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PRESENTATION

Operator

Good morning, and welcome to the Voya Financial Fourth Quarter and Full Year 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 IR***

Thank you, Jennifer, and good morning, everyone. Welcome to Voya Financial's Fourth 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. Beginning with the fourth quarter 2017 results, we changed the terminology of several of our non-GAAP measures. We are now using the terms: Adjusted Operating Earnings per Share, Adjusted Operating Earnings and Adjusted Operating Revenues in place of the prior terms, Operating Earnings per Share, Operating Earnings and Operating Revenues, respectively. Please note that the methodology for deriving these non-GAAP measures remains unchanged. 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. Separately, all references on this call to CBVA relate to the Closed Block Variable Annuity segment.

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 & Chief Executive Officer*

Good morning. Let's begin on Slide 4 with our key themes for the year. 2017 was an important and pivotal year for Voya. We produced attractive growth and returns, maintained a strong capital position and announced a transformational transaction that will significantly reduce risk and accelerate growth. And we accomplished this while continuing to invest in our businesses to improve outcomes for our customers.

With respect to growth and returns, we grew assets and premiums meaningfully over the past year. We achieved the ROE target that we shared at the Investor Day in June of 2015, for the total company and each of our businesses, one year ahead of schedule. Given the achievement of our ROE target and the planned sale of the Closed Block Variable Annuity and Annuities businesses, we've eliminated the use of the Ongoing Business ROE metric.

As Mike will discuss later, we're also making changes on how we report our operating earnings. Our focus for the near term is on achieving the Adjusted Operating Earnings per Share target of $1.30 to $1.40 within 12 months of the transaction closing. This figure is comparable to the $1.10 to $1.20 target that we shared in December, adjusting for the change in tax rate. We plan to share financial metrics and targets for 2019 and beyond at an Investor Day in the second half of this year.

Our capital position is strong. At the end of 2017, we had $738 million of excess capital after entering into a $500 million share repurchase program during the fourth quarter. In the first quarter, our board increased our share repurchase authorization. As a result, we will have a further $1 billion of remaining share repurchase authorization that can be deployed after the $500 million accelerated repurchase program is completed in the first quarter. We plan to use half of the remaining authorization by the end of the second quarter.

Finally, we're highly focused on closing the divestiture of the CBVA and Annuities businesses. We've been pleased with our progress, working with the buyers, regulators and other stakeholders, and we remain confident in closing the transaction in the second or third quarter of this year.

Moving to Slide 5. We expect tax reform to have a positive overall impact for Voya. Lower tax rates will meaningfully increase our earnings per share and should support overall economic growth. We are lowering our effective operating tax rate to a range of 18% to 20% from 32%. Our tax assets remain a key source of value for Voya with a net present value of approximately $1.4 billion. Lower tax rates reduced the value of our tax assets and liabilities, and the net effect was a reduction in our shareholder equity of $679 million. As I noted a moment ago, our capital position remains strong, as lower rates had a minimal impact on our statutory capital.

Moving to Slide 6. We reported Adjusted Operating Earnings per Share of $0.87 for the fourth quarter. As previously discussed in December, this does not include results from the Annuities businesses, which have been moved to Discountinued Operations. Earnings this quarter also reflected $0.06 per share of prepayment fees and alternative investment income above our long-term expectations.

For the full year, we generated $3.01 per diluted share of Adjusted Operating Earnings, excluding unlocking of Deferred Acquisition Costs. Our fourth quarter and full year net income results reflect the effect of a loss on sale from discontinued operations and the reduction in the deferred tax asset related to tax reform.

Moving to Slide 7. Our financial performance is powered by our people and reinforced by the character of our brand. And I'm proud to share that last month, Voya was named by Fortune's World's Most Admired Companies list, ranked as one of the top securities and asset management companies. Given this was the first year that our company was eligible to be considered for this list, this distinction as a top securities and asset management company is especially notable. We were also included in the 2018 Bloomberg Gender-Equality Index. Voya is one of 104 companies across numerous industries to join this list. And just this Monday, the Ethisphere Institute named us as one of the World's Most Ethical Companies for the fifth consecutive year. We're incredibly proud of this honor as it reflects the ethical corporate practices that are engrained in Voya's culture and define how we operate. These are just a few of the most recent recognitions that speak to our culture, the character of our brand and the commitment of our employees.

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

Alain Karaoglan ***Voya Financial, Inc. - Chief Operating Officer***

Good morning. Let's go to Slide 9. We have four key priorities in 2018. First, we will work towards closing the sale of our CBVA and Annuities business. Second, we will continue to generate cost savings and become more efficient. Third, we will execute our capital initiatives, which includes a significant return of capital to shareholders. And fourth, we will continue to invest in our businesses to deliver more value to our customers and to grow profitably.

Let's take a closer look at each of our businesses, starting with Retirement on Slide 10. Retirement Return of Capital for 2017 was 10.3%, up from 8.8% in 2016. We had great success growing the business, becoming more efficient and reducing risk in 2017. Our investments in distribution enabled access to more opportunities, which translated into a record level deposits in both Small/Mid Corporate and Tax-exempt markets. Adviser productivity was also higher again, particularly in the Tax-exempt market with average sales per adviser 12% higher in 2017.

Our average participant count in the defined contribution business grew 6% in the year. And we took actions to reduce risk with respect to guaranteed minimum interest rates, while continuing to partner with plan sponsors to improve participants' retirement income. Overall, we expect flows in 2018 to be strong, though flows can fluctuate in any given quarter. We expect first quarter flows to be negatively impacted by merger activity affecting our clients. As we have seen in the past, there are times when we benefited from merger activity. We expect flows will build as we progress through 2018.

Moving to Slide 11. In Investment Management, the Operating Margin was 33.9%, up from 26.9% in 2016. Excluding investment capital, our operating margin was 28.3%, up slightly from 28.2%. Positive driver of earnings in 2017 include higher fee revenues, favorable investment capital results and expense discipline. Our consistent and strong investment performance helped drive record full year 2017 Investment Management-sourced sales of $19 billion and net flows of $5 billion. Sales and net flows were driven by client demand across a broad range of strategies and in asset classes that are not easily replicated by passive funds. We saw strong demand in our actively managed specialty fixed income strategies, including bank loans, investment-grade credits and private credit across multiple distribution channels.

Insurance asset management net flows reflect the confidence in our expertise and our ability to provide customized investment solutions. Institutional sales grew 16% in 2017, helped by demand in private equity and collateralized loan obligations as well as a large bank-owned life insurance mandate. And in 2017, the partnership between Investment Management and Retirement strengthened, supporting Affiliate Sourced sales. For example, Voya Investment Management target date funds accounted for 82% of Retirement's Small/Mid Corporate target date sale. This compares to 51% in 2016. In addition, net flows of our target date funds were ranked top quartile in the industry.

Our Investment Management operating margin will be affected by assets that will be transferred with the sale of our Annuities business after closing. We noted in December that the annualized effect to our Investment Management pretax earnings would be approximately $35 million. We will offset this over time by sustaining our track record of strong investment performance, by growing specialty asset classes and improving operating efficiencies. In addition, we look forward to serving as the preferred asset management partner to Venerable, the buyer of our CBVA business, which seeks to grow by acquiring blocks of variable annuities from other companies.

Moving to Slide 12. The Return of Capital for Employee Benefits for 2017 was 24.4%, up from 23.3% in 2016. We benefited from favorable Group Life and Voluntary underwriting experience compared to our annual targets. In addition, we increased Voluntary premiums to meet the growing benefits markets. Voluntary sales were up 24% in 2017, reflecting increased proposal volume, greater average size of opportunities and success in winning them. Strong Voluntary sales growth, combined with medical trends contributed to overall in-force premium growth of 8% in 2017.

We were pleased with the January 2018 Stop Loss renewal cycle, and believe, we are well positioned to return our loss ratio for Stop Loss to our expected annual range of 77% to 80% in 2018. The actions we took during the renewal cycle will lead to flat Stop Loss premiums in 2018. Notwithstanding that, we expect overall Employee Benefits' in-force premiums to increase by up to 5% in 2018, driven by our growing Voluntary benefits business. In addition, we see further opportunity to strengthen client relationships, improve our customer and distributor experiences, and expand Voluntary offerings in 2018.

Turning to Slide 13. Individual Life Return of Capital was 11.2%, up from 6.6% in 2016. During 2017, we took a number of actions to improve the returns of the business. We lowered our financing cost and capital usage. We maintained expense discipline and realized cost savings by simplifying our business, and we focused on selling Indexed Universal Life products at attractive returns and helped reduce the capital intensity of our product portfolio.

In 2018, we expect the Return of Capital to decline for 3 reasons: First, the effect of higher reinsurance costs; second, we expect favorable mortality experienced in 2017 to normalize in 2018; and third, the GAAP capital will be higher, as lower corporate tax rate reduced deferred tax liability. As we discussed in December, we are currently undergoing a strategic review of the Individual Life business.

In summary, we are very pleased with the performance of our businesses in 2017. We feel positive about the continuing momentum and remain focused on the executions of our plan to drive greater value for our customers, greater value for our distributors and greater value for our shareholders.

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

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

Before jumping into the slide, I'll make a few opening comments. Our announced sale of CBVA and Annuities as well as U.S. tax reform had significant impact on our fourth quarter results and financial reporting. The announced sale led to the following: First, the sale resulted in a $2.4 billion GAAP charge; second, we reclassified CBVA and Annuities into Discontinued Operations, which is not part of Operating Earnings; third, we will retain a small portion of both of these businesses, the results of which are now included in Corporate operating results; and finally, stranded costs related to this sale are also now included in Corporate operating results. We have recast our historical financial results to reflect all reclassifications.

With respect to tax reform, as Rod mentioned earlier, there were several impacts. First, beginning with the first quarter of 2018, we expect our operating earnings to benefit from a lower tax rate in the range of 18% to 20%. This compares favorably to our prior tax rate of 32%. Second, the lower future tax rate reduced our deferred tax assets. This reduction consequently lowered our GAAP shareholders' equity, excluding AOCI, by $679 million at the end of 2017. Finally, lower future tax rate also affected deferred tax assets on our statutory balance sheet. Our statutory capital was reduced by approximately $100 million.

Now moving to Slide 15. We reported fourth quarter Adjusted Operating Earnings per Share of $0.87. This includes $0.06 of combined prepayment and alternative income above our long-term expectations. Our fourth quarter operating results compare favorably to the year-ago quarter, when we reported $0.52. As a reminder, these figures now exclude most of our Annuities businesses.

Our strong fourth quarter result was primarily driven by sequentially higher fee income in Retirement and Investment Management, strong expense management across all businesses and favorable underwriting results in Individual Life. Looking ahead to first quarter 2018, we expect our earnings per share to be helped by a lower effective tax rate, additional expected cost savings and fewer unfavorable items. Retirement will benefit from lower amortization of deferred acquisition costs related to the actions we took last year to address guaranteed minimum interest rates on certain contracts. The impact of those beneficial items could be offset by seasonal factors and by certain items reverting to more normalized levels. Key drivers of first quarter seasonality would include the following: Higher administrative expenses due primarily to payroll taxes that restart with the calendar year; historically observed higher loss ratios for Group Life in Employee Benefits; and lower performance fees in Investment Management. While we've provided some items to consider, there will, of course, be other factors that affect first quarter results.

On Slide 16, we provide a business segment level breakout of the operating items that we discussed in the previous slide to further help with modeling our financial results.

We estimate $27 million of higher payroll-driven seasonal expenses for Voya overall. Our Retirement segment will incur $11 million. Turning to cost savings, we realized approximately $6 million of incremental savings in the fourth quarter. We forecast the incremental cost savings for the first quarter to be approximately $3 million to $5 million. For Individual Life, we expect annual net underwriting gain to be approximately $185 million for 2018. This is lower than our 2017 expectation of $200 million, as a result of higher reinsurance costs in our latest annual assumption update. In our Corporate segment, we are estimating an operating loss of $78 million to $82 million for the first quarter.

Finally, we added a sensitivity table related to the warrants outstanding on our stock. To the extent that our average share price is above the $48.75 strike price during a particular quarter, our quarterly earnings per diluted share will include incremental shares from the warrants.

Turning to Slide 17. As we have done annually since our initial public offering, we provide an updated net present value of projected cash tax savings from our deferred tax assets. As you can see, our deferred tax assets remain a significant source of value for Voya. Our new value estimate is $1.4 billion as of year-end 2017. This is moderately reduced from our value estimate of $1.6 billion as of year-end 2016. Lower tax rates are the biggest driver leading to a reduction in the year-over-year change in value. Partially offsetting the impact of lower tax rates are the following: First, changes to the alternative minimum tax rules are expected to generate tax refunds for Voya; second, certain aspects of tax reform will increase our taxable income and accelerate use of our deferred tax assets; and finally, the sale of CBVA and Annuities is expected to increase taxable income for our remaining businesses.

On Slide 18, our reported RBC ratio was 476% at the end of December. This includes the reduction in our admitted deferred tax assets that I mentioned earlier. This ratio does not include potential tax rate provision changes in the RBC formula. Simply applying a 21% tax rate to the existing formula would reduce the ratio by approximately 60 to 70 RBC points, all else being equal.

Our debt-to-capital ratio was 29.9% at the end of December. This is pro forma for our successful January hybrid debt offering and repayment of the 5-year senior notes due this month. As we announced on our December call, we have increased our target debt-to-capital ratio to 30%, reflecting the improved strength of our business mix following the close of the CBVA and Annuities transaction. We adjusted the prior period debt-to-capital ratio to factor in loss on sale accounting and the reduction in our deferred tax assets, to facilitate a more representative comparison of our leverage.

On Slide 19, our capital position remains strong. Our excess capital, which consists of estimated statutory surplus and holding company liquidity above target was $738 million at the end of the fourth quarter. This figure is after the $500 million accelerated share repurchase program executed in December.

As another reminder, we lowered our holding company liquidity target to 12 months of holding company expenses, again reflecting the improved strength of the company, following the sale of CBVA and Annuities. We have authorization for over $1 billion of additional share repurchases, including the new $500 million share repurchase authorization we announced yesterday. The $1 billion authorization can be deployed after the $500 million accelerated repurchase program is completed in the first quarter.

In summary, our business continued to generate strong operating earnings, our capital position and balance sheet are healthy, and we'll realize significant risk-reduction with the sale of CBVA and Annuities.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Suneet Kamath with Citi.

Suneet Kamath ***Citigroup - Analyst***

I want to start on Slide 9, if I could, where you talk about the expectations to deploy capital freed from the CBVA deal. I just want to confirm that the expectation is that, that deployment will be in the form of share repurchases versus some other type of deployment, is that still right?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Suneet, Mike will take that.

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

Yes, Suneet. There is no change in our plans from what we announced in December. So, yes, it's still intended to be used for share repurchases.

Suneet Kamath ***Citigroup - Analyst***

Okay. And then my second question relates to the Individual Life business. I know you're still in the process of doing your strategic review. But as we think about potential scenarios there, should we be thinking about a similar level of stranded overhead as we saw with the CBVA and Annuity deal, if you decide to divest? Or is there any guidance or color you can give on how much overhead that business is absorbing?

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

Suneet, overhead cost will be a consideration as we think about what we're going to do. But it's a little early for us to get into those kind of details. We're still early in our strategic review, haven't really made any decisions. And so, not going to go there. I think, as we get to clarity around where we are going to go, and that should happen in the next few months, then we'll give you a better sense of how that could flow through when we are there.

Suneet Kamath ***Citigroup - Analyst***

Okay. And just maybe a quick clarification or confirmation, again. On the CBVA sale, to the extent that market swing around between now and close, I'm assuming there's no impact on your overall consideration that you expect from that transaction.

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

The way that deal works is that we're to deliver CTE 95 upon close. As you know, our hedges are aimed at CTE 95. We have, I think, a good and, now, long track record of hedging to that. We've gone through periods of market volatility, not unlike what we've experienced recently. So I think, it's a little extreme to say there'll be no impact. There will be some noise, but we expect that to be very manageable and consistent with the kinds of historical experience you've seen in the past.

Operator

Your next question is from Humphrey Lee with Dowling & Partners.

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

Looking at Investment Management, there is definitely quarter-over-quarter improvement in fee rate. And I was just wondering what were the drivers for the improvement in the fees? And then also in terms of the third-party net inflows, what product lines are the main contributor?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Humphrey, Christine will take that.

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Investment Management***

Thank you. As far as the quarter-over-quarter improvement in fees in Investment Management, a lot of that was driven by the third quarter sale of the bank-owned life insurance product. So think of that as being a very large mandate with relatively lower fees, like a core fixed income product. Whereas in the fourth quarter, what drove our sales were predominantly our credit products, and we also closed the CLO in the fourth quarter. So think about the fourth quarter fee activity is more reflective of the general institutional flows that we have.

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

Okay, got it. And then in terms of the guaranteed minimum interest rate product in Retirement, it doesn't appear you have any kind of renegotiation in the quarter. What is your expectation for 2018? Do you still have more renegotiations that you are targeting in 2018?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Charlie will take that.

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

Yes. Thank you. Relative to 2018, we are largely completed with our Group GMIR initiative that we undertook in 2017. So we're not anticipating significant additional acceleration, because it's already embedded in our third quarter assumptions in terms of what we expect. We will, in the years ahead, start to look at our individual contracts in the Retirement space that have GMIRs. But that will be a much slower and longer term client-by-client type of realization.

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

Any sense of the size of the individual block that has these GMIRs or may be in terms of the DAC that is associated with the block?

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

When you compare the group and the individual, the biggest impact that we thought we would be able to achieve is in the group contracts that we addressed. The individual is literally client by client, and so it takes a long time to address that. And certainly as interest rates rise, there will be potentially less impact on those GMIRs for clients to address it. So we've not really given any guidance on that. We still have plans to try to address it in the future, but it's just going to be something's going to have to evolve over time.

Operator

The next question is from Ryan Krueger with KBW.

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

First, post tax reform, is the $600 million to $700 million free cash flow guidance still the same? Or is there any change to that?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

That's correct.

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

Okay. So unchanged?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Unchanged.

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

Got it. And then, as you generate cost saves going forward, just from a geography standpoint, how should we think about where those will come through? Will they be allocated to the business segments? Or will they come through Corporate to offset the stranded overhead?

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

Ryan, this is Mike. The cost saves will occur in both the Corporate areas and in the businesses. As you recall, we have some cost savings coming from some of our investments that we had talked about as part of the solve on the cost saves. So as we achieved the $110 million to $130 million of overall cost saves, I think, you can expect it to be in both.

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

Okay. And then just last quick one. Given the increase in interest rates, do you have any potential benefit to CBVA before the deal closes? Or does that just go as part of the deal?

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

Given that we're hedging to CTE 95, and we're delivering CTE 95, any benefit would be more noise as opposed to a specific benefit that comes from higher rates, given the way the deal is structured.

Operator

The next question is from Tom Gallagher with Evercore.

Tom Gallagher ***Evercore ISI - Analyst***

First question, can you provide a little more clarity on the extra $500 million of capital that's expected to be freed up over time from the VA deal? Can you just give a little more information on why it's, at least temporarily, encumbered, and over what period of time that might get freed up? And maybe a little more description of what this is related to.

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Mike?

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

First, I'd start by saying in terms of timing, don't expect any release from that additional amount in the near future. It will be over a number of years, but not in '18 and/or '19. The kinds of assets that it represents are things like seed capital that we use to support our Investment Management funds and other relatively liquid asset categories. So that's the main reason that it fits as is.

Tom Gallagher ***Evercore ISI - Analyst***

Okay, Mike. And then next question, does the NAIC Variable Annuity reform matter to you at all anymore? From the standpoint of based on how that comes out, would there be any contingencies with this deal to you related to any outcomes there? Or is that kind of irrelevant at this point for you?

Michael Smith ***Voya Financial, Inc - .Chief Financial Officer***

I think, it's safe to say there was a lot of work done through the deal on the potential impacts of VAIWG and based on what was expected to be coming. I think, one thing to keep in mind is the timing of VAIWG is not going to be before we expect to close the deal, right? So that in itself would be a good thing. But moreover, the way the deal is structured is that we're locked in on how we're going to calculate CTE 95.

Tom Gallagher ***Evercore ISI - Analyst***

Okay. And then final question is just on the strategic review of the Individual Life business. I get the VA risk-transfer deal made perfect sense because it was significantly impacting your valuation, your multiples. I guess, it's a little less clear what the Individual Life business review is really related to, other than the fact that it has a low Return on Capital. So is it fair to say that the only way it would make sense is if there was some significant financial benefit to doing that, because I can't imagine you're viewing that as like a major impediment from the valuation standpoint?

Carolyn Johnson ***Voya Financial, Inc. - CEO of Annuities and Individual Life***

Tom, it's Carolyn Johnson. As Rod said, we're really focused on closing the CBVA and Annuity business, and why that's important to the strategic review of Life is, little over a year ago, we combined the organizations of the Individual Life and the Annuities business. And so we shared some common organizational structures. And so to get to the close of the deal, we need to disentangle the Individual Life business from the Annuity business, and that really is giving us an opportunity to take a fresh look at the Individual Life business. So at this stage, as Mike said a little bit earlier, we're really early on in the process. We're looking at a number of strategic paths, and really the strategic fit of the Individual Life business as part of Voya. So we'll keep you updated as we make more progress on that. But the job one is really just entangling the Life business from the Annuities business.

Operator

Your next question is from Josh Shanker with Deutsche Bank.

Joshua Shanker ***Deutsche Bank - Analyst***

So the first question involves the repeal of the insurance mandate for health care law. Wondering how that changed the outlook for worksite, full voluntary benefits, if you have some thoughts there?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Alain?

Alain Karaoglan ***Voya Financial, Inc. - Chief Operating Officer***

Josh, there's not much of an impact of that, if it were to happen. If you look at our growth in Voluntary business, it really has increased because of the increase in employee accountability. It's been driven more by the high deductible health plan and that is going to continue. And so we're not seeing a meaningful change in the competitive environment. We have a good set of solutions, reliable service, good distribution, and we expect to continue to be able to grow in our Voluntary benefits business.

Joshua Shanker ***Deutsche Bank - Analyst***

And is there any change in the competitive landscape there? Are there more people who want to gain there? Or is it fairly consistent with where it was a year ago?

Alain Karaoglan ***Voya Financial, Inc. - Chief Operating Officer***

It's pretty consistent with where it was a year ago, in the Voluntary benefit business.

Joshua Shanker ***Deutsche Bank - Analyst***

And then you made the statement that you expected AUM flows to be hurt by M&A activity in the first quarter. Can you put some numbers around that? And, of course, it looks little bit for both in Retirement and in Investment Management that net flows were little weaker than they were earlier in the year. It can happen from one quarter to the next, is there anything to see in those numbers?

Rodney Martin ***Voya Financial, Inc. - Chairman & Chief Executive Officer***

Charlie?

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

Yes. Thank you. Relative to net flows for the first quarter and even following off of last year, for the first quarter, as Alain had mentioned, we're expecting about $500 million to $600 million net flow differential in that. And that's going to be primarily driven by our small, mid full-service business, if you will, mostly on the 401(k). And it's been the result of a handful of larger full-service plans. We've got 17,000 full-service 401(k) plans, and there are a handful of plans that have gone through some merger activity. As Alain described, sometimes you win on those, where your clients are the ones doing the acquisition and some don't happen necessarily in your favor, and we benefited on both sides. It's just a lumpy kind of a thing. When you look across our business, our full-service small, mid 401(k) has had 17 quarters in a row of positive net flows. Our flows in 2017 were up 56% over the previous year. Our TEM flows, yes, they were a little bit soft in 2017, but that's primarily because we were focusing on our in-force GMIRs. We didn't necessarily want to contribute growth in that area. We wanted to address the GMIR issue. So when you look across the business, it's been really quite strong. And as we look forward, our distribution expansion is really trying to find ways to get our wholesalers in front of more advisers and have more firms in which our advisers can sell with. So when you look at it in total, as we go forward, yes, sales can be lumpy from quarter-to-quarter long term, like over the last year. So it's been quite good, and we're quite bullish relative to 2018, as we go forward as well.

Joshua Shanker ***Deutsche Bank - Analyst***

Is it reasonable to divide the 2017 result by 4 and say that, that's a normal plan for quarterly growth in '18 outside of the M&A issue in 1Q?

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

I want to make sure I'm understanding your question. So divide the full year Retirement...

Joshua Shanker ***Deutsche Bank - Analyst***

The 2017 was a good net flow year, but fourth quarter was weak, but maybe that's lumpy. Should we assume outside of this M&A issue in the first quarter that the 2017 growth trend in AUM on net flows will be consistent into '18?

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

Yes, I think you will see us build throughout the year and build on our 2017 results. We see a very good business environment as part of the tax reform. I think it has been talked about the impact on worksite businesses. We expect to see more new plans, new 401(k) plans be created, more opportunity for nonqualified plans as well as increased math. With all of those things together, we'll, hopefully, drive continued net flow increase. So as we think and we look in a building environment in 2018, yes, I think, yes, there was a little bit of a dip in the fourth quarter and first quarter, but we have plans to continue to build on that in 2018.

Joshua Shanker ***Deutsche Bank - Analyst***

Enjoy the New Year.

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Investment Management***

Thanks, Josh. And this is Christine. I just want to briefly touch upon the second part of your question as far as the net flows within Investment Management. As you know, they can be little bit lumpy. And so in the fourth quarter, we had positive institutional or IM-sourced cash flows of just over $800 million. And it was our eighth consecutive quarter of positive flows. But certainly, they can be lumpy. We did see a broader asset allocation decisions in some of our global credits. And that's something that people are moving around their portfolios based on where they believe they are in the credit cycle, as an example. It certainly can affect things, but the strong investment performance is really providing great results, and the first quarter pipeline looks diverse and robust in 2018.

Operator

Your next question is from Sean Dargan with Wells Fargo Securities.

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

Until recently, you were active in the pension risk transfer business. I'm wondering if you've looked at the policies and procedures for contacting group annuitants and if you found anything there?

Alain Karaoglan ***Voya Financial, Inc. - Chief Operating Officer***

Thank you, Sean. It's Alain. So when we look at our situation, we are really properly reserved. We have very robust processes. We have good procedures in place across our operations, IT and legal. We regularly review our processes to ensure that they are operating as designed. And we leverage both internal and external resources available, and have a thorough process established to locate any missing or unresponsive policyholders. So we feel very confident and comfortable with where we are and our processes that we follow. And we did review them after the announcement that was made by another company.

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

Okay, great. And just wondering what your thoughts are or if you're seeing anything specifically in Employee Benefits, but maybe in Retirement or other business lines about pricing on new business as a reaction to lower taxes?

Alain Karaoglan ***Voya Financial, Inc. - Chief Operating Officer***

I think, generally, when making pricing decisions, we look holistically at our solutions to ensure we're delivering the best value to our clients. So we do expect a lower operating tax rate overall to be a positive for our businesses. However, we don't view lower tax rates directly impacting our pricing decisions. We also have not seen any changes in the competitive environment as a result of tax reform. So what we're going to do is we're going to continue to do what we've been doing, which is focusing on providing superior customer service and outcome. So no impact on pricing from tax reform.

Operator

(Operator Instructions) Your next question is from Erik Bass with Autonomous Research.

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

Just wanted to go back to Investment Management and maybe, Christine, if you can provide just a little bit more color on the sales outlook. In particular, how do you think the business is positioned for higher interest rates?

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Investment Management***

As far as positioning for higher rates, Erik, I would say, given that, we have a pretty diverse product mix. When you think about our very high-performing growth equity strategies, our bank loan portfolio, fixed income, commercial real estate. So really we have enough of a product lineup really to pivot and respond as clients' demand might shift. I mean, certainly there are a couple of specific asset classes, such as the bank loan strategy that is tied to shorter-term interest rates within the United States, certainly that can potentially see stronger demand as a result. But just overall, I don't see any of the market volatility nor any change in rates to do anything to change strong activity that we're seeing.

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

And then, how are you thinking about the goal and the need for more global asset management product over time? And is it something you plan to build organically or is there interest in potentially looking at acquisitions to accelerate it?

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Investment Management***

Certainly, what we see is the world wants what we make. And just as an example, global demand accounted for 20% of our institutional flows in 2016 and 25% the year before. And that's really just us focusing on a few of our credit strategies to global channel. So when I take a step back and I see the potential demand for real estate, for securitized. I definitely think that it's a good opportunity to expand our potential for global distribution. And so, certainly, in terms of inorganic, that is part of our thought process. And we certainly are working very closely with Rod and the leadership team and the board longer run with our strategy to evaluate the best way to grow our global footprint.

Operator

Thank you, ladies and gentlemen. 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 & Chief Executive Officer***

Thank you. In closing, we have continued to improve our business results and are optimistic about growing our Retirement, Investment Management and Employee Benefit businesses. These are high-growth, high-return, capital-light businesses that generate significant free cash flow. Our management team has a track record of execution and remains committed to being diligent stewards of capital. We look forward to updating you with our progress. Thank you, and good day.

Operator

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