in the first half versus 2016, we're really pleased with the progress there as well as in our Small/Mid-Corporate corporate business. The kind of 23 out of 24 quarters in a row of positive deposits and positive flows is really quite impressive. And I think, at the end of the day, what's giving me confidence in our team and optimism as we go forward is the underlying fundamentals driving that. And some of the underlying fundamentals, as we think about these things, really give us an opportunity to leverage as we go out with these GMIR conversations with plan sponsors and with advisers. We can also pivot on those conversations, and it's leading to more RFPs and it's leading to more sales. Our sales are up 39% on a plan sales basis year-to-date versus the same time period last year through the end of the second quarter. So if you look at that, and you look at the growth that is driving in participants, our participants are up about 6% year-over-year from second quarter to second quarter. And at the same time, we've been able to drive down our administrative fees by about 4%. So participants up 6%, plan sales up significantly, administrative expenses down 4% in that time period. Equally importantly, and with my partner, Christine Hurtsellers and our associates in Voya Investment Management, driving these conversations that we're having kind of as a result of some of our GMIR activity is also giving us a chance to talk about our reliable investment solutions. And through the second quarter, 54% of our target date sales on our Small/Mid-Corporate market segment have gone to Voya Investment Management target-dates. That's up from 46% that we talked about in the first quarter. So really strong momentum and growth in advisers, in sales, expense management and driving the overall business.

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

Great, Charlie. And then just, a quick follow-up. So $10 million to $15 million of lower DAC amortization from what you've done so far. How should we think about the relative size of what you're looking to do in the second half of this year? And should we expect a similar amount of benefit for DAC amortization relative to that, so whatever that size is?

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

Ryan, this is Mike. I think, as I said, the total DAC that remains on the targeted accounts is $220 million. Some portion of that will, depending on the success of the ultimate initiative, will get the same kind of treatment as we had in this quarter, and then that would have a probably similar proportionate impact on ongoing amortization. So I think to be determined as to the exact amount depending on how the initiative ultimately unfolds.

Operator

Your next question comes from Humphrey Lee of Dowling & Partners.

Humphrey Lee - *Dowling & Partners Securities, LLC - Analyst*

Just a question on the Stop Loss. So you mentioned that there's the higher reserves -- you usually have a prior year developments for 2016 and booking higher reserve for 2017. So is it a pricing issue for the more recent sales, especially given the strong sales in the first quarter and the second quarter? And maybe remind us -- what is the repricing cycle for this business?

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

Sure, Humphrey. This is Mike. I think the way to think about this is that the Stop Loss really runs on a 2-year cycle. And most of the business has an effective date of January 1. They're annual contracts, but we don't have a really good sense of how the block is going to unfold until month 13, month 14, month 15 when we really start to understand. So we don't know how the experience is actually going to emerge until after the end of the period that they're covered. The reason that translates into a 2-year cycle is that somewhere in month 7 or 8, we're beginning the renewal process, just as we're doing right now on the business that we renewed in January '17. So by the time we have experience on the business that we wrote before, we're already renewed into the second renewal cycle. So here's the way this played out for us in '16 and '17. We wrote business coming off of a really good experience in '15 and '14, felt good about the pricing and good about the underwriting. And as the experience emerged, it turned out to be higher than we expected, and so that's resulting in some of the loss ratio experience that we've reported the last several quarters. We started the renewal cycle for January '17 business in August or September before we had a sense of where the block was ultimately going to unfold. At that time, it actually was looking pretty good. So fast-forward to where we are today, which is August of 2017, we're going to be renewing the '17 business starting now. We have the benefit of that experience, both in terms of the '16 business and emerging '17 business, and I think we'll be able to take appropriate pricing actions through this renewal cycle to get back on track and more consistent with our overall target of 77% to 80%.

Humphrey Lee - *Dowling & Partners Securities, LLC - Analyst*

Got it. And then a question about the Cognizant outsourcing transaction. So how should we think about the cost savings from that outsourcing agreement? Granted, I get it you're paying $400 million of payments over the 5-year period, I would assume the benefit would definitely outweigh that payment consideration. But just thinking about in terms of how those kind of cost savings will emerge?

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

Thank you for the question. So just let's step back and just put this agreement in perspective. When we announced our plans in 2015 and our strategic investment program, there were 3 areas that we were focusing on: IT simplification, digital and analytics, and cross-enterprise initiatives. And this agreement here is part of our continuing drive to simplify our IT infrastructure and delivery. And when we announced our simplicity cost savings in November of last year of more than $100 million by 2018, we had contemplated such an agreement in those plans. And ultimately, this is going to help us to continue to deliver the highest level of service to our customers, to continue to grow our business while minimizing our cost. The $400 million is paid over 5 years, and the way to think about it is we spend around $1.7 billion of administrative expenses. And instead of spending it the way we spent it before, we're going to pay it to Cognizant as a service fee, and they will be servicing us. And our expectation is we'll get meaningful improvement in service, in cost savings that's already reflected in our more than $100 million that we expect to achieve in 2018.

Operator

Your next question comes from Erik Bass of Autonomous Research.

Erik Bass - *Autonomous Research LLP - Analyst*

So one follow-up on the Retirement guaranteed minimum income rate changes. Were those contemplated in your 2018 ROC guidance for the Retirement business?

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

Yes.

Erik Bass - *Autonomous Research LLP - Analyst*

Okay. And then I know you probably don't intend to update the 2018 allocated capital target quarterly, but we did see the allocated capital to the business decline again this quarter. And given the DAC write-offs you mentioned from the spread initiatives, some of the restructuring charges and just ongoing capital return, just struggling to see why the numbers should grow materially going forward. So are there other factors we should be thinking about there?

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

Thanks, Erik. First of all, just to be very clear, we're still very confident in our current guidance of high 7s to low 8s in terms of the overall capital level at the end of '18. I think that'll be driven by business growth primarily and will ultimately evolve over time as we move forward. I wouldn't get distracted by kind of one-time DAC adjustments. I think the overall picture here is one of improving our overall returns through a variety of ways, one of which is growth, and that'll be a primary contributor to the capital growth.

Erik Bass - *Autonomous Research LLP - Analyst*

And just one more for Charlie on the guaranteed minimum income rate adjustments. What is the incentive for the plan sponsors to agree to these?

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

Thank you. Plan sponsors, and I think their advisers that advise them, as well as fiduciaries, certainly understand that the fixed investment option or fixed general account, on average, is probably about 15% of plan assets, the total plan assets. And so while it's important to take that into consideration, they look at each thing in totality of their overall plan, so each component of that. So when we are in a prolonged period of low interest rates, certainly, plan sponsors and advisers are aware of this and the impact that it has on potentially crediting rates and the portfolio rates. And plan sponsors have increasingly become focused at trying to preserve the guarantees on the existing assets while providing a competitive rate of return for deposits and transfers. So if a plan's sponsor were to leave us, the market rate for a GMIR, if you went to a new provider today, is not 3% and 4%, obviously. It's probably down in the 1% range. So they recognize this. And so when presented with options of preserving the existing assets at the above-market GMIR levels and offering participants a competitive current crediting rate, many are taking advantage of this offer. And I think it's the main driver for this and maintaining the existing assets is the maintaining of the existing assets above the market GMIR rate, and it's not a fee concession issue.

Operator

Your next question comes from Seth Weiss of Bank of America Merrill Lynch.

Seth Weiss - *BofA Merrill Lynch - Analyst*

A couple on Retirement. The first is just more of a modeling type question. But in response to the question from Ryan Krueger on the $10 million to $15 million of net DAC, just so directionally we have it, is this a benefit or a headwind to earnings as we think about ongoing quarters?

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

It's a benefit, Seth. We accelerated the amortization. We won't have to take it in the future. So the amortization will go down $10 million to $15 million.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, great. And that's a quarterly number or an annual number?

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

That's an annual number.

Seth Weiss - *BofA Merrill Lynch - Analyst*

That's an annual number. And then a broader question just on Retirement and as we look at the earnings run rate in this quarter. Even if you adjust out the expense benefits, which you highlighted on your slide deck, earnings this quarter running still over $140 million. So it's significantly higher than where you've been running in previous quarters. So I know the market played a role this quarter, but we've had quarters recently with even better market growth. So just trying to get a sense of what's driving earnings higher, and if this is a good run rate to think about going forward.

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

Seth, we are very pleased with the progress, and I think very encouraged in what our team is doing in Retirement. I'm very, very excited about the progress that we've made. As you point out, the equity markets certainly had helped, but the proactive management that we have to manage the spread compression relative to our GMIR initiative, as an example of execution of some of our growth, margin and capital initiatives, certainly the expense management that I referred to earlier. I mean, you look at the growth that we've had in our business, both the plans and participants and our admin fees going down 4% on a year-to-date basis versus last year, I think, shows some of the expense management discipline that we're bringing and the simplification to our business. And then you throw on there, which gives us encouragement for the future as well, is the continued growth that we have. And it's not just in our Small/Mid. Our Tax-exempt is doing quite well. Our Large Corporate business in the last 24 months has had $19 billion in sales and almost 200,000 in participants. And our Retail Wealth Management business is really starting to pick up as well. And we've seen our field adviser productivity improve on a revenue basis about 20%. So you look at this in total, I think it's simplifying, our value proposition is resonating in the market, and we're quite pleased with the results.

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

And Seth, it's Alain. Just to add a couple of thoughts on that. It's really the culmination of all the execution that we've been doing over the past couple of years. So when you sell and grow, originally, the impact of the sale on earnings is not significant. The accumulation of sales becomes significant. On the savings, the same things. We're coming through. By the end of next year, we would have achieved our more than $100 million of savings. That will come through the results, but they weren't necessarily coming through before that. So it's the accumulation of sales every quarter of our cost savings, and our unit costs are down 10%, as Charlie said, as a combination of that, and that's going to continue, and you start seeing through the results in all of our segments, and in particular in Retirement, which was the one, because of the interest rate environment, that was more under pressure.

Operator

Your next question comes from Suneet Kamath of Citi.

Suneet Kamath - *Citigroup Inc - Analyst*

Just wanted to go to the CBVA first. It seems like net amount at risk to the account value is getting more attention, given certain transactions in the market. I was wondering if you can update us in terms of when your roll-ups in your various contracts sort of hit their peaks and the sort of that net amount at risk starts to level off?

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

Sure, Suneet. So it the answer is a stratified one, depending on which block we're talking about. So the GMWBs largely hit their peak over the next couple of years, and some of them have already. And there are 2 different cohorts to think about, some of which they've already hit. I think the larger share will start to hit their peaks in 2019, and then that'll run through 2022.

Suneet Kamath - *Citigroup Inc - Analyst*

Got it. And then just in terms of the CBVA, has there been any sort of change in tone or interest level from third parties in terms of a permanent solution, particularly given some other transactions in the market?

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

Suneet, it's Rod. Certainly, the point you're referencing, there is increased activity in the market, and there has been for a period of time. You should conclude that we are as engaged as any other partner during that period. And I doubt you'll be surprised that we're not going to forecast something on the call in advance of concluding a solution different than the plan that we have today. But we are actively engaged. We are watching carefully the activity that's happening in the market, and we will keep you and all parties posted if we feel there's a better or different solution than the one that we are executing against now.

Suneet Kamath - *Citigroup Inc - Analyst*

Got it. And then just one last follow-up, if I could, on the Retirement business and the $10 million to $15 million lower DAC amortization. Are there any other offsets to that, lower fees or anything else, that we need to think about as we model the impact of what you've done in 2Q and then what you may do in the second half?

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

So as I indicated earlier, the plan sponsors are taking advantage of our GMIR offers and exchanging their contracts not for a fee concession. So that's unrelated here. Certainly, we have ongoing management of our book of business. We continually look at our book of business and manage on a pricing basis, on a proactive basis, but that's not connected to what we're doing with the GMIR, and we'll continue to do that as we go forward. So nothing related to GMIR.

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

Suneet, let me just add to what Charlie has already said, and I think he's covered an awful lot. The increased engagement with our customers as a result of this activity has been a very good outcome for us and our customers in terms of the breadth of portfolio and value proposition that we have. So outside of just the discipline of the approach on this project, it's been a very good outcome in terms of just re-engaging with the customers and having them have a very current picture of the progress we've made and the breadth of the value proposition, both in Retirement and in Investment Management solutions as part of that retirement picture.

Operator

Your next question comes from John Nadel of Credit Suisse.

John Nadel - *Credit Suisse AG - Analyst*

I was hoping you could give us a sense for what the offer is going to look like for this next enhanced surrender program. Will it look very similar to the offer that was provided a couple of quarters ago to a relatively small block of your GMIB customers? And in particular, also, is this offer going to be made to the entire block?

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

John, this is Mike. Thanks for the question. So let's go back to what the original offer was. It went to half of the GMIB block. We got 25% take-up rate out of that offered portion. This next offer will go to the entire GMIB block. So half of the offer is going to people who have not received it before, the other half is a repeat offer. For both, the terms of the offer are identical financially. It's 55% of the difference between their benefit base and their account value is added to their account value and that becomes their enhanced surrender value. One lesson we learned from the past offer was that we had only a 60-day window before, and we ran into challenges as much as anything with some of the agents being able to work through their block and reach all the customers who had been given these offers. And so we've extended the offer period. As we mentioned, they will now have until mid-December. So it's a 120-day window as opposed to a 60-day window. In terms of expectations, I think it's hard to say. All of these are learning experiences for us. I think it's safe to say that we will not see the same take-up rate on the half that's already gotten the offer. Working the other way is a longer offer period may make it easier and may facilitate more folks to take it, but we're also approaching a group with a different benefit picture, a different benefit base relationship to their account value, and that will impact it as well. So we're certainly encouraged by the results of the prior offer, and we're optimistic that we'll see good take-up of this new one.

John Nadel - *Credit Suisse AG - Analyst*

And then just as a follow-up to that, Mike. I realize this is all very hypothetical, but if you received an overall take-up rate that looks something similar to the past offer, 20% to 25%, something in that neighborhood, that's a pretty significant reduction in the size of your GMIB in-force. Would we see, in all likelihood, in response to that or I guess after that, a reduction in hedge costs and maybe even perhaps a reduction in the CTE 95 requirement for the block?

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

So the short answer to that is, yes, there would be reduction in both, simply by having a smaller block, and these are policies that generally contribute to hedge costs and contribute to having to hold the CTE 95 requirement. Making that smaller should ultimately reduce it, but I should add that we have to pay for the incentive that we're giving to these customers, right? So in the short term, just to anticipate where you may be going, there's not a capital release that comes from this in the short term. Over the long run, it's a good thing, we're happy about it, it will make the picture for the block overall better and certainly reduces the potential volatility.

Operator

Your next question comes from Jimmy Bhullar of JPMorgan.

Jamminder Bhullar - *JP Morgan Chase & Co - Analyst*

I had a question just on the Variable Annuity block. And as you're thinking about the CTE 95 required reserves, assuming a stable size of the block, so ignoring these enhancement or value options that you're contemplating, are you expecting a big increase in the required CTE 95 reserves as the GMIB blocks are aging? Or is there no such dynamic in the book?

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

So the CTE 95 calculation already contemplates that, so there will be some, all else being equal, right, as that potential benefit gets closer and then nothing else changes, then the value of that would simply increase just by virtue of time value of money effects, right? The potential claim is now that much closer. So there would be some sort of normal progression. But overall, that peak is not something that's going to drive a surprise in 2019 or 2020. That's all part of the modeling, and we're very comfortable with how that should play out.

Jamminder Bhullar - *JP Morgan Chase & Co - Analyst*

Okay. And just a follow-up on your Stop Loss. It seems like you're implying that margins should improve next year as you're contemplating price hikes on the block. Maybe comment a little bit on market conditions as you're looking at renewal cycle. And do you expect any increases in pricing to drive a noticeable reduction in your premiums in that business?

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

Yes, Jimmy, it's Alain. Yes, we do expect an improvement in our 2018 loss ratio. From a market point of view, it is competitive. You have a couple of new players that are coming in. The results, as you recall, have been terrific, with return on capital in the high 20s and, as we sit today, with our loss ratio being higher than expected, we're at 20.8%. We've done that and the business has grown. So it wasn't just the returns were high, but in the past few years, the business has grown significantly. That has attracted some additional competition in the marketplace, so the market is more competitive. As Mike has said, we look at our book of business, we look at where we are, we look at our targets and we focus on driving renewal in a disciplined basis to achieve our targeted loss ratios and targeted return, and we expect to be able to do that and achieve that in 2018.

Operator

Your next question comes from Tom Gallagher of Evercore ISI.

Thomas Gallagher - *Evercore ISI - Analyst*

Mike, first question I have is just on your comment on expense saves. You mentioned realized total expense saves of $30 million. Is that an annualized number or is that a year-to-date number?

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

That's a program-to-date number, which started late '16.

Thomas Gallagher - *Evercore ISI - Analyst*

So annualized, you'd now be up to $60 million or so relative to the $100 million annualized level that you'll get up to by next year, is that the right way to think about it?

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

Tom, I'd point you back to our overall guidance of $50 million to $60 million of saves in 2017 and more than $100 million in 2018. It's not meant to be an annualize-able number. The way to think about our expense saves is they're going to gradually build, right? And so as we mentioned, there'll be additional run-rate savings taken in the third quarter of about $3 million to $5 million. And when you annualize that, that's an additional $12 million to $20 million, just multiplying by 4. So that will add, and so you'll see this gradual buildup as we take the actions that will remove the costs.

Thomas Gallagher - *Evercore ISI - Analyst*

I guess I just want to make sure I'm clear how much annualized savings as you think about eventually getting to the $100 million-plus build for next year. Where do we stand? Are we at $60 million now? Or should I be thinking about it as $30 million? I just want to understand where we're going to versus where we are thus far.

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

So I think the way to think about it in terms of modeling is the $3 million to $5 million of run rate would be a reduction in the quarterly expense that you should expect to see, right? So that's part one. The overall savings that you achieve in 2017 should be in that $50 million to $60 million range, right? And so that's not an annualized number. That's an actual number. That's the savings that we will have brought to the bottom line in 2017.

Thomas Gallagher - *Evercore ISI - Analyst*

Got you. And so right now, you're on track to get to the $50 million to $60 million bottom line that you expect to get. But if we then -- so if we annualized it by 4Q, you will be further along than the $50 million to $60 million is the way we would think about it.

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

Yes. Right. I think if you look at the saves that we have in the fourth quarter accumulated and then you multiply that by 4, yes, you'll be on a different path than $50 million to $60 million. That's right.

Thomas Gallagher - *Evercore ISI - Analyst*

And just so I'm clear on this, then by next year, the way to think about it is since you'll be $50 million to $60 million total higher annualized number, let's call it, maybe you're at $70 million to $80 million, would that only imply an extra $20 million for 2018 to get to your goal? Am I thinking about that correctly? Or will it be something larger than that?

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

Well, I guess I'd say, first, it's $100 million or more. So it's possible that it could be more. But if it's just $100 million, then I think your math is basically in the ballpark. But that's not necessarily guidance or direction we're trying to give on the path. From your example, I think you're thinking about the math correctly.

Thomas Gallagher - *Evercore ISI - Analyst*

Got you. And then just one other question on CBVA, the $250 million reduction in cash flow testing reserves. Should we read anything into that? -To me, if you're able to release some reserves here, that certainly expresses some more confidence to the resources backing the block, I would guess. But is there anything to read into that in terms of where you think the new variable annuity reserving standards are going, the whole Oliver Wyman initial proposal or otherwise, as you think about how that business is capitalized and where you think it ultimately needs to be and then potentially, down the road, freeing it up?

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

Tom, thanks for that question. I'll make to clarify how to think about this. There is no change in the resources, either up or down, that support the CBVA as a result of this. The way to think about it is we've got 2 entities that are engaged in the Variable Annuity business largely. There's the domestic Iowa company and then there's the Arizona-based captive, right? The original writing company is Iowa. That's where the cash flow testing reserves were held. They were thus excluded from excess capital. We worked with the Iowa regulator to explain to them that what we needed to do was move resources from Iowa to Arizona. And so we used the mechanism of reducing the cash flow testing reserves. They granted us an extraordinary dividend for that exact amount. We took it up to the holding company, took it back down to the captive. So the resources within the CBVA system were unchanged. The statutory reserves are lower, and that's a good thing, but it's more about balancing the resources between the entities than it is about any view on anything else. Depending on how things evolve, we will probably do something similar to this at some point in the future. The reinsurance agreement between the Iowa company and the captive requires periodic rebalancing of resources.

Operator

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

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

Thank you. We've made considerable progress during the second quarter toward achieving our 2018 financial targets. We remain focused on continuing to execute our plans. This will enable us to deliver greater value to our shareholders. It will also put us in an even stronger position to help Americans plan, invest and protect their savings.

We look forward to updating you with our progress. Thank you, and good day.

Operator

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