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Q2 2019 Voya Financial Inc Earnings Call

EVENT DATE/TIME: AUGUST 07, 2019 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the Voya Financial Second Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

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

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

Thank you, and good morning. Welcome to Voya Financial's second 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'll 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 the 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.

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

Good morning. Let's begin on Slide 4 with some key themes. During the second quarter, we delivered strong bottom line growth in support of our long-term plan. Our Normalized Adjusted Operating EPS for the second quarter was $1.30, up 11% compared with the second quarter of 2018 despite adverse mortality in our Individual Life segment. As we've previously shared, our EPS growth will be achieved through a combination of organic growth, cost savings and optimal capital deployment. As planned, cost savings and capital deployment are the largest drivers of our EPS growth in 2019, giving us confidence that we will achieve 10-plus percent normalized EPS growth for the full year 2019.

As it pertains to cost savings, we remain on track to achieve $230 million to $250 million in annual run rate savings by the end of 2020. As of the second quarter, we've reached our initial target of $150 million in costs saves, putting us well on our way to achieving the overall goal.

Our performance during the second quarter continued to reflect organic growth in each of our core businesses. For Retirement, we grew full service recurring deposits 9% year-over-year. In Investment Management, we generated $1.1 billion of positive net flows, contributing to $4 billion of positive institutional net flows over the last 12 months. And in Employee Benefits, total in-force premiums increased 12% compared with the second quarter of 2018. We also continue to maintain a strong capital position with approximately $540 million of excess capital as of June 30.

During the quarter, we repurchased $446 million of shares. Mike will share more details on the specifics of those repurchases during his remarks. Since our IPO, we've returned nearly $5.7 billion of capital to our shareholders, which amounts to more than half of our original outstanding shares. In addition to using excess capital to repurchase shares, we also increased our quarterly common stock dividend to $0.15 a share in the third quarter, achieving our plans to increase our dividend yield to at least 1%. Our strong free cash flow generation and business mix give us the confidence necessary to make this increase in our dividend. Overall, our results during the quarter demonstrates solid growth in our businesses and focused execution of our plans.

Turning to Slide 5. How we do business continues to help drive our success and support our ability to deliver strong financial performance. In May, we held our sixth annual National Day of Service. Once again, we had outstanding employee participation and partnered with more than 200 nonprofit organizations across the country. Last month, Voya was recognized at the Disability:IN conference as the best place to work disability inclusion for the second consecutive year. During the quarter, we also earned recognition for Voya's continued ESG efforts from the investment community. In addition to maintaining our position on the MSCI ESG Leaders Index for 2019, our ESG rating increased to an A up from BBB.

Also for the second year, we've been included on the FTSE4Good Index series created by Russell. We are increasingly hearing from our clients that our culture, values and mission make a meaningful difference when they're evaluating and selecting providers. It's benefiting 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 7. In the second quarter, we grew Normalized After-tax Adjusted Operating Earnings to $1.30 per share, 11% higher than the prior year quarter of $1.17 per share. This excludes $0.23 of prepayment and alternative income above our long-term expectations as well as $0.01 of unfavorable DAC and other intangibles unlocking. Alternative income improved due to mark-to-market adjustments on private equity investments related to first quarter equity market performance. As a reminder, investment performance on these assets is reported on a 3-month lag.

On a reported basis, after-tax adjusted operating earnings were $1.52 per share for the second quarter. Our second quarter GAAP Net Income was consistent with Adjusted Operating Earnings as favorable net investment gains were offset primarily by restructuring charges.

Moving to Slide 8. Retirement delivered $175 million of Adjusted Operating Earnings in the second quarter, $9 million higher than the second quarter of 2018, excluding unlocking. Trailing 12-month return on capital improved to 13.9%. There were several notable items that affected adjusted operating earnings in the second quarter. First, prepayment and alternative income was $22 million above our long-term expectations. Second, Full Service fee-based revenues were higher year-over-year due to improved average client account balances. Third, recordkeeping fees improved as we continued to win new mandates. Finally, administrative expenses increased year-over-year. We continue to invest in the business to expand distribution, improve plan sponsor and participation experiences and prepare to onboard new plans that will drive higher flows in the second half of this year. We also incurred higher pension cost which will persist for the rest of 2019. Looking ahead, we continue to expect our quarterly administrative expense rate run rate will be roughly $190 million to $200 million for the remainder of 2019.

Turning to flows. In Full Service, we realized $309 million of corporate market net inflows in the second quarter, which were offset by Tax-exempt net outflows. Over the last 12 months, we have generated almost $2 billion of overall Full Service net inflows. As we look out to the remainder of 2019, we expect approximately $1 billion of overall Full Service net inflows in the second half of the year. This would bring full year 2019 Full Service net inflows to approximately $1.5 billion. Trailing 12-month Full Service recurring deposits grew over 9% to almost $10 billion in the second quarter, with notable strength in corporate markets.

Strength inflows expected in the second half of 2019 give us confidence that we will generate 2019 annual growth in recurring deposits within our target range of 10% to 12%. Total client assets finished higher sequentially, helped by favorable equity markets. Assets were lower compared with a year ago due to a late 2018 recordkeeping plan termination of approximately $40 billion of plan assets, which we have discussed the last couple of quarters. We have had great success building the recordkeeping pipeline and expect over $20 billion of recordkeeping net inflows, largely to occur in the fourth quarter of 2019. We remain very encouraged by our pipeline, which we believe reinforces that our value proposition is resonating in the market.

On Slide 9. Investment Management delivered $41 million of Adjusted Operating Earnings in the second quarter, $5 million lower than second quarter of 2018. The trailing 12-month operating margin was 26.2%. There were several notable items that affected Adjusted Operating Earnings in the second quarter. First, investment capital results were $2 million above long-term expectations. Second, fees were lower year-over-year largely due to private equity fund closings in 2018 that did not repeat. Fees did improve sequentially, mainly driven by the impact of cumulative net inflows as well as strong equity markets. We expect our positive inflow momentum to continue into future quarters. Finally, administrative expenses increased $3 million year-over-year due to the timing of certain strategic investments as well as higher pension cost.

Moving to flows. We generated $772 million of institutional net inflows in the second quarter, marking 14 consecutive quarters of net inflows. This quarter's inflows contributed to nearly $4 billion of net inflows into our institutional business over the last 12 months, representing robust organic growth of over 4.5%. In the quarter, we had wins in core fixed income, private credit, mortgage loan and global bonds. Our private credit and mortgage loan wins demonstrate continued insurance-channel demand. We also closed our second European CLO. Retail net outflows continued in the second quarter. Excluding a $600 million outflow that was due to our sub-advised placement been taken in-house, retail net flows would have been positive. We expect retail net flows to improve in the second half of 2019, benefiting in part from our strategic income opportunity fund. This fund has grown to over $2 billion of assets and is the top net flows fund in its MorningStar category both year-to-date and over the last year. This fund was recently featured in Barron's for its strong investment performance.

Rounding up the remainder of net flows, there were nearly $900 million of inflows from a favorable sub-advisor replacement. We expect second half 2019 operating margin and earnings to improve due to continued asset growth, expense discipline and higher performance fees in the fourth quarter. We expect this momentum to continue into 2020, giving us confidence we will improve our operating margin to 30% to 32% by 2021.

Turning to Slide 10. Employee Benefits delivered $49 million of Adjusted Operating Earnings in the second quarter excluding unlocking with an improved return on capital of 29.4% on a trailing 12-month basis. Excluding the impact of onetime favorable items, the Adjusted Operating Earnings grew 23% year-over-year driven by 12% growth in total in-force premiums and total aggregate loss ratios at the lower end of our 71% to 74% target range. Second quarter results benefited from one-time favorable items of approximately $6 million on a pretax basis, including a Voluntary reserve release of $4 million. We do not expect these one-time favorable items to recur in the third quarter. Despite that, we do expect that second quarter Adjusted Operating Earnings represent the approximate quarterly run rate for the rest of the year. Specifically, we expect loss ratios for Stop Loss to return to our target range, below 80% for the remainder of the year.

In the second quarter, we generated strong year-over-year growth across all product lines, particularly Voluntary and Stop Loss. Voluntary in-force premiums grew approximately 25%, reflecting our success with both employers initiating new lines of coverage and those replacing their existing coverage. This boost our confidence that our simplified administrative capabilities and value proposition are resonating in the market. Stop Loss grew 11%, reflecting our strong market position and solid distribution partnerships. Additionally, Group Life and Disability in-force premiums grew 8% year-over-year. We are very pleased with Employee Benefits continued success and feel confident our capabilities will enable us to continue to drive strong future earnings growth.

On Slide 11. Individual Life Adjusted Operating Earnings were $53 million in the second quarter excluding unlocking, $19 million lower than the second quarter of 2018. Return on capital was 8.6% on a trailing 12-month basis. Second quarter results were affected by elevated mortality, driven by unusually high severity. Frequency of claims was in line with expectations. While mortality experience can fluctuate over time, over the last 10 years, our overall experience has been consistent with our expectation in the aggregate. We expect third quarter mortality to return to levels more consistent with our long-term expectations. We have achieved our plan to reduce sales-related annual cost by $20 million. As expected, this contributed to us achieving our overall run rate saves of $150 million so far, as Rod mentioned earlier. 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 one-time release of capital related to redundant reserve financing, by the end of 2019.

On Slide 12, we provide additional items to consider for the third quarter. Share repurchases will have a positive impact on EPS. We also expect both Individual Life mortality and Investment Management operating margin to improve. There are 2 items that partially offset these favorable items: first, lower net investment income due to impacts from the low interest rate environment; second, Corporate losses will be higher due to expenses related to our semi-annual preferred dividend as well as quarterly preferred dividend from our second quarter issuance. We also note that we now expect similar quarter-over-quarter earnings in Retirement given current market conditions and current trends in spread-based account growth.

As a reminder, our quarterly earnings per diluted share may include increased shares from the warrants, depending on share price levels. In the appendix, we have included a sensitivity table to help you calculate the impact of the warrants. The table incorporates exercise price adjustments related to our new quarterly $0.15 dividend. While we have provided some items to consider, there will, of course, be other factors that affect third quarter EPS results.

Turning to Slide 13. Given recent changes in interest rates, investors had asked for an update on some of our macroeconomic sensitivities. We have taken deliberate actions over the last several years to lower the risk of our business and as a result are less sensitive to significant changes in market levels or interest rates than we have been in the past. We believe our exposure to macroeconomic factors is manageable, and we remain solidly on track to hit our 10%-plus annual growth target. As a reminder, our equity market sensitivity is roughly a $4 million to $5 million pre-tax operating earnings impact for every 1% move versus our annual assumptions. Additionally, our sensitivity to interest rate is an estimated 2% to 4% impact to pretax operating earnings for a 100 basis point change in interest rates. The lower end of the range represents the expected impact of current rates for 2019, as rates are down roughly 100 basis points since we announced our Investor Day targets. The higher end of the range reflects the likely impact in 2021 if low interest rates were to persist for the duration of our 3-year plan. The interest rate exposure is driven by the reinvestment of our portfolio at lower new money yields as well as a more immediate impact from floating rate securities.

The majority of the interest rate impact will be felt in our Retirement segment. The effect of current market interest levels is incorporated in my comments on the prior slide about quarterly Retirement earnings expectations. That said, we have a demonstrated track record of delivering strong results through macroeconomic challenges, including low interest rates.

Turning to Slide 14. We have a strong capital position. Our estimated RBC ratio was 429% at the end of June, comfortably above our target of 400%. Our second quarter ending excess capital of $540 million includes an approximate $100 million pro forma adjustment for a senior debt paydown completed early in the third quarter. Our pro forma debt-to-capital ratio was 27% on June 30, below our 30% target. We continue to see value in share repurchases given our current valuation levels. Year-to-date, we have repurchased almost $650 million of shares. This includes the $446 million of repurchases in the second quarter. We have included further detail on second quarter share repurchases in the appendix. In addition, as Rod shared earlier, we announced a third quarter common stock dividend of $0.15 per share. This represents an annual yield of over 1% as of market close on August 2. The introduction of a higher dividend reflects our confidence in generating sustainable free cash flow and will help to further expand our shareholder base.

Turning to Slide 15. We remind you that our business mix today is much simpler and generates a higher free cash flow conversion than pre-transaction levels and our peers' average. Our free cash flow conversion is 85% to 95%, supporting our projected free cash flow yield of over 10%. This yield compares favorably to our peers.

In summary, we remain confident in our ability to grow normalized EPS by at least 10% despite lower interest rates and elevated mortality in the quarter. Our business mix is focused on high cash conversion, 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 Nigel Dally with Morgan Stanley.

Nigel Dally ***Morgan Stanley, Research Division - MD***

I had a question on Retirement. Stripping out the alternatives, core earnings are running now around the $150 million level. That's quite a substantial decline from the $170 million that you were achieving in the back half of last year. Just hoping you could flesh out a little more detail as the key factors behind that decline. Is it purely interest rates or are there some other factors also at play?

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

Good morning, Nigel. Charlie will talk that, and we may toggle back and forth a bit. Charlie?

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

All right. Thanks, Rod. And thanks, Nigel. We did think that our earnings would be in line year-over-year. But certainly given some developments since last quarter, we now think, as Mike said, that the run rate for Q3 and Q4 will be closer to Q2. Why I think is a key question obviously, relative to some lower-than-expected spread-based margin, which Mike can speak to as well. And we spoke to our expenses being higher for some reasons we discussed in the first quarter, but really that is being focused also a lot on the growth that we've had in the business and the investments that we are making to onboard the new sales as we gain share in the market. And I would point out that we have an expected $1 billion in Full Service net flows and very solid retention rates expected in the last half of the year in Full Service. And in addition, in recordkeeping, we have $38 billion and over 535,000 participants in implementation. So that's in the process of being set up, net of any known surrenders. Now roughly we expect to see about half of that in the fourth quarter of this year and the remainder throughout next year but mostly in the fourth quarter or 2020. So really when I think of the key developments since last quarter and how to think about this, with rates being down roughly about 75 basis points since our last call on the 10-Year. Also, our spread-based general account assets are down in quarter, and we are expecting those to be relatively flat for the remainder of 2019. And obviously, business mix and participant behavior can emerge differently than expected, but that's what we are currently expecting. And then also the equity market interestingly enough are also contributing a bit of a drag, with the S&P essentially roughly the same as it was in our last call. So we do have a number of levers that we were managing to mitigate the lower rates as much as possible. And these will emerge over time along with our growth. We've been through some volatile equity and interest rate environments in the past. We think our strong market of markets and business and Retirement drives a revenue diversification which is experiencing that solid growth in our business and will serve us well in the remaining 2.5 years of our 3-year plan.

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

Mike can you add a little more dimension on the interest rate piece. Mike?

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

Sure. Look, I think the way to think about this is in 2 pieces. One, is the impact in the most recently finished quarter. And there was an element of floating rate assets in there that caused a little bit of pressure as well as the natural evolution of underlying portfolio. And as Charlie mentioned, the assets themselves, the underlying separate account or general account balances, were basically flat. Now going forward, we gave the additional sensitivity guidance 2% to 4% over the next 3 years of drag for a 100 basis point drop. That's more or less where we are now. That drop is front-ended because of the floating rates. There is an immediate impact from that, and then there is a more gradual effect as the impact of reinvestment and again the continued evolution of some higher-yielding assets coming out and some lower yielding assets coming in. That said, it's a fairly slow process from here once you get past that immediate jump from the floaters. But, because our assets are fairly long, there's not a lot of turnover quarter-by-quarter. And so there is a little bit of an abrupt jump that gets you to 2% and then a much slower build up to the potential 4% if rates stay where they are. It also does not give effect for the levers that we can pull. What's built into that sensitivity is the natural crediting rate actions that we might take. But there are other things we can do besides crediting rates, as we've shown in the past, that will allow us to, we think, continue to deliver the 10%-plus EPS growth that we've shared.

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

Nigel, Let me just add one other dimension for you and our other participants in reinforcing really the last point Mike made. We are reaffirming our 10-plus percent EPS growth rate for the balance of the plan that was primarily driven in 2019 and 2020, as we've previously discussed, by both our expense actions and capital management, as we planned and as we expected. The other piece I'd remind us all is in the most recent planned period ended for '16, '17 and '18 we brought out -- because of the environment -- in 3 different occasions our low-for-longer slides. This is not a movie that we are unfamiliar with, and this is not unique to Voya. And we found a way to accomplish our plans during that period, and that gives me a lot of confidence that we collectively can move the levers that we have available to us here. We've simply given the best guidance forward on interest rate sensitivity. And you have to make an assumption that it is what it is right now, but the only thing I know for certain over all these years of having our hands firmly on the steering wheel is it will change.

Operator

Our next question comes from Alex Scott of Goldman Sachs.

Alex Scott ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

First question I had was just on Retirement and the net flow outlook. Little bit weaker this quarter, and I know you mentioned the recordkeeping that's coming on in 4Q. Can you talk about the Full Service pipeline and what you're expecting there?

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

Yes, Charlie will jump in. But we want to make sure you just heard we do have $1 billion plus coming in the second half of this year in Full Service, plus the $38 billion of recordkeeping. Charlie?

Alex Scott ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Yes. Thanks. Obviously, we are expecting a strong second half in net flows in our Full Service as well as our recordkeeping we've talked about. We have solid visibility in what to expect in sales in the upcoming quarters from plans that are in the implementation process. And I think we should distinguish when we speak in the industry about pipeline. Sometimes that's referring to RFP activity. And what we're talking about is translating that RFP activity to sales that will materialize and ultimately, deposits in the upcoming quarters. So we're really translating, and I think it speaks volumes of how we're translating the activity into outcomes. And primarily, obviously in our Full Service, the $1 billion, just to give you a little color underneath that, we have about 25% more plans in implementation today than we did a year ago at this time. So that's contributing to that $1 billion in Full Service flow. That gives us good confidence. Now it's primarily driven by our Corporate market, but we're also expecting positive flows in our Tax-exempt market in the second half of the year. So just to quickly wrap it up on this one, I think our ability to turn some of the increased RFP activity into outcomes or wins, if you will, is really solid. We're experiencing some positive retention trends as well, and that's been a help. And then finally, I think it speaks volumes about how our value proposition is resonating in the market that were built for Retirement, Financial Wellness, our digital, the customer experience that Mike spoke about. I think all these things contribute to our confidence in net flows in the second half as well as our confidence in achieving our recurring deposit growth as we set out on Investor Day.

Alex Scott ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Got it. And the follow-up I had, a little bit more of a housekeeping item. But when you're guys are adjusting for alternatives and the mortality, when you give us that run rate, I mean are you accounting for that DAC effect because there is some offset from DAC amortization I would think? And if you weren't, can you quantify that for us? Because I think just this quarter because alternatives and the mortality were such big pieces, I think it actually might be material to the assessment of what the underlying earnings power was?

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

Alex, thanks for the question. No, we do not adjust for DAC. We have not historically, and so I don't think we should give it now because it won't be comparable to past result. What's important for us and the goals that we've set is to grow normalized operating earnings per share 10%-plus year-over-year. The $4.88 that we posted for 2018 uses the exact same methods that we're using this year, and I think it's important for us to maintain consistency. You're correct, there is a DAC offset. It will vary quarter-to-quarter and from business to business depending on whether it's hitting FAS 97, where the DAC affects versus FAS 60 versus the various blocks of business may have different particular K factors if we want -- I mean that's kind of the weedy answer. But big picture is we think we're doing it consistently, and it's probably the easiest way for people to understand the quarter-to-quarter changes.

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

And we've never adjusted for mortality.

Alex Scott ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Got it. Okay. That's helpful. I just wanted the clarification for thinking about normalization in the next quarter as well. I think it's worth considering anyway.

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

Yes.

Operator

Our next question comes from John Nadel of UBS.

John Nadel ***UBS Investment Bank, Research Division - Analyst***

First, Mike, you could give us a little bit of color on the Individual Life redundant reserve financing. Sounds like you have more confidence that that's going to be completed before the end of this year as opposed to maybe falling over into or lagging into 2020. Maybe you can give us a sense for where things stand? And any update on what you think in terms of capital freed up?

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

Yes. So, we meant to give the impression that we have more confidence. We do expect it to occur by the end of the year. I think you should think of that as a fourth quarter event. And the range in terms of capital released from that specific action will be between $150 million and $200 million. It's never over till it's over and all docs are signed and the ink is dry, but we're pretty comfortable that that's going to happen.

John Nadel ***UBS Investment Bank, Research Division - Analyst***

And will that transaction have any meaningful impact on the pace that you expect in terms of the runoff or pace of decline in earnings from Individual Life business over the next year or 2?

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

It has a modest impact on earnings in Life, but it's really in the big picture relatively nominal because we're releasing the assets that are otherwise holding it, and therefore, we lose the income on that. There's also a modest amount of ongoing fee that's a bit of detriment. But the overall steer on Life earnings is it's going to erode very slowly. And over the near term, any natural erosion from the block declining, I think it's largely going to be offset by our expense actions. So earnings, barring fluctuations in mortality, should be fairly stable year-in, year-out for the next couple of years at least I think.

John Nadel ***UBS Investment Bank, Research Division - Analyst***

Okay. That sounds good. And then the follow-up question would just be on capital and capital management. Obviously, we've hit a bit of a rough patch here in the market. Who knows if this is the beginning of something more significant, but clearly providing an opportunity that we haven't seen in the shares of your stock or many other stocks in quite a bit of time. You're already sort of above, in the first half, what I think would be a more normalized pace of buybacks. How should we think about your willingness and maybe capacity to continue at a pretty elevated pace for the remainder of the year to take advantage of these lower prices?

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

John, I think the way to think about it is we've got $200 million that actually just closed yesterday in the ASR that we talked about. You can expect a similar amount for the late third, early fourth quarter. And then as we get further clarity on the Life capital release as well as some other items, I think there's further upside. Keep in mind while our authorization right now is $300 million remaining, our practice has been and will continue to be to bite that off in chunks. We'll talk to the Board as we get to the exhaustion of that authorization. And if we think it's the right thing to do, then we'll seek more, and I think our Board has a pretty strong track record of being very supportive in that direction.

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

We are intentional in communicating to you, as Mike just says, the $646 million has been accomplished, the roughly $200 million per quarter as well as the Life release. And when you look at the math, I think that further supports and strengthens our conviction in our plan and our ability to accomplish our 10-plus percent growth target over the period.

Operator

(Operator Instructions) Our next question comes from John Barnidge of Sandler O'Neill.

John Barnidge ***Sandler O'Neill + Partners, L.P., Research Division - Director of Equity Research***

Employee Benefits saw real nice growth in premiums for both Group Life and Stop Loss and largely has had pretty good loss experience recently. Can you talk about the market landscape, where you're seeing demand coming from and the next opportunity for growth within that market please?

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

Rob Grubka will take this.

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

Thanks, Rod. Thanks, John. Our story is a simple one and the reason we like it is we're focused from a product perspective, we're focused from a market perspective. On the product side, obviously you see the 3 core segments of VB, Stop Loss and Life. We are executing that well. We expect to continue doing that. We also focus on the middle and upper end of the market. The callout on that I would say -- in particular with Voluntary, we mentioned this last quarter, our groups that we're adding over 50% of them are new to the space. They didn't have Voluntary coverage at the time. I think that's a dynamic, again, especially where we focus and play that we continue to see a lot of runway. The other aspect of it is frankly I think just better educating the consumer in the value of, the protection of those solutions when you think about higher deductible health plan and the trends there. Their responsibility is only continuing to grow. So we think participation within the cases that we've written, that combination of new opportunity as well as just growing the book and more opportunity will be efficient and effective there, gives us plenty of room and confidence to continue to grow. We're certainly on a path to exceed 10% as we look forward for 2019 and working hard to continue to do that year-over-year.

John Barnidge ***Sandler O'Neill + Partners, L.P., Research Division - Director of Equity Research***

And then how is the price competitiveness of the market? Is it rational or are new players trying to gain share by going after price; anything you can elaborate on there?

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

Yes. Look, overall, the high-level comment I would say we got a lot of smart competitors. We try to be smart too. We see it as a rational marketplace at this point. You're going to run into the case-by-case story if I walk the hall and bump into salespeople and underwriters. But net-net, we view it as disciplined sufficiently, and we intend to play that way as well.

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

I think it reinforces, which Rob and Charlie have talked about as well as Christine for that matter, the breadth of the distribution reach that we have. Rob can elaborate on it, but we have really expanded our distribution reach in his business both on a national basis and a regional basis. We are one of the top 4, 5-ish players in those segments. And I think it's just reinforcing of that as well as expanding broadly in our Retirement business.

Operator

Our next question comes from Ryan Krueger of KBW.

Ryan Krueger ***Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research***

I wanted to clarify something on the interest rate sensitivity guidance. Is that a cumulative number? So in other words, there would be a 2% impact in 2019. And then if the main rates remain similar, in 2021 there would be 4% impact total relative to what you would have otherwise expected? Am I thinking about that correctly?

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

I guess I'm not quite sure how you're thinking about it. I guess the way I'd position it as we gave a 10% plus EPS growth year-over-year. And so I think of that as 2% headwind growing to a 4% headwind by the end of the period if rates stay low and if we aren't able to find other attenuating actions. So it's more like 4% less than we would have been had we not had the interest rate headwind is the way to think about it. And just to frame that even a little more broadly. Remember that from the bottom we gave 3 components: cost saves, capital management, organic growth. Each of those 3 had a range associated with it. When you added up the top and the bottom of each of those ranges, we saw EPS growth that could be anywhere between 8% and 18%. So we think there was meaningful upside to the 10% in some positive scenarios and even in the base case. While 4% may seem like a lot, you got to put it in the broader context of that big range, and what we see is the various levers we have to still be able to deliver the 10%-plus over the 3-year period.

Ryan Krueger ***Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research***

Understood. And then I guess what about in terms of balance sheet sensitivity? Can you give us any sense of the sensitivity in your GAAP balance sheet if you choose to reduce your long-term interest rate assumption? And then would you anticipate any statutory impacts?

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

So the short answer is we plan to update that as we complete our third quarter assumption update. So we'll give you refreshed guidance then. Rather than give you something now and change it in a quarter potentially, we'll give it you then. If we do change the long-term assumption, we'd have a decision to make whether we change both on a GAAP and a stat basis. If we change both, then there would be an impact on both. At this point, look, this is a fairly short-lived phenomenon. These are assumptions we're making literally over the course of the next 5 decades in our models. So I don't think we want to overreact to a few weeks of interest rate pressure and market worry about trade balances and things like that. So we'll take the big picture. We look historically at where the rates have been. And we'll make an informed judgment and go forward from there.

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

But Ryan, as you know, the third quarter is our normal cycle of when we do that review.

Operator

Our next question comes from Erik Bass of Autonomous Research.

Erik Bass ***Autonomous Research LLP - Partner of US Life Insurance***

Question for Investment Management. It sounds like your outlook for net flows continues to be quite positive. I was just hoping you could maybe give a little more color on the pipeline that you're looking at in the second half of the year. Maybe talk about how declines in interest rates are affecting demand, and I would think given your business mix that you may be benefiting a bit from that, but would appreciate any comments?

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

Christine will take that. Thank you for asking. It's a terrific question.

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

Thank you, Erik. As far as the pipeline in the second half of the year, we really do see continued strength. And it's broad based across multiple asset classes. So we're seeing increased demand for some of our specialty asset classes, so think commercial real estate, securitized credits, CLOs as an example. And to your point, with the decline in interest rates and sort of the accommodation around the world, we see increasingly institutional and retail investors looking for income, high-quality income for which our product base is very well poised to meet that need. And I think notably, when we think about Investment Management, where we are, I would really think about in terms of our operating margin. We see this as an inflection point because we continue to see very strong organic growth, and notably, we're also seeing a nice pickup on the retail side of our business. And Mike referenced in the call, our retail flows, had it not been for a $600 million sub-advisory replacement that had nothing to do with investment performance we would have been positive, and we are seeing that pipeline continue. We have a strategic income opportunity fund as an example. That fund alone has garnered an additional $1.3 billion of assets just year-to-date. So again, we see really strong momentum, broad based, and we remain confident that this is an inflection point and we're well on our way in achieving our Investor Day operating margin targets.

Erik Bass ***Autonomous Research LLP - Partner of US Life Insurance***

Thank you. And just one follow-up. I mean given what you're talking about with the mix, some more inflows into specialized asset classes and retail, should we think that, that would be net neutral to positive for the overall fee rate, so kind of offsetting some of the kind of industry-wide compression.

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

Yes. As we look out, when we think about our fees we think about it on a trailing 12-month basis. And we do expect the fees to stay stable-to-improve throughout the second half of the year and in 2020. And I think as well one other notable thing in terms of 2020, Erik, as you know, we have a private equity firm that is branded as Pomona, and they have not been in the market this year with a fund. But we expect to be launching a private equity fund in 2020. So again, that should contribute not only to revenues but also the mix of fees on our inflows.

Operator

Our next question comes from Andrew Kligerman of Credit Suisse.

Andrew Kligerman ***Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst***

A little clarification on the Life block. Mike, you mentioned redundant reserve financing, but how about the timing of just the Life block sales in and of themselves? And then also there, the life insurance mortality, you've indicated that you think mortality will normalize next quarter and, hence, the $0.14 come back. Should we take that to not be concerned about an assumption review? Because, for example, Prudential reported a $208 million charge in their assumption review in the second quarter; and of course, yours is in the third quarter. So should we be thinking not to read anything through and that you're feeling pretty good about mortality?

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

I'll take the second half of that first and then come back to the question on reinsurance. There is no read-through from the second quarter results to third quarter assumption changes. I mean it's a data point, along with a lot of other data points that we use to assess the mortality. So we are in the early stages of that review. I think we'll do that along with every other assumption in the Life block and in our Retirement business and to the extent it matters in our Employment Benefit business, and we'll complete that process over the next few months. But there is nothing in the results that we saw this quarter. As we said, it was all driven by severity. I think just broadly based we just had higher average claims. It wasn't just that we had few big claims. It was even in the smaller claims. They were just higher than usual. And that will happen in a life insurance block from time-to-time. It's random noise. But overall, the experience we have shows that we should be comfortable with our assumptions and feeling like we'll have more information to share when we get through the review. As it relates to the reinsurance and block sales, nothing new to share other than we continue to, as we've said from the beginning, monitor the markets and assess our opportunities to accelerate cash release where it makes sense and is in the best interest of shareholders. That work goes on. It will continue to go on. And as we get to a point where there is something we need to talk about, we'll share that at the right time.

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

Andrew, I think the only another thing I'd add to what Mike said, it was covered in his beginning remarks. We said in terms of the expense reduction from the Enterprise perspective by the first half of this year, $110 million to $130 million for the Enterprise, plus $20 million for Life, both of those numbers have been accomplished. So the $20 million for Life has been accomplished, the progress that Mike has shared on the reinsurance transaction. You should expect, and the listeners, we are actively managing this block of business, and all options remain on the table. And we're going to keep you posted. We believe we are the best managers of the capital behind that block. And we are highly aligned to release this as fast as we can in a smart and effective way.

Operator

Our next question comes from Tom Gallagher of Evercore ISI.

Tom Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

I just wanted to come back on spreads in Retirement. The change there seem pretty abrupt to me. So I just wanted to get a better sense for what happened on the portfolio yield side. Mike, I heard you reference the floating rate, but I think that's a little less than $2 billion. So I get that it'll impact it. But were there other high-yielding assets maturing, large prepays? Can you talk a little bit about the portfolio yield side and then also crediting rate, which I think actually went up a little bit, but I'm not quite sure on that?

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

So let me talk a little bit about on the income side and then I can maybe let Charlie weigh in a little bit on crediting rate. The floating rate is a meaningful contributor. It's not the only contributor. There were also just, as I mentioned earlier in one of the responses, kind of the natural evolution of some of the assets. Some of the asset categories the yield can vary a little bit from period-to-period. But overall, that's the driver. I think it's also that trend is part of what's causing us to give the guide we are on the third quarter and beyond. And then Charlie on crediting rates?

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

On crediting rates, I think what you have observed there is we did have a larger surrender at a lower rate that moved up the average rate. I think of it a bit as a business mix that impacted that crediting rate change there.

Tom Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

That makes sense. And I think during part of last year you all had some renegotiation of guaranteed contractual minimums, and we had DAC charges but some earnings release. Is there anything else like that out there that you're planning on? Or would that kind of embedded in your guidance? Or is that an opportunity as it was last year?

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

Tom, I'd say, it's embedded in our guidance. I kind of think of our interest rate mitigation plan in a couple of ways. We've got about 20% of our spread-based assets that we have the ability to modify crediting rates on. And we're going to continually manage that crediting rate, balancing the economic environment and the competitive environment. On the 80% currently at the crediting rate of the GMIR, as you point out, we were proactive in that. And that GMIR, you shouldn't think of necessarily as a constant per se. Because what we did is we froze the assets at the GMIR level on a large portion of that business so that new participants, deposits and transfers will come in at a lower GMIR rate. And that will over time continually help us to slowly see that GMIR average rate come down. So we've got some mitigation factors there as well as our overall revenue mix between spread and fee based. We've got some levers on our fee-based side and then just our continued discipline and maintaining our disciplined eye, I should say, on expenses that Rod and Mike were speaking to, will drive the efficiency in our ongoing unit cost improvement.

Operator

Next question comes from Suneet Kamath of Citi.

Suneet Kamath ***Citigroup Inc, Research Division - MD***

First question on capital. I think you guys recently issued some preferreds. How does that factor into your thoughts on post quarter excess capital or RBC?

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

Well, it's included in the excess capital result. So we did about $300 million raise. We have now in the third quarter retired about $100 million of debt. So that's included in the excess capital amount, and it's part of the overall capital management approach we're going to take, and it helps inform the steer we gave earlier in terms of our future thinking on repurchases.

Suneet Kamath ***Citigroup Inc, Research Division - MD***

Okay. And then just to come back to Retirement one more time. It's good on a consolidated basis to hear that you're reiterating the 10%-plus EPS growth, but clearly the Retirement segment earnings power is less than we thought given the rate environment. So with respect to the mitigating factors, it seems like a lot of these will play out over time. So as we think about the balance of the year, is the single biggest lever you have incremental expense reduction? Because it seems like you're already doing quite a lot of that, but you still have room to do more, I guess, is the question?

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

Suneet, it's Rod. Yes. And I would say as planned. The primary driver from Investor Day in '19 and '20 were both of those levers as planned and as is playing out. And again, while these are very appropriate questions, but that door swings both ways. We could find ourselves in a position in 3 months or 2 months that interest rates go in a different direction. And my point that I brought up earlier on having to bring out low-for-longer slides three times in the '16, '17, '18 period was just that. So the answer is yes, we have levers as expected, and that's why we are reaffirming our target as we have on this call.

Suneet Kamath ***Citigroup Inc, Research Division - MD***

If I can just follow up real quick just on that target. I mean I don't want to get too cute in terms of timing, but is the rate environment that was predicated in that reiteration kind of where we are more currently or was it where we were at the end of the second quarter?

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

I don't think the guidance is so precise that a few basis points one way or the other makes a difference. I would say, look, it's moving even today. So if rates stay where they are, it certainly going to be a little bit of additional headwind. But it doesn't take you outside the range of guidance that we've given in my view.

Operator

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

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

Thank you, operator. As you've heard this management team say before, including when we set our targets at the most recent Investor Day, there will be challenges along the way but we remain confident that we will grow our normalized EPS by at least 10%. Our process during the second quarter demonstrates our continued commitment to deliver on these targets through organic growth, cost savings and optimal capital deployment. We have a clear strategy with 3 complementary businesses that are enabling us to expand our presence in the workplace and with institutional clients. These businesses generate strong free cash flows, which we expect will continue to support excess capital generation. We look forward to updating you on our progress as we pursue our vision to be America's Retirement Company. Thank you, and good day.

Operator

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