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Q3 2018 Voya Financial Inc Earnings Call

EVENT DATE/TIME: OCTOBER 31, 2018 / 2:00PM GMT

CORPORATE PARTICIPANTS

Rodney Martin *Voya Financial, Inc. - Chairman & CEO*
Michael Smith *Voya Financial, Inc. - CFO*
Charlie Nelson *Voya Financial, Inc. - CEO of Retirement & Employee Benefits*
Christine Hurtsellers *Voya Financial, Inc. - CEO of Investment Management*
Rob Grubka *Voya Financial, Inc. - President of Employee Benefits*
Michael Katz *Voya Financial, Inc. - Senior VP & Head of IR and Enterprise FP&A*

CONFERENCE CALL PARTICIPANTS

Andrew Kligerman *Crédit Suisse*
Erik Bass *Autonomous Research*
Humphrey Lee *Dowling & Partners*
John Barnidge *Sandler O'Neill + Partners, L.P.*
John Nadel *UBS*
Nigel Dally *Morgan Stanley*
Ryan Krueger *Keefe, Bruyette, & Woods, Inc.*
Suneet Kamath *Citigroup*
Alex Scott *Goldman Sachs*
Tom Gallagher *Evercore ISI*

PRESENTATION

Operator

Good morning, and welcome to the Voya Financial Third Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to Michael Katz, Senior Vice President of Investor Relations. Please go ahead, sir.

Michael Katz ***Voya Financial, Inc. - Senior VP & Head of IR and Enterprise FP&A***

Thank you, and good morning. Welcome to Voya Financial's Third Quarter Conference Call. Materials for today's call are available on our website at investors.voya.com or via the webcast.

Turning to Slide 2. Some of the comments made during this conference call may contain forward-looking statements within the meaning of federal securities law. The company does not revise or update them to reflect new information, subsequent events or changes in strategy. Risks and uncertainties that could cause actual results to differ materially from those expressed or implied are discussed in the company's most recent Form 10-Q filed by the company with the U.S. Securities and Exchange Commission.

Additionally, some of the comments made during this conference call may refer to non-GAAP financial measures. Reconciliation of these measures to the most directly comparable U.S. GAAP financial measure can be found in our press release and financial supplement found on our website, investors.voya.com.

Joining me on the call are Rod Martin, Voya Financial's Chairman and Chief Executive Officer; as well as Mike Smith, Voya's Chief Financial Officer. After their prepared remarks, we will take your questions. For that Q&A session, we have also invited the heads of our businesses, specifically, Charlie Nelson, Retirement; Christine Hurtsellers, Investment Management; Rob Grubka, Employee Benefits; and Carolyn Johnson, Individual Life.

With that, let's turn to Slide 3, as I would like to turn the call over to Rod.

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

Good morning. Let's begin on Slide 4 with some key themes. During the third quarter, we demonstrated our commitment to growth, operational excellence and capital management. Normalized for DAC unlocking and prepayment fees and alternative income above our long-term expectations, our Adjusted Operating Earnings grew 17% year-over-year. On that basis, our Adjusted Operating EPS was $1.34 per share. This is within our target range of $1.30 to $1.40 earnings per share that we have aimed to achieve by the end of the second quarter of 2019. At Investor Day on November 13, we'll be sharing details on our updated plans for achieving further organic growth, cost savings and capital management. These plans will enable us to continue to improve our earnings per share.

Our performance throughout the quarter demonstrated continued momentum across our businesses. We achieved another quarter of record Adjusted Operating Earnings for Retirement, with increased Full Service recurring deposits by 10% for the trailing 12 months. In Investment Management, we delivered our 11th consecutive quarter of IM sourced positive net flows, a sign of commercial momentum with our institutional clients. And in Employee Benefits, we had strong improvement in Stop Loss underwriting driven by our disciplined pricing actions. Within this segment, we continue to increase our annualized in-force premiums, largely due to our Voluntary business growth.

We continue to have a strong capital position with approximately $813 million of excess capital as of September 30. We repurchased $250 million of shares during the third quarter, and we plan to repurchase $250 million of shares in the fourth quarter as well. In addition, we received a $500 million share repurchase authorization from the board, which gives us the opportunity to create additional value for shareholders.

Since our IPO in May of 2013, we have repurchased more than 100 million shares. We also made further progress in the third quarter on our plans to reduce leverage. At the beginning of the fourth quarter, we paid down $325 million of outstanding debt, which was funded by a new preferred equity issue.

Turning to Slide 5. As we announced yesterday, we have concluded the strategic review of our Individual Life business. Following the close of our Annuities transaction June 1, we felt that it was important to look at the best path forward for the Individual Life business, given it had been closely aligned with Annuities. And after a thorough review, we have decided to cease the sales at the end of this year while retaining the block. There are several important reasons why we've chosen this path. First, the decision aligns with our strategy of focusing on higher-growth, higher-return, capital-light businesses. These businesses are largely focused on serving customers through the workplace and within institutions. Second, this path will deliver greater shareholder value by improving cash flows while reducing cost. We expect to generate at least $1 billion of free cash flow from the Individual Life segment over the next 5 to 6 years. And third, Individual Life will continue to provide earnings and capital diversification with minimal correlation to equity markets.

Additionally, as we close the business to new sales, we retained future optionality to find strategic solutions to accelerate capital release. As many of you know, we have a strong track record of improving in-force blocks and driving efficiencies. We're retaining a talented team to manage this in-force block, who will continue to help us realize the value that we've identified.

I want to take a moment to thank Carolyn Johnson, our leadership team and the many employees in our Individual Life business who helped bring this strategic review to a successful conclusion.

Turning to Slide 6. Our people have driven our success over the past several years, enabling us to earn external recognition that highlights our strong culture. For the third consecutive year, Voya was named through the 2018 Dow Jones Sustainability Index. 35 companies in the financial services industry were invited to apply, and we were one of just 7 to become a member. Additionally, we were once again certified as a Great Place to Work by the Great Place to Work Institute for the third year. And earlier this month, Voya was named one of the World's Best Employers by Forbes. We ranked 194th on the list of 500 selected companies. During September, we held our Annual Employee Giving Campaign. We had our highest employee participation ever at 71% with more than 4,000 employees donating or volunteering their time in the communities that we do business in. As a reference point, the average workplace campaign participation rate at U.S. companies is 30%.

Together with matching contributions from the Voya Foundation, we donated roughly $1.9 million to charities around the country, positively impacting the communities where our employees and customers live and work. This effort, along with our external recognition, demonstrates Voya's strong culture and dedication of our people, which helps to attract and retain top talent.

Now Mike will provide more details on our performance for the quarter.

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

Thank you, Rod. On Slide 8, our third quarter operating results demonstrated strong momentum. We delivered third quarter Adjusted Operating Earnings of $1.34 per share, excluding unlocking and prepayment fees and alternative income above our long-term expectations. On a reported basis, Adjusted Operating Earnings were $0.84. This quarter's result is in the range of our quarterly adjusted operating earnings target of $1.30 to $1.40 per share. Our strong earnings growth over the last several quarters has been driven by rising fee income, favorable net underwriting, realized cost savings and share repurchases. We look forward to sharing our next set of financial targets with you at our Investor Day on November 13.

During the quarter, we had $0.70 of unfavorable DAC unlocking, which was mostly a result of our annual assumptions update. As we disclosed in September, we increased reinsurance premium assumptions for certain Individual Life blocks. The impact of this change was near the high end of the estimated $150 million to $200 million range, and was partially offset by favorable assumption changes in Retirement. Combined prepayment and alternative income was $0.20 above our long-term expectations. This was primarily driven by a onetime distribution related to the sale of a private equity holding in our alternatives portfolio.

Moving to Slide 9. Retirement achieved another record quarter of adjusted operating earnings. This was driven by strong fee income that was supported by 12% growth in assets under management year-over-year. Our trailing 12-month Return on Capital also grew, reaching 13.4%. During the quarter, Retirement benefited from strong investment performance from our alternatives portfolio. The previously mentioned, favorable DAC unlock was $50 million, primarily driven by mean reversion adjustments to our equity return assumptions.

Retirement generated positive net flows in the quarter, largely driven by Full Service corporate markets and Stable Value.

Full Service corporate markets generated another quarter of positive flows, marking 20 consecutive quarters of inflows. This was supported by 12% growth in trailing 12 months recurring deposits year-over-year. Our second half guidance of $600 million to $800 million Retirement net outflows remains unchanged. As we highlighted on our second quarter call, this largely reflects the impact of Stable Value surrenders, which we now expect to occur in the fourth quarter. As a reminder, the net earnings impact of these surrenders will not be meaningful to our Retirement segment.

As you may have seen, we have provided additional disclosures in our investor supplement to better reflect the economics of our business: First, the new Stable Value disclosures better depict the earnings impact from net flows. Previously, we classified the loss of management of the underlying Stable Value assets as an outflow for Retirement, even when we retained the wrap guarantee. Going forward, while this will continue to be considered an outflow for Investment Management, it will no longer be recorded as an outflow for Retirement. Second, we provide greater transparency into our recordkeeping business by providing a roll-forward of assets under administration. In the fourth quarter, we expect a large recordkeeping plan termination of approximately $40 billion of plan assets. The annualized pretax operating earnings impact to Retirement is expected to be in the low single-digit millions. Though activity can be lumpy in any given quarter, we are encouraged by the 2019 pipeline of new sales. Third, we provide new disclosures on the fee income generated by our Full Service business. And finally, we provide a more holistic view of our business by including total Client Assets.

On Slide 10. Investment Management delivered $48 million of Adjusted Operating Earnings. We generated strong commercial fee growth from higher Investment Management sourced AUM. Investment capital results were also favorable in the quarter. As expected, this was offset by the full quarter run rate earnings impact of the Annuities transaction. The trailing 12 months operating margin was 31.3%, including investment capital. We expect the trailing 12-month operating margin to decline over the next several quarters as the effect of the Annuities transaction becomes fully incorporated. Over time, we do expect to return our operating margin to the low 30s as we rebuild our asset levels.

As you can see on the slide, we've provided a new view of retail and institutional sourced net flows. This aligns more closely to how we manage the business. Institutional client demand for our solutions led to our 11th consecutive quarter of positive Investment Management sourced net flows. We had several institutional wins, including a sizable short duration mandate, commercial mortgage loans and a securitized credit portfolio of funding.

The fees on inflows were lower than those for outflows by 9 basis points in the third quarter. On a trailing 12-month basis, fees on our inflows exceeded our outflows by 3 basis points. This will vary each quarter depending on asset mix. Looking ahead, we have a healthy commercial pipeline that we expect to fund in the fourth quarter of 2018 or early 2019. This includes several items, including a sizable senior bank loan mandate with a notable agent savings plan, highlighting the growing global demand for our solutions, several mandates across our fixed income strategies within our growing insurance asset management channel, a large sub-advisory mandate and new CLO issuances.

Turning to Slide 11. Employee Benefits Adjusted Operating Earnings were $50 million, and our trailing 12 months return on capital was 26.9%. As we signaled last quarter, loss ratios for Stop Loss returned to our target range driven by the impact of pricing actions taken on 2018 business. We remain confident the full year loss ratios will also be in range. Our Group Life loss ratio also returned to our target range. Strong momentum in voluntary continued into the third quarter. Voluntary annualized in-force premiums grew 20% year-over-year supported by sales across all our supplemental health products. Our Voluntary offerings continue to represent an important growth driver for our business. This quarter, we have started to provide our total aggregate loss ratio in our investor supplement. We expect the total aggregate loss ratio to be between 71% to 74% on a trailing 12-month basis.

On Slide 12, Individual Life Adjusted Operating Earnings were $66 million in the third quarter. In the quarter, mortality was in line with expectations. Our annual assumption update resulted in a negative $200 million DAC unlock, mainly driven by increased expected reinsurance costs. Our assumptions now reflect reinsurance premium increases or recaptures related to all of our significant reinsurance partners. We don't expect additional significant reinsurance rate actions in the foreseeable future. Our trailing 12-month Return on Capital was 9.8%, lower sequentially as average GAAP capital increased with the impact of tax reform.

Turning to the financial implications of our strategic review decision. We will incur an approximately $15 million restructuring charge in the fourth quarter. We expect $20 million of annual pretax cost savings in 2019 as we wind down new business activity. And our run rate free cash flow conversion will improve to 70% to 80%, factoring in other one-time actions we expect to generate at least $1 billion in free cash flow over the next 5 to 6 years.

On Slide 13. We provide additional items to consider for the quarter. Specifically, we expect expenses in the fourth quarter to be higher due to the timing of projects spend and variable compensation, primarily in our Retirement segment. While not explicitly quantified, share repurchases will have a meaningful positive impact on fourth quarter EPS. We plan to repurchase $250 million of shares in the fourth quarter. Also, we have slightly revised our estimated annualized pretax earnings impact of a 1% move in equity markets to approximately $4 million to $5 million. While we have provided some items to consider, there will, of course, be other factors that affect fourth quarter results.

On Slide 14, our capital position is strong. Our estimated RBC ratio was 474% at the end of September. We expect our RBC ratio to decline in the fourth quarter, as tax-driven changes to the RBC formula going to affect at year-end. As mentioned last quarter, this estimated impact to our RBC ratio is approximately 35 points.

In the third quarter, we strengthened our balance sheet with an attractively priced $325 million preferred equity offering. The proceeds helped to fund a debt pay-down, which will reduce our debt-to-capital ratio in the fourth quarter of 2018. You can see the pro forma impacts on this slide to both our excess capital and debt-to-capital ratio. Specifically, our pro forma excess capital, which consists of estimated statutory surplus and holding company liquidity above target increased to $813 million at the end of the third quarter. Additionally, our pro forma debt-to-capital ratio was 26.3%, below our 30% target.

Turning to Slide 15. As depicted in the graph on the left, if we adjust Voya's closing share price on October 29 by our estimated value of our deferred tax assets, Voya trades at approximately 6x 2019 consensus earnings. At these trading levels, we continue to view share repurchases as value enhancing for shareholders, particularly, given our high-quality earnings, our high free cash flow generation and the growth opportunities ahead of us, which we look forward to sharing with you at our upcoming Investor Day.

As Rod mentioned, we repurchased $250 million of shares in the third quarter. We plan to repurchase an additional $250 million in the fourth quarter at these attractive levels. In addition, the board approved a new $500 million share repurchase authorization.

In summary, we generated earnings per share within our targeted quarterly EPS range ahead of schedule. Our businesses continue to see strong momentum and our capital position and balance sheet are strong.

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 coming from the line of Ryan Krueger with KBW.

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

Can you provide some additional color on the decision to retain Individual Life rather than sell or reinsure it?

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

Yes, Ryan. Good morning, it's Rod. Mike and I and Carolyn will toggle with that. The first step, Ryan, and I know you're very familiar, but maybe we've got some new listeners on the call. I want to just step back a moment and then get into the specifics. I think, all of you are fully aware that we've been on a journey of ROE improvements and capital return to shareholders. We're finishing Phase 2 of our plan, and we're about to introduce, we're very excited about it, in 2 weeks Phase 3 at our Investor Day. As I queued up on the call, we're talking about our higher growth, higher return, capital-light businesses, focused on the workplace and with financial institutions. We announced earlier this year, the Apollo / Athene transaction; we closed that on June 1. The other piece of the portfolio rationalization was the Life review. We have brought the same rigor, review and thoroughness to that, that we did with the CBVA piece. It was our conclusion as we've announced that the best outcome for shareholders from a capital perspective was what we announced. You'll hear from Mike in just a moment, but we're talking about returning to shareholders over the next 5 or 6 years $1 billion plus. Much of that will happen in the first 2 or 3 years. It also provides us the non-correlation benefit to the equity market. We continue to be able to manage those assets. And all options remaining on the table for either a reinsurance transaction or other alternatives that could present themselves. And with that, I'll throw it to Mike to add any color.

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

Sure. Thanks, Rod. And maybe I'll just jump in on the cash flow guidance that we had given and maybe clarify it a bit based on some of the pre-calls that we'd had. So the way to think of the cash flow, the $1 billion plus of cash flow we'll have over the next 5 to 6 years is really in 2 pieces. The first is, as we've said, the 70% to 80% cash flow conversion, so think of that as a normalized run rate that year-in year-out, we would expect the free cash flow to be in that range relative to GAAP earnings. In addition and what will ultimately be result of the $1 billion plus is a couple of different capital initiatives that we intend to pursue over the next year or two, largely related to financing of redundant reserves and much similar to the kind of things we've done in the past that were part of our ROC improvement story. So we'll be doing those over the next few years. We expect that to be seen sometime in '19 or '20, finishing up in '21. The other element to add on the cash flow picture, which I want to be sure people understand, is when we talk about 5 to 6 years of cash flow, we don't intend to say that, that's it. There is significant business left after that period. That's we simply chose that to frame the level of return that one could expect over the relatively near term. Life insurance blocks can last a long time and certainly longer than, say, the typical annuity blocks, the lapse rates are far lower and the liabilities can stretch for decades. So we expect there to be significant value after the 5 to 6 years, assuming we continue to hold the block.

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

Ryan, one piece I would add, we have an attractive in-force block. We have considerable experience in managing in-force blocks. There were no surprises or nothing unexpected that came out of the review other than our judgment that this is the most expeditious way to return capital to shareholders during this period of time.

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

Great. And then just one separate question. This would suggest us based on the equity market sensitivity, but just to clarify that the $1.29 for the fourth quarter EPS guidance before share repurchase, would you still expect to do the $1.29 when you incorporate both share repurchase and equity market impacts in the fourth quarter?

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

Yes. So, Ryan, this is Mike. We didn't reflect the current -- the latest and greatest version of equity market guidance in the $1.29. So I think though if you do the math, you'll see that -- let's say, the S&P is down 9%, which is where it's been, that's applying the guidance for the quarter. You wind up at about $8 million after-tax, which you can translate into a per share. I think, when you think about that $1.29 baseline plus the benefit of repurchases plus any other organic growth and then you adjust for the equity, I think, you were probably still in pretty much that range. Of course, that depends on what happens for the rest of the quarter and, I guess, time will tell on that.

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

And, Ryan, maybe good piece just to add to what Mike has shared, we've talked about previously the $110 million to $130 million, expect this 12-month post close, so think about June of 2019 with the Life decision. There's another $20 million of pretax cost savings that'll start in 2019, so add $20 million to the $110 million to $130 million and that will give you and others a good point of reference.

Operator

Our next question is coming from the line of Nigel Dally with Morgan Stanley.

Nigel Dally ***Morgan Stanley***

Another question on the Life segment runoff. Can you talk about the total amount of debt to capital that's backing the Individual Life lock? And also just to be clear on the $20 million of cost saves in 2019, will there be any additional upside beyond 2019? Or would that be ultimate level of saves that you expect to get from this?

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

Yes, Nigel, this is Mike. We don't have a number to give on the statutory capital. We've typically not given the amounts of statutory capital for each of the businesses. You can certainly see what's in Security Life of Denver, that's a separate statutory entity. It's a little more difficult with ReliaStar and ReliaStar of New York, where the rest of our Life business is. And obviously, you can see the GAAP capital number. In terms of cost saves and potential, I think, there is potential beyond the $20 million. This is just from the rationalization of the new business-related activities. I think as we manage the block going forward, there will be additional rationalization opportunities that we can explore. We're not ready to give numbers on that yet. It'll kind of depend on the sorts of solutions we're ultimately able to pursue. It will be important though for us to maintain a very -- this very talented team that we have, supporting the Life block. And that'll be very important in terms of our realizing the value that we've talked about.

Operator

The next question is coming from the line of Suneet Kamath with Citi.

Suneet Kamath ***Citigroup***

Just going back to the Life deal, could you give a sense of how you'd expect the earnings from that, the Life business, to sort of track over the next couple of years? Just wondering how quickly should we expect the base to sort of runoff.

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

Suneet, thanks for the question. Kind of in short, there won't be a discernible degradation of earnings over the near future. We expect that -- this is a long-tailed block, so when you -- particularly, given the benefits that we'll have from the cost reduction that we've already mentioned, there is a degree of GAAP strain that comes from new business. And so when you add those beneficial effects, I think, you'll see pretty much levelish kind of earnings, obviously, depends on other external events that occur, but we don't anticipate any meaningful degradation over the foreseeable horizon.

Suneet Kamath ***Citigroup***

Got it. And then for the Retirement business, just if I think about the $176 million of normalized earnings in the quarter, you had mentioned that recordkeeping business will take that down a little bit. But x that, is that a decent run rate to think about going forward? Do that $176 million came in quite a bit above what we are expecting?

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

I think so. I keep in mind the fourth quarter expense increase that we talked about, but other than that, I think it's a pretty good run rate.

Operator

The next question is coming from the line of Tom Gallagher with Evercore.

Tom Gallagher ***Evercore ISI***

Mike, was there a negative impact from -- on a go-forward basis from the increased reinsurance pricing of Individual Life?

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

Tom, yes, there is. It's factored into the guidance we gave on the quarter. So -- rather than break out all the little chunks and pieces, we just left it as -- it'll be basically netted out. There is a modest impact to the Life earnings.

Tom Gallagher ***Evercore ISI***

Got you. And then -- and, Rod, just back on what went into the decision routine in the Life block. Can you just give us a little bit of color what kind of dynamics were there in terms of the process? And what you learned in terms of the buyers on the other side, the reinsurers on the other side? Was it -- did you find that the bids were fairly low? Is that what surprised you? Or what you thought about the other side? Or did you end up just being positively surprised by the benefits or retaining it for lack of the better way of describing it?

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

Tom, fair question. I'm going to talk a little bit more about outcomes than process. But I would say, there is a robust market. And I say that because I've mentioned at the concluding remarks that we retain optionality here. There is a robust market. There are also a number of Life blocks in the market at this point, I would say, in above average number, that factored into our decision. The other piece -- we look at it as we did with the CBVA lens, how do we maximize the asset that we own and know the best for our shareholders, and our conclusion was what we've announced. We're bullish about where we are, the path we've identified and, frankly, our ability to manage that. We've done 2 significant reinsurance transactions previously, that remains on the table. And we'll follow what the market journey is in terms of the external market. I think, the takeaway time for you and for all of the people on the call is what we're focused on is, returning the maximum shareholder value. I think that's reflected in the $5 billion of share buyback that we've done, and it's no different here. And we're really looking forward to Investor Day where we talk about our ongoing businesses in Phase 3 of our strategy.

Tom Gallagher ***Evercore ISI***

That's helpful perspective. And then final question just the $40 billion recordkeeping outflow. Can you just remind us the remaining recordkeeping assets? And, Mike, I think, you said, there was only low single-digit millions negative earnings impact. So I assume that means that was a pure recordkeeping only and nothing else is outflowing related to that in terms of AUM or other fees you've might earned.

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

Yes. You got that right. It's a low single-digit earnings impact. It's purely assets under administration. And the total assets under administration now are in $235 billion and that's in the sub, $235 billion. But it's pure recordkeeping relative to Full Service. The fees as a percent of assets are going to be significantly lower and that's how you understand the earnings impact.

Operator

Our next question is coming from the line of John Barnidge with Sandler O'Neill.

John Barnidge ***Sandler O'Neill + Partners, L.P.***

There has been meaningful improvement in the Employee Benefits business. Stop Loss ratio this year, clearly some of these repricing actions have helped. How sustainable do you see the 77% achieved in the third quarter? And should we think of that as a run rate?

Rob Grubka ***Voya Financial, Inc. - President of Employee Benefits***

Yes, this is Rob Grubka. As we've said in the last several quarters, we've been very focused on what we were doing around the one-on-one business, both from a renewal standpoint and the volume of new business that we wrote. So as we think about it from a quarter-to-quarter perspective, I think we've learned and shown over a pretty long track record of having periods where we did much better than our range and we've had periods where we've done not our range. We feel good as we've said in the last several quarters about where we came in from a pricing standpoint. We needed to give that time to sort of show itself and convince ourselves that it was where we expected it to be that certainly what emerged in the third quarter. We expect to be in the range, as Mike said in his comments, that we're confident about it.

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

John, it's Rod. I'd add one other piece that we call out in the slide and Mike and I and others have talked about on the various meetings and calls we've been on. I'm very proud about what's happened. So that improvement was what we expected, and I think the team has done a good job. I'd also call your attention to progress we've made on the Voluntary benefits business. The in-force premium growth and that's in the stat supplement. This is something that I've shared with various investors and at meetings that, I think, is in underappreciated value as it relates to Voya's overall value. And if you look at the last 3 or 4 commercial transactions and what was paid and how those properties are contributing those companies, we feel every bit as good about the value of this property as part of our ongoing mix as reflected in the market value of those properties.

John Barnidge ***Sandler O'Neill + Partners, L.P.***

Okay. And then sticking with Employee Benefits a little bit, I know there's quarter-to-quarter it can be wonky, but by looking at the Group Life loss ratio, it actually improved in the first quarter year-over-year, but it's deteriorated in the last 2 quarters, second and third quarter. Is there anything going on there? Or is it just quarterly walking us?

Rob Grubka ***Voya Financial, Inc. - President of Employee Benefits***

Yes, usually where that's just been wonkiness. We talked in the first quarter, we ended up having sort of better than usual from a seasonality standpoint. As we moved into second quarter, we saw things emerged in April, but then May and June. And -- so I would just say the timing of things this year has been a little bit outside the standard. But again, to go back to wonkiness is probably a fair description of it. But it doesn't impact the confidence of being in a range.

Operator

Our next question is coming from the line of Andrew Kligerman with Crédit Suisse.

Andrew Kligerman ***Crédit Suisse***

First one is on this RBC target of 425%. So you've divested the Variable Annuity block. You've now put the Life business in runoff. So is 425% the right number? I mean, could you get that lower to maybe 375% or 350%?

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

Andrew, thanks for the question. Right now, we're comfortable with 425%. As we've discussed in prior calls with the impact of tax reform and the subsequent effect that's having on the formula, I think, there is a question as to what the right approach is post those new factors. We're still gaining information from conversations with rating agencies and observing what peers do. And as you correctly noted, our business mix is changing. I would say, there is nothing about the decision that we announced last night on the Life business that changes their target. But overall, we'll continue to evaluate our RBC targets and manage that in accord with where we think we need to be from a ratings perspective and aligning that with our business objectives.

Andrew Kligerman ***Crédit Suisse***

I mean -- I think, you mentioned 35-point impact from the tax legislation last year. I mean, once you kind of assess that, I mean, do you think you could make a decision on RBC relatively soon? Or is this something that's going to take time?

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

Well, look, I think, just right now, we have a decision and that's why we're holding it at 425%. I think, there's an opportunity for us to consider a change sometime over the next quarter or so. We're hoping to reach a conclusion by the end of the year and we'll decide from -- we'll run it from there.

Andrew Kligerman ***Crédit Suisse***

Got it. And lastly, so there is a lot of potential legislation out there in Congress and there is an executive order on multiple employer plans, and then there is another one on extending the required minimum distribution age pass 70.5. How is Voya thinking about the potential of that legislation passing? And even more importantly, how would that impact your business?

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

This is Charlie Nelson. And thanks. We are very supportive of both the legislation and any regulatory actions that, I think, certainly address the coverage gap in America and the workplace retirement plan. There's a number of proposals as you've identified and things kind of move in differing paces through whether it's regulatory or legislative branches. It's a bit early to respond to kind of specific legislation. And I don't really think the impact is going to be significant in 2019, it's probably going to be beyond that. But we're really encouraged, it appears to be evolving in a way that I think really place to our strength. Now if you think about our strength in the small, mid corporate, this is a coverage issue that's the area of strength to address. Secondly, they're talking about the multiple employer plans or these professional employment organizations, NAPEO or PEOs, you may hear those terms, we have those capabilities today. We do these types of plans today. So it fits really, really well with us. I think, as you know, we operate in a market of markets, we speak about in Voya in Retirement and all the various subsegments that we go through. And with our expansive distribution, we think we're really well poised to take advantage of those and really optimize and help address the coverage issue in America. Now when you address the issue that you bring up in terms of your extending the retirement withdrawal age or the minimum distribution age, that too is another great opportunity. And we're very supportive of it, anything that helps people save and invest and protect their retirement and, ultimately, keep assets in the plan is a good thing. So we think that, that's good and we'll have more benefits long term as well. And then on your comment on electronic delivery, electronic delivery is an interesting one. We need the regulations to catch up to our capabilities. We're actually further ahead and the regulations limit us a little bit in terms of how much we can actually do. So we're very supportive of all these legislative and regulatory actions that will drive both coverage, help people save more and, ultimately, I think, improve the operational efficiency and experience for customers through electronic delivery.

Operator

Our next question is coming from the line of Erik Bass with Autonomous Research.

Erik Bass ***Autonomous Research***

For Investment Management, can you provide a little bit more color on the drivers to get to a 30% pretax margin by 2020? And is that reliant on markets inflows? Or are there other levers that you can pull to get there as well?

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

Christine?

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

Certainly. When you look at Investment Management, you've seen we've had 11 consecutive quarters of positive IM-sourced cash flows. So our organic growth is strong, our pipeline is strong, just the diversity of what we do and the space we plan, asset management -- active asset management is, again, we have a lot of differentiated strategies. Think commercial real estate, think private equity, think about just the strength of our fixed income performance. So overall, it's organic growth that we're relying on to get back to the low 30s operating margin over the next 2 to 3 years.

Erik Bass ***Autonomous Research***

Got it. And then on capital management, should we interpret the $500 million buyback authorization as your baseline plan for 2019? And if so, can you just talk about how you arrived at that level in the context of the $800 million of excess capital in the strong free cash flow generation for the company?

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

Yes. This is Rod. You should interpret it as the most current authorization we just secured from the board. We've got authorizations previously, all of which have contributed to the $5 billion of share buyback by the end of the year. We're going to utilize what's remaining, the $250 million that we are doing in the fourth quarter, the $500 million that we have that brings us into 2019 and we will go back to the board and have discussions with them once we've utilized that. And we're beyond that. We're not going to be more specific at this point.

Operator

Our next question is coming from the line of Alex Scott with Goldman Sachs.

Alex Scott ***Goldman Sachs***

I just had one more question on the life insurance strategic review. I guess, just having gone through this process, I was wondering if you could share any color on what you see is being the driver around some of these reinsurance, recaptures. And I guess, some of the pressure that's led to runoffs and so forth around the industry, I guess, no more specifically for you. What were some of the things that kind of led into this point from sort of the pricing assumptions?

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

So, Alex, if you're referring -- I'm not quite clear on what you're referring to, but in general, let's talk about the reinsurance increases that we've seen and that others in the industry have seen and that have either led to price increase -- reinsurance premium increases or in other cases, recaptures, that relates pretty specifically to a block of business that was underwritten 15 to 20 years ago, where the industry, I'd say, generally overestimated the rate of improvement that we would see in mortality for people aged at that time then 65 and above. And so what's happened is that, over time as those reinsurance arrangements and those products have aged, it's turned out that the actual observed mortality has been meaningfully higher than what was expected back then. And so that's led to the repricing activity and the subsequent actions that ceding companies have taken. I'll reiterate, we are now through all of the significant reinsurers that would be affected by this particular block. And so for us, we think it's done for the foreseeable future. We can offer no guarantees, but we're pretty comfortable that we've seen the most significant chunk of it for the foreseeable future.

Alex Scott ***Goldman Sachs***

And in terms of the -- I guess, the cash flows you've highlighted for this business, I mean, is there any impact expected from pricing actions from your side? Meaning, are there any anticipated cost of insurance increases or anything like that is part of that guide? Or is it assuming that doing those sets of actions would be more difficult with some of the attention that's been focused on that recently?

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

So we have taken in the past some actions on a fairly limited part of the block. We have done some COI and other feed increases. Going forward, there's nothing explicitly in the cash flow projections that assumes that we'll get a cost of insurance increase. That option remains viable for us and it's something that we'll continue to pursue as we seek to maximize the value of the block while attending to our need to satisfy the promises we've made to our policyholders.

Operator

The next question is coming from the line of John Nadel with UBS.

John Nadel ***UBS***

I have a couple of housekeeping items and then maybe one bigger picture one for you, Rod. Mike, coming out of the third quarter, relative to that $110 million to $130 million of expensive target, where are you in the third quarter of 2018?

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

John, we're making really good progress. I think, you can see that mainly in the Corporate segment, where I would have -- I would attribute about $10 million of saves on a quarterly basis, so that's a $40 million run rate on top of what we had talked about last quarter, which was additional $20 million annualized, there was a $5 million save. So we're well on our way. I have great confidence that we will achieve that. And then we'll talk more about what may be ahead of us at Investor Day.

John Nadel ***UBS***

Got you. And then second one is just the $40 billion of recordkeeping outflows in the low single-digit millions impact on pretax earnings. It would appear, just doing the math, that fee rate on that particular piece of the business is pretty significantly below the 7 or 7.5 basis points for your recordkeeping business, in general. So should we be expecting fee rate on what's left after this outflow to be actually slightly higher?

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

Charlie?

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

The recordkeeping business is an important business. And as you look at that for us across in those fees, we see plans are good success from a sales side and retention side. And, in particular, this one, it happens to be leading at the first of the year. So we tend to kind of manage it over a longer time period, not necessarily quarter-to-quarter as these larger plans. You kind of see a little bit of the noise, if you will, from quarter-to-quarter.

John Nadel ***UBS***

Okay. And then third one, Mike, just the 70% to 80% free cash flow for the Life is in runoff now. Why isn't that 100%? Is it just the difference between statutory earnings and GAAP earnings?

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

In short, yes. It is just the difference between GAAP and stat. The reserve buildup is on a different -- to be actuarial for a second, a different slope, right. So the reserves in stat are building up faster than GAAP. Eventually over time, that should reverse and you'll see presumably the cash flow should actually exceed GAAP earnings. That's not going to happen anytime soon on this block. It's going to be a number of years before that actually happens, I think.

John Nadel ***UBS***

Okay, okay. That's helpful. And then the last one, the bigger picture one for you, Rod. So I clearly agree with you with respect to the valuation of the stock and the attractiveness of buyback. You've been hinting, I think, ahead of Phase 3, it may be spending a little bit more money to normalize the common dividend relative to where it's been here in the last several years. But as you look at the valuation of the stock, is there any real reason other than maybe to attract a new kind of shareholder to divert funds away from buybacks at these levels?

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

Yes, it's a great question and a fair question. So the high-level answer is, stay tuned for 2 weeks at the Investor Day. But let me leave you with a theme. We will continue to be thoughtful repurchases of our shares. The $250 million in the fourth quarter, the $500 million authorization that we just secured, that is going to continue to be a significant source of our uses of the excess capital. We have talked about, and we're not prepared on this call, we will in 2 weeks' time to address because we've been asked and, I think, quite appropriately asked, what we will do with the dividend and we'll give you an update all at the Investor Day. But particularly at these levels, we think, repurchasing the stock is a great value for our shareholders. And I think the track record speaks for itself. $5 billion is coequal to what our market cap was when we went public and that's a pretty significant accomplishment.

Operator

Our next question is coming from the line of Humphrey Lee with Dowling & Partners.

Humphrey Lee ***Dowling & Partners***

Looking at Retirement, the G&A expenses continue to come down sequentially. I was just wondering like how much benefits that you pick up from your expense initiatives as opposed to your some of the spending for these expense initiatives coming off? And then do you expect more room for further improvement in the coming quarters?

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

Charlie?

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

Yes. Thanks for noticing. Our team has done a fabulous job, I think, in the transformation that we've been on. In particular, since last Investor Day, as we've done a lot of system consolidation on our operating system and also put ourselves in a position operationally to drive kind of greater efficiency. I think, you've seen, we have increased participants by about 11% since 2015 and our unit costs are down about 5%. We believe in our size that there is a lot more room to drive and power more scale from the size that we have. And that's, I think, been delivered through some of our digital initiatives that we talked about before as well as some future opportunities in automation and other areas. And we'll be spending some time talking about those opportunities at Investor Day in a few weeks. So our teams continue to do a good job, both operationally and technologically. And I think our initiatives have paid well to us to date and we think we've got some continued room to improve as we go forward.

Humphrey Lee ***Dowling & Partners***

Got it. And then shifting gear to Investment Management. I'm glad to hear that the fee rates for the inflows are better than the outflows, so that's definitely an encouraging sign. But looking at kind of some of the metrics for the kind of assets, obviously, revenue yield picked up sequentially, but Investment Management saw fee rates kind of dropped. My understanding is, there is some kind of reclassification of assets kind of in the quarter. I was just wondering if you can provide some color in terms of what happened in the quarter? And how should we think about the investment fee rates going forward?

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

Christine?

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

Yes. During this quarter, as a result of the sale of the Annuity business, we reclassified Venerable's general account portfolio that we managed on their behalf from the G&A line that you see in the supplements to the Investment Management or external client-sourced portfolio. So just that natural shift made the external client business revenue yield go down. So in the context of how to think about it going forward, you can see it's been incredibly stable, our external client's fee business. And again, it is going to vary quarter-to-quarter. So actually in the fourth quarter, the inflow fees were slightly below the outflows, however, again, as you point out on a 12-month trailing basis, it was above we expected to be above than the fourth quarter. So just think about quarter-to-quarter does not a trend make, there's going to be some volatility based on what we sell, like high quality versus something like commercial real estate. So again, when you think about the portfolio, we're well positioned to regrow our operating margin back to the low 30s.

Humphrey Lee ***Dowling & Partners***

Just to follow up on that point about the reclassification. So when I looked at the supplement, the general assets didn't change quarter-over-quarter, but then -- so I'm trying to see where is the reclassification took place.

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

Humphrey, let's take that one off-line. I think it'll be better if we can walk you through it step-by-step.

Operator

Mr. Martin, there are no additional questions at this time. Do you have any closing comments?

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

Yes, I do. Thank you. In summary, during the third quarter, we continue to position Voya for future success. We remain focused on our higher-growth, higher-return, capital-light businesses, leveraging our strong foothold in the workplace and with institutions to deliver solutions that the customers are seeking. We operate with a favorable risk profile with no long-term care and minimum Variable Annuity exposure. We look forward to updating you on our new financial targets and growth plans at our Investor Day on November 13. We hope to see you there. Thank you, and good day.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation.