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PRESENTATION

Operator

Good morning, and welcome to the Voya Financial First Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Michael Katz, Senior Vice President of Investor Relations. Please go ahead.

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

Thank you, and good morning. Welcome to Voya Financial's First Quarter Earnings Conference Call. We appreciate all of you who have joined us for this call. As a reminder, 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 laws. I refer you to this slide for more information. We will also be referring today to certain non-GAAP financial measures. GAAP reconciliations are available 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; and Rob Grubka, Employee Benefits.

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 first quarter, we made further progress in support of our long-term plan to drive organic growth, cost savings, and optimal capital deployment. Our normalized Adjusted Operating EPS for the first quarter was $1.22, up 23% compared with the first quarter of 2018. We are on track to deliver 10%-plus EPS growth for the full year 2019.

As I mentioned on our earnings call in February, this growth will be achieved from our full year 2018 normalized Adjusted Operating EPS baseline of $4.88.

Our performance throughout the first quarter demonstrated continued momentum across our businesses and is in line with the targets that we shared on Investor Day.

For Retirement, we grew Full Service recurring deposits 11% year-over-year and have now achieved 22 consecutive quarters of positive Full Service net flows for Corporate markets.

In Investment Management, the first quarter marked our 13th consecutive quarter of positive Institutional net flows.

And in Employee Benefits, total in-force premiums increased 14% compared with the first quarter of 2018, surpassing $2 billion.

We remain on track to achieve the $230 million to $250 million in annual run rate cost savings by the end of 2020.

We also continue to maintain a strong capital position with approximately $705 million of excess capital. We repurchased $250 million of shares in the first quarter. And in the beginning of the second quarter, we entered into an additional $236 million share repurchase program, which fully utilized our existing authorization.

As we announced yesterday, our Board provided authorization for an additional $500 million in share repurchases, which expires on June 30, 2020. In addition to using excess capital to repurchase shares, we expect to increase our common stock dividend to an annual yield of at least 1% in the third quarter.

As we noted on Investor Day and as demonstrated by the almost $5.5 billion in buybacks that we have executed, repurchasing our shares remains an attractive use of excess capital. Since our IPO in 2013, we have repurchased approximately half of our outstanding shares, equating to 127 million shares, an amount that's equal to our market cap at our IPO. At the same time, increasing the dividend will help broaden our investor base, and we believe will increase the attractiveness of our shares.

Turning to Slide 5. We remain committed to and confident in our goal of annual EPS growth of at least 10% in each of the next 3 years on a normalized basis. As we have previously shared, our EPS growth will be achieved through a combination organic growth, cost savings, and capital deployment. In 2019, we expect EPS growth to be largely driven by cost savings and capital deployment.

Organic growth will play a larger role in 2020 and 2021.

As evidenced by our top line results in the first quarter, our businesses both individually and collectively provide a compelling value proposition to our customers. Looking at the new clients that we're bringing on board as well as the strength of our pipeline, we are confident in the organic growth component of our plan.

Our track record and commitment to execution as a company and a management team speaks to our ability to achieve our EPS growth target over each of the next 3 years.

Turning to Slide 6. Building the character of our brand continues to help drive our success and support our financial performance. Our brand and culture continue to be recognized externally. We are proud to have again been named one of the World's Most Ethical Companies by the Ethisphere Institute - for 6 consecutive years. Each year since 2007, there is about a 20% to 25% turnover on that list. This year, Voya was one of only 128 companies worldwide to earn this honor and one of only 5 companies recognized in the financial services category.

According to Ethisphere, the World's Most Ethical Companies have outperformed the large-cap index over 5 years by more than 14%. This validates the belief that financial performance and ethics go hand in hand.

It also tracks with Barron's analysis of its 100 Most Sustainable Companies, which outperformed the S&P 500 by 24% and the Russell 1000 by 30% in 2018. This was Voya's second year to earn recognition from Barron's as a most sustainable company, ranking #6 overall and #1 in financial services.

Additionally, during the quarter, we were named to the 2019 Corporate Equality Index for the 14th consecutive year. We were also recognized as one of America's Best Large Employers by Forbes, and we earned a spot on the Mogul's list of the 2019 Best Places to Work in the U.S. for our commitment to diversity and inclusion. We are increasingly hearing from our clients that our culture and the way we do business distinguishes us from other companies and is having an impact on our business performance and our pipelines.

With that, let me ask Mike to provide more details on our financial performance.

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

Thank you, Rod. Let's begin on Slide 8. In the first quarter, we delivered normalized After-tax Adjusted Operating Earnings of $1.22 per share. This excludes $0.16 of alternative income below our long-term expectations and $0.01 of favorable DAC unlocking. Alternative income was affected by mark-to-market adjustments on private equity investments related to fourth quarter equity market performance. As a reminder, investment performance on most of these assets is reported on a three month lag.

On a reported basis, After-tax Adjusted Operating Earnings were $1.07 per share for the quarter. Our first quarter GAAP net income results included a $79 million purchase price true-up in relation to 2018 sale of our Annuities businesses. This is reported within discontinued operations. We do not expect additional material adjustments to the purchase price and continue to view the transaction favorably.

Our first quarter normalized After-tax Adjusted Operating Earnings grew 23% year-over-year from $0.99. We remain on track to grow EPS by at least 10% in full year 2019 as highlighted at our Investor Day.

Moving to Slide 9. Retirement delivered $125 million of Adjusted Operating Earnings in the first quarter excluding unlocking. This was lower than the first quarter of 2018. Fourth quarter equity markets affected alternative income, which was below long-term expectations by $16 million. Average asset balances were also unfavorably affected which, in turn, reduced fee income.

In addition, administrative expenses were higher, reflecting higher pension costs and a legal accrual. Expenses also reflected investments in our distribution and costs associated with on-boarding new plans, both of which will improve earnings in future quarters.

Net flows remained strong as Retirement generated $584 million of positive Full Service flows in the quarter. This quarter marks 22 consecutive quarters of inflows in Full Service Corporate markets, over 5 years of consecutive net inflows. Trailing 12-month Full Service recurring deposits grew 11% to nearly $10 billion in the first quarter. We have a strong pipeline of new sales across Full Service and are on track to achieve our full year target of 10% to 12% recurring deposit growth in 2019.

Total client assets finished higher in the first quarter, helped by the recovery in equity markets. This should help second quarter fee income. Assets were lower compared with a year ago due to a recordkeeping plan termination of approximately $40 billion of plan assets, which we discussed last quarter.

Following a record earnings year for Retirement in 2018, we expect normalized earnings in 2019 to be roughly in line with 2018. That said, we remain confident in the Retirement business' ability to deliver a normalized pre-tax earnings CAGR of 4% to 7% over the 3-year period ending with 2021.

On Slide 10, Investment Management delivered $34 million of Adjusted Operating Earnings in the first quarter. This was lower compared with first quarter of 2018. Investment capital results in the quarter were roughly $7 million below long-term expectations. Fees associated with the closing of a large private equity fund as well as performance fees did not repeat in the first quarter of 2019. In addition, retail outflows in the fourth quarter that extended into the first quarter resulted in lower asset balances and in turn lower fees. Partially offsetting this were lower administrative expenses despite growth in our institutional business, reflecting lower variable compensation, and a legal recovery.

Our first quarter operating margin was 27.7% on a trailing 12-month basis including investment capital. We remain confident in returning our operating margin to 30% to 32% by 2021 and expect to do so through organic growth and by proactively managing expenses.

Investment Management generated over $1 billion of Institutional net inflows in the first quarter to mark 13 consecutive quarters of positive Institutional net flows. Over the last 12 months, we have garnered over $4.5 billion of Institutional net inflows. This track record has been driven by continued strong investment performance; the growing success of our specialty capabilities, which includes distribution to third-party insurance companies; and the strength of our core fixed income capabilities.

During the quarter, we saw a continuation of Retail outflows driven by the loss of a few sizable mandates. Encouragingly, Retail sales grew 15% year-over-year, which includes the success of our strategic income opportunity fund. This fund surpassed $1 billion of assets last quarter and is the top asset gatherer in its Morningstar category.

Looking ahead, we see a healthy sales pipeline for the remainder of 2019, giving us confidence we can achieve net flows as a percentage of beginning assets under management of 2% to 4% in 2019. We expect Investment Management to deliver a normalized pre-tax earnings CAGR of 5% to 8% over the 3-year period ending with 2021.

Turning to Slide 11. Employee Benefits delivered $38 million of Adjusted Operating Earnings in the first quarter excluding unlocking. Return on Capital remained high at 28% on a trailing 12-month basis. First quarter 2019 showed strong growth with Adjusted Operating Earnings 15% higher from first quarter 2018. This was supported by 14% growth in total in-force premiums, which drove premiums above $2 billion for the first time. Voluntary in-force premiums grew almost 30% year-over-year, reflecting the consistent success we have had in growing this business over the last few years. We expect it to remain a significant growth driver as we continue to leverage our expertise and strong distribution relationships.

Within Stop Loss, we saw a return to growth more in line with historical rates while we maintain strong pricing discipline.

Group Life in-force premiums grew 9% year-over-year driven by the strength of our relationships with national firms. Total aggregate loss ratios were within our target range of 71% to 74%.

We are very pleased with Employee Benefits' continued success and feel confident in our ability to deliver a normalized pre-tax earnings CAGR of 7% to 10% over the 3-year period ending with 2021.

On Slide 12, Individual Life Adjusted Operating Earnings were $51 million in the first quarter excluding unlocking, higher than $46 million in the first quarter of 2018. Return on Capital was 9.3% on a trailing 12-month basis.

First quarter mortality results were slightly favorable to our expectations due to lower frequency. Partially offsetting this was alternative income below long-term expectations.

In connection with our decision to cease new business at the end of 2018, we announced our plan to reduce annual run rate cost by $20 million. We have now achieved this run rate. As a result, we expect administrative expenses to be approximately $50 million in the second quarter. We also anticipated sales to be reported in 2019 as we processed applications received through year-end 2018. This resulted in first quarter sales of $34 million. Some applications carried over into the second quarter, but are now complete. This will result in approximately $10 million of additional sales to be reported in the second quarter.

Looking ahead, we continue to expect at least $1 billion of free cash flow to come from this block over the next 5 to 6 years including a significant onetime release of capital related to redundant reserve financing in late 2019 or early 2020.

On Slide 13, we provide additional items to consider for the second quarter. Share repurchases will have a positive impact on EPS. In addition, we expect the following unfavorable items not to recur in the second quarter: seasonally higher administrative expenses and legal reserves accrued in Retirement in the first quarter not expected to recur at the same levels. Partially offsetting these items, we expect Individual Life mortality to normalize, and in Investment Management, legal recovery to not recur. In addition, we expect lower second quarter corporate losses due to progress on reducing stranded costs. Also, our semiannual preferred stock dividend is not paid in the second and fourth quarters.

As a reminder, our quarterly earnings per diluted share will likely include increased shares from the warrants given our current share price levels.

In the appendix, we include a sensitivity table to help you calculate the impact of the warrants.

While we have provided some items to consider, there will, of course, be other factors that affect second quarter EPS results.

On Slide 14, we provide greater transparency into the composition and performance of our alternatives portfolio. As you can see, our alternatives portfolio has delivered strong investment performance over time and is generally consistent with our long-term expectations of 9%. Currently, over two thirds of our $1.6 billion alternatives portfolio is invested in private equity. First quarter results were largely impacted by the mark-to-market of private equity investments related to fourth quarter equity market performance. Most of our private equity holdings are reported on a quarter lag. We expect the year-to-date rebound in equity markets to improve second quarter alternative income.

Turning to Slide 15. Our capital position remains strong. Our estimated RBC ratio of 475% at the end of March significantly exceeded our target of 400%. Our excess capital was $705 million at the end of the first quarter. Both our RBC ratio and excess capital are adjusted for the Annuities purchase price true-up I mentioned earlier.

Our debt-to-capital ratio was 28% on March 31, comfortably below our 30% target. Included in our debt-to-capital ratio was an increase related to a one-time reclassification of certain deferred tax liabilities on our balance sheet related to unrealized capital gains. This reclassification aligns us more closely with many of our peers, but importantly, it does not impact the value of our deferred tax assets.

During the quarter, we completed $250 million of accelerated share repurchases and are executing on arrangements to repurchase an additional $236 million of shares. The Board also provided authorization for an additional $500 million of share repurchases, which expires at the end of the second quarter 2020.

We'll provide further guidance on how much of the $500 million will be utilized in the second half of 2019 once the current ASR is complete.

In addition, as Rod shared earlier, we plan to increase our common stock dividend to an annual yield of at least 1% in third quarter of 2019, which we believe will further expand our shareholder base.

Turning to Slide 16. Over the last few years, we have taken deliberate actions to simplify our business and reduce risk. These actions have enabled us to significantly increase our free cash flow generation. Our free cash flow conversion is now 85% to 95%, supporting our projected free cash flow yield of nearly 10%. This yield compares very favorably to pre-Annuities transaction level and to our peers.

In summary, we remain confident in our ability to grow EPS at least 10% in 2019, largely due to cost savings and capital management. We are encouraged by our underlying sales activity and believe this will help generate greater organic growth in 2020 and beyond. Our business mix is focused on high cash conversion with minimal tail risk and has no long-term care and minimal VA exposure. And our capital position and balance sheet remain 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 comes from the line of John Barnidge with Sandler O'Neill.

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

My question is on the Employee Benefits' Stop Loss ratio. It's meaningfully improved for the last several quarters. Can you talk about some of the pricing dynamics you're seeing in the competitive environment there?

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

Yes. Thanks, John. This is Rob Grubka. On that one with Stop Loss is we've talked about -- it seems like for all the quarters I've been running this business, we're going from the pricing perspective and getting the loss ratio in range. We saw that turn at the back end of last year, and that was driven by pricing action that we took around the book in 1/1 of '18. We took a step back and sort of rebalanced the mix of what we were wanting to sell versus the size of the book of business and the renewal action that we wanted to see. We feel like we repeated a very good 1/1 cycle for '19 and continue to feel very confident that we're going to be in range and stay in range despite growing. That was our intention. We said that as well, that we thought we'd get back to growing the business from a new sales perspective.

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

Okay. And then my follow-up question is for Investment Management. I know the markets were cooperative in the first quarter, but there was a lot of volatility last year. So can you talk about how your conversations have changed with some clients? And if they're pushing on fees and how consumer behaviours changed this year after the volatility we saw in the fourth quarter?

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

Sure, John. Christine will take that.

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

Yes. Thanks, John. Yes, certainly as you say, some of the sentiment that we saw in the fourth quarter as far as the volatility and the risk-off sentiment did trickle into the first quarter and impact our flows. But really as a result of that, that's more of a business mix shift with clients, and so we got a little bit slower start to the year, I would say, in terms of asset allocation and where people were going because of that. But really we haven't seen it specifically impact their demand of fee or fee compression. And so when you look -- kind of taking a step back and when you look at, what's going on with Investment Management and our yields and fees on the assets, which we're managing, really what we like to do is, we like to look at it on a 12-month trailing basis. And so based on that, we did have the fees on our inflows were 4 basis points lower than the fees on our outflows, but again, this is really more a business mix issue for us. Now granted we did see some retail outflows again, as you say, due to risk-off out of our bank loan funds and some active equity. But on the retail side, we're seeing very strong momentum. Mike, in his comments, mentioned the strategic income opportunities fund. That fund is now $1.7 billion today. It hit the $1 billion mark last quarter, so really strong growth on that front.

Then again going back to how to think about basis points and the business mix issue, it really is driven by more fixed income mandates. And what we're seeing is that we have more than one, as an example, large fixed income mandate funding that's over $1 billion. And so typically when you have that size, we tend to be more aggressive in the fees because quite frankly, they're so scalable. We have a deep fixed income team, strong infrastructure. So the variable costs associated with that type of business are minimal and so it's highly margin accretive. So again and thinking about it, don't think about it as demanding clients driving fee compression. It's business mix. And as far as our overall revenue yield and how to think about it, in looking at our unfunded wins in pipeline is I would expect more of the same in terms of fixed income mandates settling in. But in the later part of the year, we had some higher-margin fee products coming to market: real estate debt funds; we just added to our team an infrastructure debt team for our private credit clients. And so we're going to most likely be launching a fund with that capability early next year as well as being back in the market in 2020 with private equity. So again, I would say that strong pipeline, strong organic growth, and we're going to be able to achieve our earnings targets and our margin given the strong growth that we see.

Operator

Our next question comes from the line of Suneet Kamath with Citi.

Suneet Kamath ***Citigroup - Analyst***

Mike, can you help us with sizing the release of the redundant reserves from the Life business that you mentioned in your prepared remarks?

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

Sure, Suneet. I think the way to think about it is we've given guidance on the conversion of income into cash - and that's rough numbers. Think of that as $150 million per year over the next 5 to 6 years. And so when you add that up, there is left a delta between that total and the $1 billion that we've guided to or $1 billion plus. I think our expectation is that the redundant reserve release will close much of that gap. I want to be a little careful not to get too far ahead. We're still in discussions with third parties. I don't want to create a ceiling for the opportunity for us. But that's the way to think about it.

Suneet Kamath ***Citigroup - Analyst***

Okay. Got it. And then just second on the buyback authorization, the $250 million I guess through the end of the second quarter. It seems like your quarterly pace of buyback has been around $200 million, maybe $250 million. So just wondering if there's a change here in terms of the pace of buybacks that we should be expecting? Or are you just prepared to roll out a new authorization if you exhaust this one before the second quarter of next year?

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

Yes. Thanks again for the question. So to be clear, we have an ASR in place for $236 million in the second quarter. That represents the authorization that remained at the time that we entered into the ASR, so we used that up. We discussed with our Board some of our expectations for the future and authorized an additional $500 million. Our plan is to use the same judgment that we've used in the past as careful and prudent managers of shareholder capital with maintaining an eye toward delivering value to shareholders in the best way we can. So we will execute on share repurchases as consistent with that. And if and when we exhaust the $500 million authorization, then we'll seek another authorization. So you should not and -- we're definitively not trying to signal timing through these authorizations. And that's part of the reason we've gotten away from having an annual ask. I think people were interpreting as "Well, that's what we're going to do in a year". We're going to do what we think is prudent at the time, and we'll proceed on that basis. I think our track record speaks for itself.

Operator

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

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

A question for Christine. So obviously inflows were very strong in Investment Management, especially in the institutional business. My understanding is there was some CLO issuance in the quarter. And I was just wondering can you size the impact of the issuance and also in terms of potential pipeline in the coming quarters?

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

Certainly. As far as CLO flows in the first quarter, we priced or settled just a little under $800 million. But when we think about CLOs, they're an important part of our business mix. They were 10% of our growth sales last year. So an important part of our business mix but not the only one in terms of what's really driving our organic growth because we're just seeing real interest in a range of products. Oftentimes, you have heard me reference consultant buy ratings. And as an example, we have 22 strategies represented currently in consultant-driven searches, semifinals and finals. But going back to your point about CLOs, I would say the CLO market overall, kind of got a soft start to the year. However, we were still able to price the deal. And our outlook is for the market to continue to improve.

And one key thing that we're doing in CLOs is we priced our second Euro CLO last week. It was EUR 400 million. So think about $430 million. And so that's very encouraging. As well as when you think about the European bank loan market, it's grown 50% year-over-year, and we're seeing increasing interest out of both European and Asian investors to invest there. And so we're also launching in June a euro SICAV. So again, I see good building interest and pipeline across our bank loan and CLO products.

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

Got it. I appreciate the color. And then just a clarification with Mike. I think you mentioned that you expect the normalized realized earnings in 2019 would be in line with 2018. Would that be on a reported basis of 2018 or normalized basis for 2018? And if so like what are some of the drivers that keep the earnings a little bit flattish?

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

I'll start with the clarification and then maybe give Charlie a chance to share some of the dynamics that are driving the Retirement business. But the short answer is, it's versus normalized from last year and that's normalized for DAC unlocking and all -- some prepays at expectations. Charlie, you want to talk about some of the more dynamics in the business?

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

Sure. I'll give you a little bit more color on what we're seeing in 2019. As Mike indicated in his comments, beyond the legal reserve increase and the pension expense, we've had some increases in our Retirement business, largely due to the overall growth that we were seeing in our business. And it's coming in a handful of categories. If you look at it quarter 1 versus quarter 1 last year, we certainly had growth and we did the acquisition last year of the Pen-Cal non-qual recordkeeping capability. So that wasn't in our first quarter of last year, but it certainly is in this year and given us some expanded capabilities. And then we've also seen and are investing a lot in the growth just in our overall business. And both in what we see in committed sales, sales that are in process as well as the pipeline of RFP activity. And let me give you a little more color on that. Just if you look at on a trailing 12-month basis through the first quarter, we brought on about 3 times as many plans as we've lost.

Our first quarter sales were up 25% in Full Service corporate and 40% in our Tax-exempt quarter-to-quarter. So we look at that, and we look at the trend, in particular, in our distribution expansion, where we've talked in the past about how we've been trying to drive distribution expansion, and we saw some really good results for that and a good leading indicator for us for the future was that 27% of our first quarter sales in the corporate market came from new distributors, new advisers. And we think that's a really good sign. So our pipeline of plans are in the process of being implemented. For example, in our Full Service corporate business right now is 15% higher than it was last year in the first quarter. We have an equally strong and robust implementation process going on a number of large recordkeeping wins.

And then, we look at -- kind of looking forward, we're looking at the activity in new market, and we see about a 25% increase in RFPs in the Full Service corporate markets and a 40% increase in activity in the large recordkeeping. So there's -- both just momentum in the business I think are largely hitting it for us in the expense side, and we're investing to help prepare to bring on even more business as we go forward. So we're confident in achieving our Investor Day target of the 4% to 7% as Mike said on a compound annual growth rate as we continue to drive more sales and growth in our plan sales, I should say. Our retention, which continues to be strong as well as our higher recurring deposits, which at 11% this quarter, were really quite strong within the range we gave in the guidance.

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

Humphrey, part of what Charlie said, what you heard from Christine, what you heard from Rob is the reason that we are comfortable with and confident in the reaffirmation of the 10-plus percent EPS growth rate as I mentioned on the early part of the call. The early stages as we planned and expected were going to be driven by both share buyback and capital deployment, but the pipeline activity and the committed sales that you heard Charlie talk about, Rob and Christine, are what will be additive to that and enable us we believe to accomplish those objectives over this period.

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

Got it. It sounds like just a little bit more of transitional year kind of building up future growth opportunities. That makes sense.

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

Indeed.

Operator

(Operator Instructions) Our next question comes from the line of Andrew Kligerman with Crédit Suisse.

Andrew Kligerman ***Crédit Suisse AG - Analyst***

Mike, I appreciate your comment to Suneet about the timing of any considerations around block sales and the runoff business. But maybe you could give a little color on the interest level? Is there a lot of interest in reinsuring these blocks? And -- yes, maybe I'll just leave it at that.

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

Andrew, to be clear, the transaction that I'm talking about is a financing of redundant reserves on existing business. It's not a reinsurance transaction in the way that you are thinking about it. We will be working with the third party. We had a robust discussion with a number of potential third parties, and we're working our way through the process of narrowing that down and ultimately entering into, what we think, will be an attractive agreement for both sides. So that's working its way through. Again, we expect that to be done toward the end of the year. In terms of broader interest and looking for additional reinsurance opportunities, we continue to be open to that. I don't have any more color beyond. That's going to be an opportunity for us, I think, over both the near and long term as the market unfolds. But right now, we're very focused on just managing the business as efficiently and as quickly and getting the capital out as quickly as we can.

Andrew Kligerman ***Crédit Suisse AG - Analyst***

I see. And freeing up the redundant reserves would free up an estimated how much in capital?

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

If you do the math, it's in the 200-ish range, but that's a really broad range. And as I said, earlier I think to Suneet, I don't want to create a ceiling to say that's what we're going to do because we are still in negotiations on the structure of the deal.

Andrew Kligerman ***Crédit Suisse AG - Analyst***

Okay. And that's separate and apart from the $1 billion that you hope to eventually over the next 5 years.

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

Andrew, that's a solve to get us to the $1 billion.

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

That's a piece of it.

Andrew Kligerman ***Crédit Suisse AG - Analyst***

Got it. Okay. And then just shifting over to the Retirement fee levels. We did a calculation Q-over-Q, fourth quarter, it was about 57 bps. First quarter, it came out to about 55 bps. And just want to get a sense were there any dynamics there that were nonrecurring in the quarter? Where do you see fee levels going in retirement?

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

Charlie?

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

Yes, thanks. You're going to see some noise in the fees from time to time. In particular, I think we managed through fee pressure within the industry. And I think as you look at the -- and peel away the layers of what drives the changes from quarter-to-quarter, we look at some examples of some things that may drive lower fees that also come with associated expense savings. Let me give you just a couple of quick examples. We see advisers switching from commissions to more fee-based approach and this will show a reduction in the revenue, but it also comes with a reduction in the commission expenses as well.

And a second example would be as plans move more and more into auto enrollment or e-delivery, those types of things that may come with lower revenue and associated lower expense level. So that creates some of the variance from quarter-to-quarter, but I would come back to say that we do manage our business on a total revenue basis, not by individual revenue source and are really focused on the profitability that each plan brings to us. So as I step back and our Retirement business, I think our scale and our breadth of that market of markets that we talk about has really served us well because it gives us the scale and efficiency relative to some of the fee variances. We bring a diversified mix of revenue, both investment spread and the fee revenues as well. So I think it's complemented by the strong recurring deposit growth that we've had in increasing average assets. So I think as we look at this and any changes you see, we've got this embedded in our expectations as we go forward and remain confident in achieving the targets that we established at Investor Day.

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

Andrew, it's Rod. Just to add to what Charlie said, to reinforce the point. I mean we will have, Charlie, $10-plus billion of recurring deposits this year. And the stickiness of those assets in these diversity of markets, we think, is a real advantage as we push forward.

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

Rod, that's a good point. And thank you for calling that out. Because in our Full Service business when you look at our recurring deposits and the stickiness of those assets, assets that left us in 2018 as an example on our Full Service business were with us for over 15 years and that's very, very different than what you typically see in asset management in the industry.

Operator

Our next question comes from the line of Tom Gallagher with Evercore ISI.

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

Just a question on Retirement as well. The level of expenses were elevated in the quarter and I think there were higher pension expenses as well as higher expenses related to on-boarding of new plans. Can you specify how elevated those different expense levels were? Whether they're expected to recur? That's my first question.

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

Yes. Tom, I'll take part of this. This is Mike. I'll take part of that, and then I'll turn it over to Charlie for the rest. At an enterprise level going forward, pension cost, which is the part I'll cover will be up over prior year by about $7 million a quarter pre-tax. And that's driven by largely the asset levels as well as some modification in our expectations for future returns. So the majority of that will hit Retirement. We do allocate out pension cost to the various business segments. Retirement will have the majority followed by Investment Management and then Employee Benefits. And then, Charlie, if you want to add more color on the rest of it?

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

And Tom, you've seen that with other announcements also in terms of the pension fees, Charlie?

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

Yes. And thanks for pointing out, Tom. As I mentioned in my previous question that came up, a large part of our growth in administrative expenses is really due to the overall growth in our business, both in just really net adds to the business but also the plans that are in process and what we're seeing in the pipeline. So we expect our quarterly run rate of admin expenses for the remainder of the year to kind of be in that $190 million to $200 million for the remainder of 2019.

And I think as you look at our business, and we certainly have brought on an awful lot, but we've got a very strong and proven track record of building scale and driving expense efficiencies. As I think about what we've accomplished with the platform consolidation, the investments we made in digital and data and analytics that are helping us drive lower expenses. And we also believe as I said that we have some additional upside in our next phase with more robotics and automation in the future. So I kind of look at it as expense management remains strong and disciplined, but we're also focused on growth and making sure that we're ready for the growth that we're bringing on and what we anticipate in the future.

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

Tom, let me add one other piece before we get to the second question. We made -- as Mike talked about in our prepared remarks, we have made excellent progress in our approaching the stranded cost, the $230 million to $250 million over 2019 and 2020 as we discussed in Investor Day. And, again, Mike is giving you an update on that. The fact that our pipelines are growing, and growing at a faster rate than they have historically, we think, is a quality improvement in expense that will lead again to recurring revenue.

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

That makes sense, Rod. And Mike, just one quick follow-up on that. The $7 million a year of elevated quarterly pension expenses would -- if we finish the year at current levels, would you expect that to go down in 2020 or remain the same?

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

Yes. Tom, it's a good question. Keep in mind that there are 2 aspects of that calculation. There is asset levels, and that's clearly been favorable since 12/31. And we did re-measure as of the end of January. So that's our new starting point because there's a curtailment event related to the expected reduction in cost of future pension. But I guess the other thing is the interest rate environment will affect the value of the liability. And I think right now interest rates are meaningfully lower than they were at the end of the year. I haven't done that quick check. So we don't run a running tally of whether it's going to be a good or a bad guy. We'll see where we are at the end of the year. As we get closer, we'll give you a clear guidance on where we're going to be.

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

And Tom, just to reinforce the points Mike's made, I mean both of those are macro issues. They would affect us as they will everyone else.

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

Understood. And then just one quick one on Voluntary benefits in-force growth was up substantially year-over-year, but sales growth was more muted. Can you explain why such big growth in the in-force there?

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

Yes. I'm going to throw it to Rob. But I'm very happy with the question. I'm very happy that we're focusing on the growth of our Employee Benefit business. We're very pleased with both the Stop Loss fees, the Voluntary fees and the Group Life fees. Mike mentioned in the opening remarks the 14% growth, we happened to hit the $2 billion mark. Rob's doing a great job in leading this, and I'll let him answer the question.

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

Yes. And I appreciate that Rod. And the question around VB, look, it's sales and then it's what you retain. We've had tremendous success in what we've sold over the last few years and executing around the administrative aspect of it extremely well and that's really the big explainer of why the block overall is growing the way it is. That's a business I just come back to and remind folks. The level of service intensity, the integration and the handoffs that come into play with technology partners, the ability to work with those folks in really efficient and effective ways is a difference maker. At times, I know it's easy to "well, what's the price, what's the price", but this is a business where what's the service look like, how do you execute it and that's how you build credibility, especially in our portion of the market, which is middle and upsize and the marketplace, we've got to deliver. And so we know that, we've done that well and continue to expect to do that in the future.

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

Rob, you might want to speak about how many of the cases are adding new coverages versus replacing coverages. That might be useful to the listeners.

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

Yes, I think it's a good point and a little bit different than other dynamics as Rod pointed out. You tend to think about whether it's -- whatever the workplace business is, whether it's Retirement or the other benefits, more often than not you're taking something from somebody else. In this space, what we saw in first quarter, over half of our groups and lines of coverage that we added were actually new to the products set. So they didn't have an accident product. They didn't have a hospital indemnity product and so on. And so there's still just net growth and demand for the solutions. And we talked about this at Investor Day, the responsibility being borne by consumers today and the benefit decisions and the accountability with the growth of high deductible health plans, we think, is going to be a long-term driver of growth for years to come.

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

Tom, I'm going to ask Rob to add one more piece. We were just awarded. We can't name the company, but a very nice piece of Voluntary business and it was particularly given both the administrative capabilities and the integrated claim capabilities, and I'll let you speak to that a bit.

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

Yes. No, thanks, Rob for the tee up. This is an area again back to the service story and the execution where we think how do we get more connectivity across products and the leveraging of, so things that we're doing from a claims management perspective with other products, how does it connect to the Voluntary products and make that an easy seamless experience for the consumer at the end of the day? We think that over time again that's an area of differentiation in the market. And you think about what we did with the rollout of HSA product and the ability to see consumer activity from a medical claim perspective, we think there's a lot of opportunity to leverage that story further.

Operator

(Operator Instructions) Our next question comes from the line of John Nadel with UBS.

John Nadel ***UBS - Analyst***

So I guess, I really have 2 questions on Retirement. One, I don't want to put words in your mouth. But it actually sounds very bullish that there's a lot of activity in the market and a lot of opportunity to win. And so along those lines, I know you guys recently won a large recordkeeping plan for New York City. I think that's an excess of $20 billion of account value. Just curious when that should come on board. And more broadly, it sounds like expenses are high, but this is really just expenses in front of very likely revenue growth?

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

Yes. Let me start but Charlie will jump in. Part of the point we're trying to make is we're building off a record year. And, again, we're affirming our guidance go forward. But the pipelines and the committed sales are robust and they're across a mix of our market to market. So some of this is recordkeeping. And that has different characteristics. Some of this is Full Service. Charlie will speak to both. Charlie?

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

Yes. Thanks. So you're correct when you're interpreting my comments in terms of the activity that we're seeing both on the growth, on the sales as well as activity in Full Service as well as in our recordkeeping business. I mentioned the increase in the number of advisers, new advisers selling with us in the first quarter and just the overall growth in our Full Service. And both in Tax-exempt and in Corporate. So we look at that activity, we measure it essentially every day and every week, and we're looking at the quotes that are coming in and estimating what the pipeline will be in terms of new plans and implementations and things. On the Recordkeeping front, thank you for recognizing one of our large wins, the city of New York, which is well, close to about 200,000 participants and as you say about $20 billion. That will be a -- we expect that to be later part of this year, like the latter part of the fourth quarter each time period. We're working on the implementation as you would expect, right, as we speak. So we're very, very pleased that our value proposition has been resonating both in Full Service and in Recordkeeping and that the activity is commensurate to really support a lot of the growth and the things that we're hoping for in the future.

Operator

Our next question comes from the line of Ryan Krueger with KBW.

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

I just had a follow-up for Christine on the asset management fee rates. I know you talked about some of the moving parts and I think some upward trajectory from new wins. But just Institutional looked pretty low in the quarter. So I was just hoping you could talk a little bit about that and if there were any one-off factors that impacted that?

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

Christine?

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

Yes, Ryan. On the Institutional basis point side, really was a couple of things. Going back to what's currently funding in the first part of the year is we have more than one very large over $1 billion clients or mandates funding that started late last year and are moving into this year. And sometimes, as you know, these large mandates may come into 2 or 3 stages. So -- and again because of the scale, we tend to price those more competitively. But they're again very highly margin accretive. Also just a little bit of a nuance in the first quarter. We priced a CLO that had a little bit different fee level than what we normally do for institutional flow. And that was lower because it was a shorter-term deal, something the market calls a sprint deal which was the first time we've really done it and speaks really to the strength of that franchise that in January, we were able to price a CLO deal. So what do I mean by that? CLOs have reinvestment periods, typically 5 to 7 years. This was shorter, just 1 year. So again because it was shorter, we had a more aggressive fee there. So again, think about it not as a trend but really a mix of business, and again, number one.

The momentum on the fixed income side is really strong. If you go and take a look at our investment performance, you'll see that for fixed income products, our assets are outperforming peers or the benchmarks for 90% of the assets that are managed for 1, 3, 5 and 10 years. In fact, the 5-year number is 100%. So again, you're going to continue to see good momentum there. And as I referenced, as we move into the back part of the year, I expect and anticipate due to the strengths in Retail that we mentioned, a couple of the new product launches that we're going to be going through that are higher margin and then again in 2020 as Pomona, our private equity business, gets back into the market with a new fund raise, you should expect to see the revenue and the flows move up from what you saw or will see in the first part of 2019.

Operator

That is all the time we have for questions. I'd like to turn the call back over to Rod Martin for any closing remarks.

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

Thank you. And in summary, during the first quarter, we continued to position Voya for future success. We are on track to deliver on our targets through organic growth, cost savings and capital deployment. Our focus on our high-growth, high-return, capital-light businesses supports our strong foothold in the workplace and with institutions to deliver the solutions that our customers are seeking. We remain well positioned to achieve our plans to drive greater shareholder returns by ensuring we both anticipate and meet our customer needs as we pursue our vision to be America's retirement company. Thank you, and good day.

Operator

This does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.