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VOYA - Q3 2014 Voya Financial Inc Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Voya Financial third quarter 2014 earnings conference call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Darin Arita, Senior Vice President of Investor Relations. Please go ahead.

Darin Arita - *Voya Financial Inc - SVP of IR*

Thank you, Emily, and good morning everyone. Welcome to Voya Financial's third quarter 2014 conference call. A slide presentation for this call is available on our website at investors.Voya.com or via the webcast.

Turning to slide 2, on today's call we will be making forward-looking statements. Except with respect to historical information, statements made in this conference call constitute forward-looking statements within the meaning of federal securities laws, including statements relating to trends in the Company's operations and financial results in the business, and the products of the Company and its subsidiaries.

Voya Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties, including those from time to time in Voya Financial's filings with the US Securities and Exchange Commission. Voya Financial specifically disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Slide 2 also notes that the call today includes non-GAAP financial measures. In particular, all references on this call to ROE, Return on Equity, ROC, Return on Capital, or other measures containing those terms are to Ongoing Business adjusted operating return on equity, or Ongoing Business adjusted operating return on capital, as applicable, which are each non-GAAP financial measures. An explanation of how we calculate these and other non-GAAP financial measures, and the reasons we believe they are useful, can be found in the quarterly investor supplement available on our website at investors.Voya.com.

Reconciliations to the most directly comparable GAAP measures are included in the press release and the quarterly investor supplement. Joining me this morning on the call are Rod Martin, Chairman and Chief Executive Officer of Voya Financial; Alain Karaoglan, Chief Operating Officer; and Ewout Steenbergen, Chief Financial Officer.

After their prepared remarks, we will take your questions. With that let's go to slide 3, and I will turn the call over to Rod.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Thank you, Darin, and good morning, everyone. We appreciate you joining us today. During the third quarter, we delivered strong results, and we continued to make progress toward our 2016 targets.

Let's begin on slide 4 with some key developments. First, our ROE for the 12 months ended September 30 grew 50 basis points from June 30 to 11.2%. Second, we entered into an agreement to reinsure a block of term life policies to RGA.

This transaction creates excess capital, and aligns with our focus on improving ROC. Specifically, it will improve the ROC for Individual Life and our Ongoing Business by approximately 70 basis points and 35 basis points, respectively.

Third, we continue to return capital to shareholders through share repurchases. In addition to repurchasing shares from ING Group, we also completed a $25 million accelerated share repurchase program.

In total, we repurchased $325 million of our common stock during the quarter, or $614 million year to date. We continue to believe that repurchasing shares is an effective way to manage capital, and demonstrates our confidence in our plans.

Fourth, as I just mentioned, in September, ING Group reduced its ownership stake to 32.5%. We're pleased that both established and new shareholders acquired our shares through the latest offering.

Finally, on September 1, we completed the rebranding of all of our businesses to Voya Financial. Our advertising program for our rebranding is underway, and I hope you have seen our new TV commercials. If not, I encourage you to view it on our Investor Relations website, and while you are there, you can also see a video for the Voya Born to Save program.

During the National Save for Retirement Week, we offered every baby born in the US on October 20, 2014, a $500 Voya mutual fund investment through our Voya Born to Save program. This was a way for us to give these newborns a jumpstart on retirement savings, but it also enabled us in a very innovative way to raise the awareness of our new brand and focus on helping Americans with their retirement readiness.

To date, more than 1,500 babies are signed up for the Voya Born to Save program, and we have reached tens of millions of Americans through print, digital, and TV coverage of the program. Through both our advertising and our Voya Born to Save program, we have made progress in establishing Voya as America's retirement company.

Moving to slide 5, you can see our third quarter financial highlights. We generated $191 million or $0.75 per diluted share in after-tax operating earnings. Excluding DAC and other intangibles, results were $0.81 per diluted share.

Our Ongoing Business grew pre-tax adjusted operating earnings to $352 million. This included growth in Retirement, where earnings increased nicely, off the $132 million normalized level that Ewout discussed during the second quarter earnings call.

In addition, and as I noted a moment ago, our ROE increased to 11.2%. In our Closed Block Variable Annuity segment, we continued to protect regulatory and rating agency capital from market volatility.

As you know, we launched our GMIB enhanced annuitization offer. While the offer does not expire until November 14, we are seeing encouraging results so far.

To date, roughly 8.5% of account value eligible for the offer has elected to participate, and we could see additional interest in the final days of the offer period. We plan to update you with the final results on our year-end earnings call in February. As we have noted before, this is a unique approach to reducing the size of our CBVA segment.

We expect to learn a lot from this pilot program about further steps we can take to accelerate the runoff of the block. Our approach will continue to focus on doing things that are good for our customers, good for our shareholders, and good for Voya.

Moving to slide 6, our leadership positions in Retirement, Investments, and Insurance helped us generate more than $1.3 billion in pretax-adjusted operating earnings for the 12 months ended September 30. Consisting of about 60% of our earnings, Retirement Solutions plays a significant role in both our financial performance and our value proposition.

As you know, last month I assumed the leadership of Retirement Solutions. I'm committed to providing the leadership necessary to achieve our most immediate goals, namely the 2016 financial targets we have communicated to all of you. I also believe we are at the right moment in our evolution as a Company, and that now is the opportune time to ensure we are positioned to achieve our aspirations beyond 2016.

I am working with a very talented leadership team to best position Retirement Solutions for its next phase of growth and expansion. This includes bringing the full resources of the firm needed to not only achieve our 2016 targets, but also our vision to be America's retirement company.

At some point next year, I do intend to establish permanent leadership for Retirement Solutions. Until then, we will keep you informed as we move forward, but please know that we remain committed to our 2016 ROC and ROE targets, including our ROC targets for Retirement and Annuities. Collectively, Retirement Solutions, along with Investment Management and Insurance Solutions, will continue to drive greater shareholder value.

Moving to slide 7, our Ongoing Business is just one of Voya Financial's three key sources of value. The others are the potential value in our Closed Block Variable Annuities segment and our tax benefits.

As we move forward we will continue to execute on our long-term improvement plan, make effective use of our excess capital, and focus on achieving our vision to be America's retirement company.

With that, let me turn it over to Alain for some details on the performance of our Ongoing Business.

Alain Karaoglan - *Voya Financial Inc - COO*

Thank you, Rod, and good morning. Turning to slide 9, our return on equity and return on capital remain on track to meet our 2016 targets.

Return on equity was 11.2% for the trailing 12 months ended September 30; that is up 90 basis points from 10.3% in 2013. When you remove items that we do not expect to recur at the same level, our return on equity improved 80 basis points to 10.6%.

For the trailing 12 months ended September 30, our return on capital was 9.3%. That is up 70 basis points from 8.6% in 2013. When you remove items that we do not expect to recur at the same level, our return on capital increased by 60 basis points to 8.8%.

Let me highlight some examples of how our Ongoing Business is executing on our initiatives to reach our 2016 target. Starting with Retirement on slide 10, the return on capital was 8.9%, or 8.6% when you adjust for items that we do not expect to recur at the same level.

During the quarter, we continued to execute on our initiatives in Retirement. For example, we retained 92% of the cases that we repriced during the quarter, and we continued to reprice our book of business at or above our targeted internal rates of return. As important as repricing is, we are also focused on growth, and key to this is being able to engage with plan participants on how we can help them with their retirement readiness needs.

Recently, we were pleased to be recognized by Dalbar as having the number one defined contribution participant website out of roughly 50 industry sites. This is a great recognition and was based on the recent introduction of myOrangeMoney and the personal financial dashboard. As we continue to reprice and grow our Retirement business, we believe our commitment to the business and our investment in retirement readiness offerings and capabilities, will continue to serve us well.

Now, let's turn to slide 11 to discuss our Annuities business. The return on capital improved to 8.6%, or 8.1% when you adjust for items that we do not expect to recur at the same level.

Our strategy to profitably grow our Annuity business is delivering results. A key component of this has been to execute on our wholesale strategy to significantly broaden our distribution.

At the same time, we are bringing new products to market that complement our portfolio, and help expand our distribution relationships. For example, at the end of September, we launched a new family of fixed index annuity products called the Wealth Builder series.

Available in both six and eight-year versions, this annuity targets customers looking for a pure accumulation product without any riders. These new products are in addition to the anticipated structured product annuity launch that I mentioned last quarter.

Moving to slide 12, the operating margin for Investment Management increased to 32.6%, or 28.9% when you exclude results from investment capital. In addition to our strong investment performance, we also continued to position the business for further growth. Let me highlight three examples.

First, we won a $3.8 billion custom target date mandate. We were pleased to be selected for our expertise in creating and implementing a glide path and asset allocation design that incorporates the specific attributes inherent to the client's employees. Given advisory nature of this mandate, this is not included in net flows, but we look to build on the momentum of this win as we grow our presence in the target date space within the defined contribution market.

Second, we further support the expansion of the business by partnering with an Australian firm to offer our asset management services to Australian institutional investors. And third, we announced the expansion of our efforts and investment offerings to meet the long-term investment needs of insurance companies by helping them manage their general account.

This included a key new hire to help us with our growth efforts. We have differentiated credit capabilities and solutions, which are relevant for this space, and we also have had some recent successes with insurance clients. These three examples highlight how we are planting the seeds of our future growth opportunities, anchored in our core competitive advantages and competencies. And moving forward, we will continue to invest in our Investment Management business to support future growth while maintaining expense discipline.

Turning to slide 13, Individual Life's return on capital was 4.6%, or 4.3% when you adjust for items that we do not expect to recur at the same level. We continued to refocus the Individual Life business, including, as we did in the second quarter, shifting sales to our universal life product portfolio.

In fact, sales of indexed universal life increased by 20% over the second quarter of 2014. Indexed universal life sales also accounted for 60% of total sales for the third quarter. That is up from 53% in the second quarter.

In addition to shifting the mix of our Individual Life business, we are equally focused on capital initiatives. On slide 14, we have provided highlights of our transaction with RGA to reinsure an in-force block of term life insurance policies. This will significantly benefit the return on capital of Individual Life and the Ongoing Business.

Based on financials, as of September 30, we estimate that the transaction will add approximately 70 basis points to the return on capital for Individual Life, and approximately 35 basis points to the return on capital of our Ongoing Business. The full benefit of the trailing 12-month return on capital will occur over four quarters after the transaction closes.

Turning to slide 15, the return on capital of Employee Benefits increased to approximately 24%. We are very pleased with the strong results that we have achieved in the Employee Benefits business.

We have seen strong demand for group life and stop loss, where the market continues to be very competitive. But importantly, we are maintaining underwriting discipline in our sales, and we are also benefiting from loss ratios that were once again better than our targeted range of 77% to 80%.

At the same time, we are also growing our Compass suite of voluntary products. Recently our Compass accident and critical illness products became available in all 50 states, and we continue to actively market these important asset protection solutions.

This includes outreach to target private exchanges, and key distribution partners to support our growth efforts, as well as drive retention of profitable business. So as you can see, we are making, and continuing to make, very strong progress in the execution of our more than 30 margin growth and capital initiatives to improve our results and achieve our 2016 targets.

Now, I will turn it over to Ewout, who will cover our financial results in more detail. Ewout?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Thank you. Good morning, everyone. Today let me highlight some of our key financial metrics for the third quarter of 2014.

Slide 17, you can see the items that affected our third quarter results relative to the second quarter. You will see that several of our segments benefited from higher prepayments and alternative investment income, in addition to segment-specific drivers.

In Retirement, increased full service fees and lower expenses drove the results. Adjusting for higher prepayment and alternative income, a more normalized quarterly earnings level would be approximately $138 million. In Annuities, lower credited interest helped to increase earnings, even as mortality experience normalized from the second quarter.

In Investment Management, we earned higher fee income as a result of higher average assets under management, and the benefit of sub-advisor replacements.

In Individual Life there was on unfavorable mortality, driven by frequency. In Employee Benefits, the loss ratios for both group life and stop loss continued to be favorable.

Looking ahead, there are some factors worth noting that we expect to affect our individual segments. In Retirement, we anticipate net outflows of $900 million to $1.1 billion in the fourth quarter, due to the non-renewal of a large case that did not meet our targeted returns. In addition, we anticipate 2015 record-keeping fees to have a quarterly run rate of approximately $45 million, reflecting our decision to exit the defined benefit administration business and non-renewal of certain plans.

In Investment Management, the fourth quarter of 2014 expenses will reflect the full effect of the disciplined investments we made in the third quarter, such as expanding distribution to position the business for further growth. In our Closed Block Institutional Spread products, we anticipate a $12 million non-cash expense from the accelerated recognition of deferred financing cost, following our decision to terminate a funding agreement. This is in line with what we did in the fourth quarter of 2013, as we find opportunities to accelerate the runoff of this closed block.

We also expect to have some notable below the line items in the fourth quarter. We expect a nonoperating impact on our pension plan. If interest rates will end the year lower than at the beginning of the year, we are likely to record a loss, and we are currently reviewing the anticipated impact of updated mortality tables.

As a reminder, we use a fair value methodology to account for our pension plan. This approach recognizes nonoperating gains and losses in the current period, rather than amortizing over a multi-year timeframe.

Also as a reminder, in Individual Life, the expected non-operating pretax loss related to the closing of the reinsurance transaction that will be recognized in 2014 will be $100 million to $120 million. Of this amount, approximately $18 million was already recorded in the third quarter, due to accounting rules.

Then moving to slide 18. We conducted our annual review of assumptions and projection model inputs during the third quarter. Overall, the review had a modest impact on the Ongoing Business and a favorable impact for the Closed Block Variable Annuity. The Ongoing Business had favorable total unlocking of $6 million, with $19 million of unfavorable operating unlocking, which primarily reflects the lower level of the portfolio earned rates.

In our Closed Block Variable Annuities segment, the unlocking was favorable on a GAAP and statutory basis. The GAAP gained from policyholder behavior assumptions was primarily due to a favorable update to utilization rates on guaranteed minimum withdrawal benefit contracts, partially offset by an unfavorable update to lapse rates.

Management's current best estimate of variable annuity policyholder lapse behavior is more heavily weighted towards more recent experience, as the last three years of data have shown a more consistent trend of lapse behavior. The policyholder behavior assumption update resulted in a $209 million decrease in statutory reserves.

Then slide 19, I will briefly give you some color on our Retirement net flows, which reflect our repricing discipline for the value we provide to our customers. We generated positive net flows in corporate markets during the quarter, and the individual market flows were flat. These flows were offset by net outflows in tax-exempt markets and stable value.

As we have spoken about previously, the stable value market has become more competitive, with a larger number of companies participating in the market, and we have continued to remain disciplined with our pricing and risk tolerance.

On slide 20, we have continued to generate positive net flows in our mutual fund custodial product. For the fixed indexed annuities, net flows were flat, as we proactively adjusted our products as interest rates declined.

Consistent with our ROC improvement plan, and as indicated last year, we had a large block of multi-year guaranteed annuities run off in the quarter. This was a positive event from an ROC perspective, as this block had a low return.

On slide 21, Investment Management successfully generated another $2.1 billion of sub-advisor replacements. Year-to-date, we had $6.8 billion of these flows, reflecting the strong investment performance of our equity and fixed income platforms.

Investment Management-sourced net flows reflect lower senior loan and institutional sales, which can be lumpy, along with the maturity of a CLO. We remain encouraged by the activities we're seeing in the institutional market, with a continued increase in Buy ratings by consultants.

As Alain mentioned earlier, we had a $3.8 billion custom target date win this quarter, but note that this is not included in net flows and assets under management. Variable annuity outflows for the funds that are managed by Investment Management were $1 billion, which represent a headwind for the Investment Management business, but are positive for the larger enterprise.

On slide 22, our loss ratios for group life and stop loss continued to come in better than our expected range of 77% to 80%. We are encouraged by the results, and we will remain disciplined with our underwriting and pricing throughout the January renewal period.

Turning to slide 23, in the Closed Block Variable Annuity, our hedge program performed within expectations, as our hedges largely offset the effects of market movements. On an aggregate basis, the funds in the variable annuity portfolios underperformed the S&P, and as a result, living benefit net amount at risk increased to $3.2 billion, which compares to estimated available resources of $4.9 billion. The annualized net outflow rate was 11.1%, and the fourth quarter's rate will include the effect of the GMIB enhanced annuitization offer.

On slide 24, our estimated combined risk based capital ratio remains strong in the third quarter at 512%. On the right side of the slide, the debt-to-capital ratio at the end of the third quarter improved slightly from the second quarter to 23%, and that is better than our target of 25%. The improvement occurred even as we repurchased a significant amount of stock during the period.

And then slide 25, our holding company liquidity stood at $474 million as of the end of September, which reflects the stock repurchase activity in the quarter, and remains above our 24 months liquidity target of $450 million. Moving to the middle chart, this shows the composition of our corporate GAAP capital as of September 30 of $2.7 billion.

The largest component is $1.2 billion, which represents our estimated statutory surplus in excess of our target RBC ratio of 425% as of the end of the third quarter. The chart on the right shows that we repurchased $325 million of our shares during the third quarter, consisting of $300 million during ING Group's secondary offering in September and a $25 million accelerated share repurchase at the end of the quarter. This brings our year-to-date total to $640 million, with $186 million currently remaining under our share repurchase authorization.

In summary, we delivered strong financial results this quarter, as we continue to make progress on achieving our 2016 ROE goal. We took actions to exit lower-return businesses.

We built upon the strength of our balance sheet. We returned capital to shareholders and we took proactive steps to manage our CBVA segment. And with that, I will turn the call back to the operator, Emily, so we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Yaron Kinar, Deutsche Bank

Yaron Kinar - *Deutsche Bank - Analyst*

Good morning everybody.

So, I had a question on the sequential improvement in the RBC ratio, 11% improvement there. Does that already include the $200 million increase to regulatory capital from the life reinsurance deal?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning Yaron. This is Ewout.

The expected closing date of the Individual Life reinsurance transaction will happen later during this fourth quarter. If you look at the RBC ratio, the estimated combined RBC ratio at the end of the third quarter, that does not include yet the expected $200 million of statutory capital we will free up with that reinsurance transaction.

Yaron Kinar - *Deutsche Bank - Analyst*

Okay. That's helpful.

And then my follow-up is, looking at the potential for further capital deployment from here. With the $614 of buybacks year-to-date it seems like you have about $25, $24 million remaining above the Hold Co liquidity target. How should we think about the timing and magnitude of dividends from the subsidiaries?

I have seen that $1.2 billion of excess capital sitting in the operating units. How should we think about the timing of those moving into the Hold Co in order to see further buybacks or other capital deployment potential?

Ewout Steenbergen - *Voya Financial Inc - CFO*

That's a great question. I would like to emphasize here that liquidity position of the Holding Company will not be constrained with respect to share buybacks we can do as a Company going forward. The reason is if you look at the possible streams of liquidity that go to the Holding Company during the fourth quarter you'll see some very healthy development.

You might recall that we explained at the beginning of this year that we still have $90 million, $90 million of ordinary dividend capacity out of our Connecticut company that we will take out and upstream to the Holding Company during the fourth quarter. We will also have dividend streams from our Investment Management entity that is not constrained, and will be somewhere between $35 million and $40 million during the fourth quarter. That is the net profits from the asset management activity.

And then we were on a net negative basis with respect to the tax sharing equalization payment during the third quarter. That was a timing matter, and we expected that the tax sharing payments to the Holding Company will see a catch-up in the fourth quarter somewhere close to $140 million in terms of positive net effect to the Holding Company.

Of course the Holding Company has some interest expenses, approximately $22 million during the quarter, but if you look at the net number, clearly we will be in a position that the liquidity of the Holding Company is large enough to take any actions if there might be an opportunity.

Yaron Kinar - *Deutsche Bank - Analyst*

Thank you very much.

Operator

Erik Bass, Citigroup

Erik Bass - *Citigroup - Analyst*

Hi. Thank you. Rod, I was just hoping you could discuss in a little bit more detail or expand on your comments earlier about the leadership change for the Retirement business and the key areas that you're focused on now that you have direct oversight of the business?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Good morning, Erik. I' d be happy to do that.

The immediate focus in working with the team is going to naturally be the continued focus and expansion on margin improvement. We've made very good progress, but we will continue to be very vigilant about that. Really focus as you have heard us talk about, Alain, Ewout, and I, and others, on growth. Not just growth in 2015 and 2016, but really beyond. That's the immediate focus.

I'm completely plugged-in to the Retirement Solutions team. I'm really enjoying the activity since the announcement.

I think we're at a very special point in our history where the progress that we've made, we can further accelerate that as we go forward. It's going to be a result of the focus on those two events I just mentioned.

Erik Bass - *Citigroup - Analyst*

Got it. Excuse me.

Maybe where is the progress been a little bit slower than expected, and where do you see the biggest opportunity for improvement or for that long-term growth that you talked about? Where do you see the biggest opportunities for that to come from?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

You know, what's evolving in the market place and some of the tools that we've introduced is -- we've got a very unique opportunity with our plans, our plan sponsors and the breadth of our platform.

If you look at the response that we've had with myOrangeMoney, our Personal Financial Dashboard, the embracing of our plans, distributors, and sponsors to our retirement readiness theme, I think there's just a very unique opportunity for our Company to bring kind of a one Voya view to all this as we go forward.

What we'll continue to focus on over time is disciplined repricing of the existing book. Looking for opportunities and places to win, and we have had many of those, as we've noted in previous calls at or better then the IRR's that we're targeting in the retirement space. Frankly, continued to focus on retirement readiness growth.

We are investing in that area, and the response of those tools, and Alain mentioned just one, the Dalbar rating of myOrangeMoney is really the cornerstone of what we are doing, and the response from the sponsors has been highly encouraging to us.

I think it just underscores both the opportunity we have, and we all understand on this call the need that is there for our ability to help not only our customers, but future customers in their retirement readiness.

Erik Bass - *Citigroup - Analyst*

Great. Thank you for the comments.

Operator

Suneet Kamath, UBS

Suneet Kamath - *UBS - Analyst*

Thanks and good morning.

A quick follow-up to Yaron's question about holding company cash. The $200 million that you expect a free from the life reinsurance deal, are you expecting to take that up to the Holding Company?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning. This is Ewout.

Ultimately, yes, that is the intention, to take all of the excess statutory surplus out of the operating entities. Everything above our targeted RBC of 425%, and to get that to the Holding Company. There might be sometimes a bit of delay because we have to wait until we file our statutory accounts before we can take ordinary dividends out of the operating entities to the holding. So, the largest part of those streams you will see in the second quarter of every year, as I just explained, also a little bit of ordinary dividend capacity we still have now in the fourth quarter out of the Connecticut entity.

But that is more a delay of the liquidity movement to the Holding Company. What I would like to further emphasize is we have reciprocal liquidity arrangements between all of our entities and the Holding Company, so there's always a possibility to deal with that as well. But in terms of ordinary course of business we will take dividends out of the entities. Everything above 425% of RBC after year end closing in closing in the second quarter to the Holding.

Suneet Kamath - *UBS - Analyst*

Okay. And a bigger picture question, as we think about just the sources of free cash flow for your Company. I think you've guided in the past that the typical ratio of free cash flow to operating earnings is maybe something around 50%, which is about in line with typical life insurance company.

But if I think about your business mix, which is different, and I think about some of the business mix shifts going on underneath the surface, and I think about the fact that even though you have this 35% effective tax rate on a reported basis, you're not paying any cash taxes out for many years. At least that's my understanding. It would seem if we put all of that together, it would suggest to me that maybe you could exceed the 50%, which is your current guidance.

So, I don't know if I'm missing something or if there's any additional color you want to provide on that?

Ewout Steenbergen - *Voya Financial Inc - CFO*

You are absolutely right. The guidance we have provided in the past was that we would expect to see as a rule of thumb, 50% of our GAAP operating earnings after tax from the Ongoing Business translated in free cash flow to the Holding Company after our Holding Company expenses, which are mostly the interest expense. But, as you are stating in a very fair way, what we actually have seen happening this year is a percentage that is much higher.

I would like to spike out that there are a couple of items that are very specific, like some of the reinsurance transactions, the one we did in Retirement earlier this year, that has a certain effect. We also have seen some positive effects of lower credit losses than we have in our plan and our expected credit losses from a long-term perspective.

Having said that we have looked, re-looked, at our guidance in this area, and what we are expecting for the next 12 to 15 months is a translation which was before the 50%, more now over the next 12 to 15 month in the range of 60% to 70% going forward from the GAAP operating after tax earnings to free cash flow.

Suneet Kamath - *UBS - Analyst*

Okay. That's helpful. And just a quick follow-up on that.

You've specifically said over the next 12 to 15 months but if we -- I don't want to get too far ahead of ourselves, but if we think about what's a sustainable ratio, should we expect that beyond the next 12 to 15 month that 60 to 70% would dramatically change, or how should we think about that?

Ewout Steenbergen - *Voya Financial Inc - CFO*

What will really drive the increase is the performance improvements of the Ongoing Business. As you are seeing, the Ongoing Businesses are doing well.

They are improving the return on capital, and we have plans to further improve that to our targets in 2016 and onwards, because the 2016 targets are of course just a point in time, and we certainly expect that our targets can go further after 2016.

If the performance of the Ongoing Business is improving, that means that's both better performance on a GAAP and statutory basis, so we will see higher statutory income. The holding company expenses will remain the same and will mean that the translation of GAAP to stats earnings and free cash flow should improve over time.

I'm not going to give you a kind of end stage because that very much depends on the mix of business, the level of sales, where the sales are happening, other specific drivers, certain management actions with respect to how much capital we can free up. There are many, many factors that can influence this particular percentage going forward, but in terms of trend you should expect that this trend will continue to go up as much as in line with all of the other performance improvements we are planning to make for the Ongoing Business.

Suneet Kamath - *UBS - Analyst*

Okay. Understood. Thanks very much.

Operator

Tom Gallagher, Credit Suisse

Tom Gallagher - *Credit Suisse - Analyst*

First, Ewout, just a follow-up to Suneet's question on the amount of excess capital and your plans for getting it up to the Hold Co and then ultimately doing something with it. So it's $1.2 billion today in the subsidiaries, and after the life block deal closes it will go to $1.4 billion.

Should we now -- now I know there is ordinary dividend restrictions which would prevent you from taking $1.4 billion up to the Hold Co in the second quarter of 2015, or at least I think there is. But, would you be seeking extraordinary dividends approval to get all of that up, or how should I be thinking about that?

Ewout Steenbergen - *Voya Financial Inc - CFO*

I think that's a very fair question, Tom. If you look at the $1.2 billion to $1.4 billion, a part of that improvement has transpired through statutory income that is available as ordinary dividend in the future. A part has transpired through reduction of required capital, for example, based on some of those reinsurance transactions.

I cannot give you a precise answer today how we're going to try to get all of the excess over 425% RBC over to the Holding Company. There are several ways we're studying right now, but what I can say to you is we absolutely have the intention, that that is not permanent excess statutory capital in the operating entities, and that we will find ways ultimately to get that to the Holding Company and it will be available for return to shareholders for growth of the business or other opportunities.

Tom Gallagher - *Credit Suisse - Analyst*

And would the preference given where your stock is, still be heavily weighted to buybacks?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Tom, it's Rod.

We think as long as our book value is less than one and group still has an outstanding position, it's a very effective use of capital. But we naturally are beginning to think about other considerations of that, including expansion of dividend and further investment in the Business.

And so, we will keep you updated with our capital plan, thinking as we did a year ago around the first quarter of next year, but all of those remain very actively on the table and we are excited to be in the position we are in to have that discussion.

Tom Gallagher - *Credit Suisse - Analyst*

Thanks, Rod. And then just one quick follow-up, if I could.

So, your Life Insurance business, we have now had two of the last three quarters have had weak mortality. I just had two sub-questions related to that. Any reason to think that won't recur?

And then secondly, I believe when you IPO'd the actual to expected was around 100%, and I presume that is somewhat worse than 100%. I don't know if that 100% is actual to expected accounting assumptions? And if it is, is there any reason to think we should be worried about any balance sheet implications to that? Thanks.

Ewout Steenbergen - *Voya Financial Inc - CFO*

This is Ewout. If you look at the mortality results so far this year, I would like to point out that we saw unfavorable mortality in the first quarter, very favorable mortality in the second quarter, and again unfavorable mortality in the third quarter. We are, of course, studying those results in a lot of detail, and we are very comfortable as management that this is within our normal actuarial fluctuations we might expect on the block of business we have today. There's nothing out of the ordinary what we see in terms of volatility of the mortality results.

Going back to your actual to expected question, Tom, I think the actual to expected ratios you have seen in the past were based on our planned assumption. And planned assumption is more what we are expecting to happen in the current year, in the future year, which is not the same as the actual to expected on a price basis, which was really what we expected when we priced and sold those products.

I can give you those percentages on a price basis. If you look at the third-quarter, the actual to expected was close to 95%, and that was mostly due to elevated FAS 60 term life mortality, which was mostly frequency. In the mid-90% was the elevated number.

Last quarter, when we had favorable mortality the actual to expected on the price basis was more in the mid-80%. So, what you should expect as a kind of normalized run rate around a 90% if we see normal mortality, 90% actual to expected on a price basis.

Tom Gallagher - *Credit Suisse - Analyst*

Got it. I guess, finally, related to that then, Ewout, then there shouldn't be any real accounting concerns here from a balance sheet standpoint given that you are still sub 100%?

Ewout Steenbergen - *Voya Financial Inc - CFO*

No, We are studying our mortality assumptions every year. We do that for all of our businesses in the third-quarter, as we review our assumptions and there is no concern with respect to the mortality assumption we have today. We haven't made a large adjustment during this particular quarter.

Tom Gallagher - *Credit Suisse - Analyst*

Okay. Thanks.

Operator

Ryan Krueger, KBW

Ryan Krueger - *KBW - Analyst*

Thanks. Good morning.

I had a question on the Retirement record keeping fee run rate of $45 million next year. Are there any natural expense offsets that we should expect from those fees coming down?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Ryan. If you look at the reduced run rate with respect to the fee revenue, let me first say we are very committed to the recordkeeping business. It's a very important part of our business, and it is really an integral part of our retirement readiness proposition we bring to the market.

With that, if you look at the reduced record-keeping fee income we expect in the future, which is partly due to some cases that has left us, as well as the sunset of the defined benefit business over time, which will be a very controlled reduction. We expect that we are able to take a large part of the expenses out: mostly the direct expenses.

That will come in over time, because there is always a bit of a delay, because those customers will leave gradually, and then we are able to take those expenses out. But the direct expenses, think about approximately two thirds of the expenses on those particular cases are direct expenses. We are convinced we are able to take out, over time, to be in line with the reduced fee income on the recordkeeping.

Ryan Krueger - *KBW - Analyst*

Okay. Thanks. And then, could you give us, as you have in the past, the components of the $4.9 billion of CBVA available resources, and then as a secondary part of that, how should we think about the impact there from the 8.5% of participation so far in the GMIB annuitization offer?

Ewout Steenbergen - *Voya Financial Inc - CFO*

If you look at the available resources of $4.9 billion, let me give you the underlying components. $2.9 billion are the statutory reserves for living benefits. $400 million are the statutory reserves for the death benefits.

So in combination this is called the 80/43 reserves, $3.3 billion. Then we have cash flow testing reserves of $500 million. That means that we have other unassigned assets of $1.1 billion.

So $1.1 billion are other unassigned assets, which are all hard assets on top of the 80/43 reserves and on top of the cash flow testing reserves. With respect to the capital impact regarding the enhanced annuitization offer for the GMIB, we do not expect that in the short-term there is going to be a material capital impact, and a material impact on the available resources. What will happen is, those policies will be converted into general account policies, so the assets go from separate accounts to general accounts. They will be straight payout annuities. There won't be any market risk anymore.

We can reduce the hedge programs accordingly. And those payout annuities will drop off statutory income over time, and that is the way how those policies ultimately, after the conversion, will translate into some capital benefit for the Company.

Don't expect any short-term impact, material impact on capital. But that capital benefit will come in gradually over time.

Ryan Krueger - *KBW - Analyst*

Okay. Got it. Thanks a lot.

Operator

Nigel Dally, Morgan Stanley

Nigel Dally - *Morgan Stanley - Analyst*

Great. Thanks. Good morning.

I wanted to follow up on the CBVA and the policy-holder assumption changes. Is it possible to break down the $170 million gain that you had between utilization and lapses, and perhaps you could provide some color as to how you changed those assumptions? Thanks.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Nigel.

We have decided not to give a specific numerical explanation of the underlying components. But I can explain to you some of the main drivers, and the reasons why we have made the assumption updates, as we have disclosed to you this morning. Let me especially zoom in to the policyholder behavior assumptions, which have three elements: the utilization of the withdrawal benefits, then we have the lapse assumption, and we have the annuitization of the income benefits.

If you look at the utilization of the withdrawal benefits for life, we're looking at our own experience and we have supplemented that by an external actuarial study that was done for us, which really is also based on some more rich industry data.

If we look at those experiences and our own experience also has become more credible, we see delay in the timing that people start with the utilization of the withdrawal benefits. That is a change we have put through in terms of the assumptions during this quarter.

If you look at the lapse assumption, before we told you that we are looking at a very large set of data with respect to lapse experience from 2006 to current. That lapse experience over time was very different. We saw higher lapses between 2006 and 2009. And lower lapses trending after 2009 to current.

We have enough credible data that we wanted to update the lapse assumption to more heavily weighted experience of the last three years. That was a negative in terms of the assumption update financial impact. But we believe that is a positive stat, because that particular assumption is now very much based on the most recent experience, and we have enough credible data to do that.

And then on the annuitization, we made a change last year. There wasn't any large change this year. We earned generally in line with the previous assumption.

I hope that helps, Nigel, in terms of directionally what were the underlying movements and reasonings we followed as management.

Nigel Dally - *Morgan Stanley - Analyst*

Great. Very helpful. Thanks.

Operator

Eric Berg, RBC capital markets

Eric Berg - *RBC Capital Markets - Analyst*

Thanks very much and good morning.

I'd like to start on slide 25 in the middle column, the middle panel of data. The stacked column chart where you're showing $2.7 billion in total. How should we -- why are you showing us this?

In other words, I obviously can read the heading: Corporate and Closed Blocks GAAP Capital. But why have you chosen show us this? How should we think about this $2.7 billion figure? What is its meaning and significance to investors in your Company?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Eric, let me explain that a bit. If we point investors and analysts to our statistical supplement, what you will see there on page 7 is an allocation of the different components of our capital to the Ongoing Business and our segments, as well as the allocation of our capital to the Closed Block Variable Annuity. And then we have one column that is called Corporate and Other Closed Blocks.

That is a quite large number, the $2.7 billion what you see there. We have received questions in the past of what does that $2.7 billion exactly mean. What are the underlying components, so that you and investors better understand the different elements, and how that is really driving some of the main management decisions of the Company.

So, why is that relevant? You see that this is highlighting the $1.2 billion of excess RBC over our 425% target level. When we allocate capital to our segments, we do that on the basis of an RBC level of 425%. In other words, from a GAAP capital allocation, we immediately take out any excess capital over 425%, although from a legal entity perspective it might still be in the operating entities.

From a capital allocation perspective, it's already taken out and showing up in the Corporate and Other Closed Block area. We also here are highlighting the holding company liquidity, as well as some of the capital for the other closed blocks. This is the Closed Block Institutional Spread Products and Other Closed Blocks and that the remaining element that you see there is a small part, which is more intangibles and other moving items.

So why are we disclosing this? This is purely to be more transparent, to give you more details, and a better explanation of that large number. So that you can see how that can benefit the Company and our shareholders in the future.

Eric Berg - *RBC Capital Markets - Analyst*

I guess I should've asked the question a little bit differently. Let me try it like this.

In the past, and the recent past, you have said that your excess capital, I believe you said, correct me if I'm wrong, your excess capital is now in excess of a certain number, $1.7 billion. How does that number relate to any of the numbers here on page 25?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Eric, how that relates to that is the following -- so, the light blue part of that bar, the $1.2 billion, is a relevant number if you look at the guidance we have provided before with respect to the excess capital we will generate as a company between now and 2016, which is the latest guidance, more than $1.7 billion.

You have to look at the $1.2 billion, and then you have to add the $200 million from the reinsurance transaction from Individual Life that is not showing up in this number yet. Then you have to add the amount of capital we have already returned to shareholders so far, which is a number a little bit over $600 million. So if you add up those numbers, you can clearly see that we are at a point that we have achieved the target of more than $1.7 billion.

What we are planning to do is, after year-end and we have closed our annual accounts, go back to you and the market to provide new guidance with respect to the excess capital we are expecting to generate going forward. The $1.2 billion in this bar graph is the relevant element, add the benefit of some of the transactions, add what we have already done in buybacks and other ways to return capital to shareholders, and those elements are relevant relative to the free cash flow target we have provided before.

Eric Berg - *RBC Capital Markets - Analyst*

Last question is for Rod. Rod, you have a number of initiatives underway to try to turn around what has been now I guess two quarters, two quarters of outflows in your Retirement business. As you think about the different initiatives that you have as you've taken operational leadership of this unit, as you think about the different initiatives that you've put in place to try and turn the flows positive, what would you focus on? What are the most important initiatives to fix these negative flows?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Eric, good morning.

Eric Berg - *RBC Capital Markets - Analyst*

Good morning.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

A couple of themes that I would reinforce. One is we are about halfway through the journey of the repricing. And as you can see, and as we'll continue to communicate, we are staying very vigilant about that discipline, and we are doing everything possible to renew business at or above our targets.

But if we cannot achieve that, we are not. And we have guided on each and every call that you should expect flows to move from period to period. In fact, we did so just on this call with Ewout's previous comments.

What is emerging that is very encouraging to me are the value-added service that we have been introducing.

We have talked about the cornerstone of that being myOrangeMoney, the Personal Financial Dashboard and the digital tools. The fact that it was recognized by Dalbar, as Alain spoke about earlier, is, I think, something we're very excited about, frankly, the team that has been working on it is very excited about.

But more specifically, Eric, the customers, the plan sponsors, and the corporations, are -- all recognize the need to help participants grow in their savings and the deferral rates. These tools in the early stages are working in a way that we are very excited about.

We have two things happening, as you know. We have to stay disciplined about the renewal and the run off of that book of business, and I wish I could snap my fingers and simply say we are through the five- to six-year period. We aren't. That is simply a process that is going to take that period of time, and we will stay, and we have been vigilant on that pricing piece.

The second part is being responsive in listening to our customers and plan participants about what their needs are and how we are responding with the tools that I've talked about. Those two events are happening, and we think are leading to, as you can see, improved ROC performance. It's nonlinear and will continue to be that way, but we have made very good progress in the aggregate initiatives, and specifically with retirement to this point.

Operator

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

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Emily, thank you.

We are excited about our continued transformation. We've made tremendous progress over the past nearly 2 years. We continue to have confidence in both our plan and our ability to execute it. And we're excited to see the introduction of the Voya Financial brand to the marketplace. We will continue to execute on our plans to establish Voya as a new kind of financial services company; one that is committed to changing the way people think about retirement.

Thank you and good day.

Operator

The conference is now concluded. Thank you for attending today's presentation.

You may now disconnect.

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