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Voya Financial, Inc. (VOYA)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to Voya Financial's Third Quarter 2026 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Participants are limited to one question and one follow-up question. Please note that this event is being recorded. I would now like to turn the conference call over to Mei Ni Chu, Head of Investor Relations. Please go ahead.

Unverified Participant

Good morning and thank you for joining today's call. We will begin with prepared remarks by Heather Lavallee, our Chief Executive Officer; and Mike Katz, our Chief Financial Officer. Following their prepared remarks, we will take your questions. Also joining the call are Jay Kaduson, CEO of Workplace Solutions; and Matt Toms, CEO of Investment Management.

As a reminder, materials for today's call are available on our website at investors.voya.com. As noted on slide 2 of our analyst presentation, some of the comments during today's discussion may contain forward-looking statements and refer to certain non-GAAP financial measures within the meaning of federal securities law. GAAP reconciliations are available in our press release and financial supplement found on the Investor Relations website.

And now I will turn the call over to Heather.

Unverified Participant

Thank you, Mei Ni. Good morning and thank you for joining us today. Let's turn to page 4. We said we would deliver a strong second half, and our third quarter results demonstrate that we are delivering on that commitment. Adjusted operating earnings per share were $2.60, up 6% year-over-year. Commercial strength across the businesses drove fee revenue growth in Retirement and Investment Management, while continued improvements in Employee Benefits strengthened margins and cash generation.

At the same time, we've taken deliberate steps to reshape our cost base and translate growth into stronger earnings, reinforcing our confidence as we enter the fourth quarter. Our third quarter results include additional severance costs tied to these actions. Beginning in the first quarter and into 2027, they will benefit our expense base, strengthen operating leverage, and support continued growth across the business. We generated $225 million of excess capital this quarter, representing 95% of after-tax adjusted operating earnings. During the quarter, we returned approximately $150 million to shareholders through dividends and share repurchases. We also increased our dividend by 21%

Let me turn to the business highlights. Across our businesses, we are delivering for our customers and executing on the strategic priorities that will drive future growth. Investments in automation and client experience, alongside disciplined expense management, are helping us to maintain and improve margins while growing the top line. Retirement is a scaled, high-margin, increasingly fee-based franchise that continues to strengthen its leadership position. We continue to see strong sales momentum across our target markets. Within full service, we are on

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pace to achieve sales growth of 15% in emerging markets, 20% in the mid-market, and more than 50% in government markets in 2026.

And this quarter, we added nearly $14 billion of defined contributions net inflows and remain on track for a fifth consecutive year of positive net flows. In addition to winning new business, we retain nearly 98% of our plans in the third quarter, and our average client tenure exceeds 15 years. Importantly, these results demonstrate the breadth of our growth. We're winning across employer segments, retaining clients, and generating substantial net inflows while creating more opportunities to connect our 10.3 million retirement participant accounts with advice and investment solutions through wealth management.

We continue to generate strong commercial momentum and results in investment management. We're winning assets at attractive yields that, together, build scale and support robust fee revenue trends. Our institutional channel remains a key driver of growth, with strong demand from insurance clients for private fixed income capabilities. Year-to-date, the channel has generated $2.9 billion in net inflows.

We're also seeing robust international retail flows into higher fee income-oriented solutions. Our access to international distribution remains an important competitive advantage. Overall, the fundamentals of the business remain strong. We continue to see client demand in markets where our capabilities are most differentiated, and expense discipline is helping us sustain healthy operating margins as we continue to broaden our offering.

In Employee Benefits, the steps we have taken on pricing, underwriting, and risk selection are driving margin improvement and increasing our confidence in further earnings growth. Stop Loss is a clear example of that progress. Over the past two years, we have taken decisive actions to improve the quality and consistency of the business, including disciplined pricing and greater selectivity in our underwriting. Those actions, together with the focused execution of our team, have directly contributed to improving loss ratios and more consistent margins in the 2026 book of business.

Stop Loss demand remains strong as employers look for greater certainty around their health care costs. At the same time, current market dynamics support disciplined pricing and enable us to remain selective in our underwriting. We see significant value in restoring profitability and building a more consistent earnings foundation, and we remain focused on returning loss ratios to the 77% to 80% target range. These results reinforce our confidence in the fourth quarter and in the earnings trajectory of the company.

I'll now turn it over to Mike to walk through the financial results in more detail.

Unverified Participant

Thank you, Heather. Turning to slide 6, this quarter demonstrates how our strong business performance and continued productivity improvement are translating into earnings growth, robust cash generation, and greater capital flexibility. Third quarter adjusted operating earnings were $240 million or $2.60 per diluted share. Adjusted operating earnings per share increased 6% year-over-year or more than 14%, excluding severance, driven by business performance and active share repurchases.

We generated approximately $225 million of excess capital in the quarter. Our fourth quarter and 2027 earnings and cash flow outlook remain supported by business performance, expense management, and disciplined capital deployment. We are executing the efficiency work already under way across the enterprise to improve operating

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performance while aligning resources with our strategic priorities. Results this quarter include approximately $25 million of pre-tax severance expense associated with these actions.

As we guided last quarter, second half expenses are down meaningfully, and we now expect Retirement and Employee Benefit administrative expenses to be in the lower half of our guidance range. These actions are creating a more efficient cost structure while preserving capacity to reinvest in the business.

Alternative investment returns were in line with our long-term expectations this quarter, benefiting from the timing of real estate gains. While we expect alternative investment returns to moderate in the near term, our sensitivity to alternatives is declining over time, and importantly, our overall earnings outlook remains strong.

With that, let me turn to the segment results. Retirement benefits from scale and a growing fee base, supporting durable cash generation. In the quarter, we generated $266 million of adjusted operating earnings and $920 million over the last 12 months, both above the comparable prior-year period. Trailing 12-month earnings include a $35 million alternative investment income headwind, dampening otherwise strong underlying revenue and earnings growth tied to commercial momentum.

Our fee-based revenues increased 12% over the trailing 12 months and now represent more than 60% of revenue. Operating margin was approximately 38%, reflecting our ability to create operating leverage while reinvesting in the business. We drove strong commercial momentum in the quarter, with solid sales, high plan retention, and participant accounts up 5% year-over-year. Defined contribution also benefited from a large plan implementation, which drove nearly $14 billion of net flows in the quarter. Large plan implementations are episodic, and we do not expect a similar contribution in the fourth quarter. As we communicated at the start of the year, we still expect positive organic net flows for 2026, with the overall commercial momentum supporting revenue growth. Overall, our scale, commercial momentum, and expense discipline position Retirement for continued profitable growth.

Turning to Investment Management on slide 8, Investment Management is demonstrating the durability of the franchise, with fee growth, healthy client demand, and strong long-term investment performance. Quarterly earnings were %%58 million compared with $62 million in the prior-year period, primarily reflecting a $7 million reduction in investment capital income.

The quality of our asset mix continued to support fee-based revenue growth, with operating margin at 28.6%. We generated commercial momentum across institutional, insurance, and international channels in the third quarter. Specifically, we attracted institutional client net inflows of $870 million in the quarter, contributing to over $3.5 billion over the last year, as insurance client demand for private fixed-income capabilities remained high.

In retail, demand for our income-oriented solutions improved, particularly from international clients. As mentioned last quarter, retail included impacts from the wind-down of a legacy relationship. That was a $5 billion impact, which modestly offset momentum in actively distributed products, with a near-term revenue impact that is manageable. Our long-term investment performance remains strong, with more than 80% of assets outperforming benchmarks over the three-year period. Fee trends, healthy client demand, and long-term investment performance position the business for continued earnings momentum.

Turning to Employee Benefits on slide 9, our focus in Employee Benefits remains on improving margins through disciplined pricing and underwriting. Growing fee revenue from benefit administration and a more efficient cost structure are also strengthening the underlying business. Third quarter adjusted operating earnings were $51 million, including a $12 million net favorable impact from our annual actuarial assumption update and $5 million

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of favorable development in Stop Loss. For comparison, the prior-year quarter included $6 million of favorable assumption updates and a $12 million Stop Loss reinsurance recovery. On a trailing 12-month basis, earnings more than doubled to $126 million. The assumption update also affected reported product loss ratios. Excluding the assumption impacts, the Group Life loss ratio was approximately 71%, reflecting favorable mortality, while Supplemental Health was 54%, consistent with expectations. As a reminder, Supplemental Health is a component of the broader reported voluntary, disability, and other loss ratio.

In Stop Loss, the favorable reserve development reflects better-than-expected claims experience on our 2025 book. For the 2026 book, claims through October remain favorable relative to both 2024 and 2025, while reserves remain at the high end of our best estimate range. This is encouraging, although the experience is still developing.

For the January 2027 season, favorable market dynamics are supporting further meaningful rate increases, while higher RFP activity gives us greater opportunity to be selective and write business that meets our return targets. Taken together, our pricing and underwriting actions, improving claims experience, and more efficient cost structure support our fourth quarter outlook and position Employee Benefits for further margin improvement and earnings growth in 2027.

Turning to slide 10, strong earnings and cash generation are supporting our balance sheet and providing significant flexibility to invest for growth and return capital to shareholders. We expect to generate more than $800 million of excess capital in 2026 despite absorbing approximately $70 million of severance charges year-to-date. We expect free cash flow conversion to be at or above our 90% target.

Our 16.3% trailing 12-month adjusted operating return on equity reflects strong returns through the third quarter, and we expect further improvement in the fourth quarter. Through the third quarter, we generated approximately $575 million of excess capital and returned the majority to shareholders. We ended the quarter with approximately $250 million of excess capital.

That brings me to how do we are deploying that capital on slide 11. Our cash generation supports our ability to invest in the business, maintain financial flexibility, and return excess capital to shareholders. We repurchased 100 million of shares in the third quarter and 400 million year-to-date and expect to repurchase an additional 150 million of shares in the fourth quarter. Since year-end 2022, these repurchases have reduced our diluted share count by approximately 14%, providing a meaningful benefit to per share results. At the same time, the board approved an increase in the quarterly common dividend by 21% to $0.57 per share, reflecting confidence in our earnings and cash generation. The board also added $500 million to our share repurchase authorization, giving us capacity to continue returning excess capital.

And finally, we made the remaining payment for OneAmerica after successfully completing the integration during the second quarter. The acquisition added meaningful scale, expanded our capabilities, and created significant value for shareholders.

We enter the final quarter of 2026 with a stronger earnings base and significant financial flexibility, providing a solid foundation for continued growth in 2027. Our priorities are clear: deliver profitable growth, invest with discipline, and return excess capital to shareholders.

With that, I'll turn it back to Heather.

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Unverified Participant

Thanks, Mike. Let me close on slide 12. This quarter demonstrates the earnings power of our diversified businesses and the progress we're making across Voya. We're delivering the improvement in the second half of 2026 that we said was coming while taking actions that position us for continued earnings growth, commercial momentum, and increased cash generation. Across the company, we are driving growth in Retirement and Investment Management, continuing to improve margins in Employee Benefits, and staying disciplined on expenses across the company, all while providing our customers with outstanding service at every opportunity. Our disciplined execution, alongside our capacity for growing cash generation, gives us room to invest in future growth while continuing to reliably return significant capital to shareholders.

Before we go to questions, I want to thank our employees. Every day, their focus and commitment help our customers navigate some of life's most important financial decisions with greater confidence. With that, I'll turn it over to the operator so we can take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] As a reminder, participants are limited to one question and one follow-up question. One moment while we poll for questions. Our first question is from Mike Ward with UBS. Please proceed.

Q

Hi, guys. Thank you. Good morning. I was just wondering if you could dig into the softness in Voluntary a little bit more in terms of the drivers and the outlook.

A

Yeah, happy to do so, Mike. Good morning, and Mike will take your question.

A

Good morning, Mike. How are you? So just with respect to the to the Voluntary piece, it does get reported as part of voluntary, disability, and other, and there was an assumption unlocking that I mentioned on the prepared remarks. If you adjust for the assumption unlocking, you'll get a reported loss ratio of 59% in that line item. But again, that includes disability and other in there. When you look at just core supplemental health loss ratios, that was approximately 54%, very consistent with what I shared last quarter and in line with expectations. So the difference between the 59% and the 54%, it's really due to short-term disability loss ratios, which are higher than what we see in Voluntary -- that's as planned -- and then some onetime legacy UL impacts that we do not expect to repeat.

Stepping back, as we look at loss ratio in Voluntary sub-health, again, in line with expectations, I've talked about this earlier in the year that we expected net margins, importantly, to be consistent year-over-year as we've really

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gotten after expense actions. You saw that again this quarter. But also, we think that it's really important for us to offer best-in-class voluntary products. That's what's ultimately going to drive more penetration with our customers and lead to more premium growth over time.

Q

Thank you. Thanks, Mike. And then shifting over to Investment Management, the investment performance was a bit softer. Any incremental detail there, and is the kind of 1-basis-point fee compression in retail, at least, a good run rate?

A

Yeah. Thanks, Mike. I will let Matt take your question.

A

Hi, Mike. Thanks for the question. So, on the quarter, a bit softer in the one-year number, as you allude to. We show the one-year number acknowledging that it'll be quite volatile, the 3 and the 5 and the 10 still very strong, longer term, importantly, which is really the driver of client engagement. But for the -- for that one-year number, think about the rising yield environment and our duration sensitivity within fixed income being a headwind. There is meaningful market rotation in equities. That was an incremental headwind, not that large in equities. But then the biggest one was in our Income & Growth franchise, as we break out on page 20 of the earnings deck. That's a pretty unique product with the blend of convertible bonds, high-yield assets, as well as equities.

You saw a real underperformance in the convertible asset class and the duration sensitivity of high yield as well. So you'll see volatility in that unique product over time. You've seen it in past quarters. I'd say that while large on the quarter, not meaningful decline engagement. Flows there remain strong. Engagement remains strong and a bit of a feature, not a bug as far as being different than broad index indices and peers.

One -- to follow on with your retail question, yeah, a little bit of softness in retail, nothing really super meaningful there to call out. If I think year-over-year with 32.8 relative to 33.1, so down a bit just marginally. It's hard to forecast quarter to quarter. Some of these higher fee, higher return products had headwinds on the quarter at a market level. So, yeah, a decent level on a go-forward basis, but really not a trend that I'd call out.

A

Yeah. And maybe, Mike, just my broader step back on investment management is really resilient performance all around, right? You think about the positive flows, strong long-term investment performance across the board, healthy fee revenues, strong margins. So we feel good about the overall performance of the Investment Management business.

Operator: Our next question is from Tom Gallagher with Evercore ISI. Please proceed.

Q

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Good morning. First question is on the Stop Loss side. So, Mike, I heard your comment that claims remain favorable on 2026 accident year versus 2024 and 2025. When I've listened to other players in the market on stop loss, you seem to be unique in that others are describing 2026 as still elevated but consistent with pricing and expectations. Do you -- what do you make of that? Is it your re-underwriting you think that's driving that? And then also related the Stop Loss, how are you thinking about pricing heading into January 2027 renewals? Thanks.

A

Yeah. Hey, good morning, Tom. Maybe I'll just start with a couple of comments and then toss it to Mike. So I think in terms of peers, we've talked about the fact that we were early. We're executing against continued recovery. We do feel very good about the pricing and underwriting actions we've taken, and I'll let Mike unpack, and we continue to see favorability in the 2026 book of business. So I think it's really a matter of us being earlier and executing against that margin improvement, and we do feel very good about our ability to get this business back to the long-term earnings trajectory that we expect. But, Mike?

A

Heather, I completely agree, and good morning, Tom. We were early, and maybe kind of a way to think about that, that maybe evidence it in a way that's helpful for the listeners is that when we were getting rate in late 2024 for the 2025 business, I mean, we were nearly alone in this, and we shrank the book. Now that was intentional, but premium was down 15% because we're going out and getting 21% rate increases when that isn't happening.

You look at last year, we were able to get even more rate coming into 2026, 24%. We were able to keep the premium relatively flat. And so that was probably what I would call kind of the leg two of this journey. And as we've been talking about for a long time, this is going to be a two-year piece because we were early. I think the difference this year, maybe to get to your second question as it relates to 2027, we're seeing the hardest market we probably ever have seen in Stop Loss. We've been able to get even more rate heading into 2027. That's true of what we priced in non-Jan 2026 and what's happening early days with respect to the 2027 book.

We're also seeing more RFPs, which is allowing us to be very, very selective in what we're writing. And so I think the step back is we're feeling very encouraged by where the claims experience is. By the way, that's through October, not just September 30th. I think that's encouraging. We feel very good about how the market is hardening, and we're being able to be very selective around the risk. I think earlier this year, Heather, Jay, and I have been talking about the fact that this is the best that we felt around Stop Loss. I think we're continuing to see that as we move into November.

Q

That's helpful color. Thanks for that. The -- my follow-up is just on the Retirement business, how I guess you're seeing diverging trends. On one hand, full-service flows have been soft. On the other hand, recordkeeping flows have been quite strong. Can you talk a little bit about do you see that sort of bifurcation continuing, and what will that mean to growth and returns in the Retirement business? Because I think recordkeeping is lower margin. So how do you triangulate all that? Thanks.

A

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Yeah, Tom. I'll let Jay unpack that. But I think the broader step back as we think about Retirement is flows is certainly one metric. We're proud of our results, fifth consecutive year of positive flows. But as Jay will unpack, we're also looking at other metrics that frankly drive a more valuable franchise in terms of revenue growth. But, Jay?

A

Yeah. Appreciate the question on this. Listen, I think if you look at our mix this quarter, it's really been no different than the mix we've had in prior quarters. We did have visibility when we talked about flows earlier in the year that the middle of this year, we would see flows. We saw that. We did expect this large plan that was implemented this quarter on the recordkeeping side. And similarly, as we look to 2027, we've got visibility into our sales and pipeline, and we'll be back half-weighted, and that gets to the visibility.

Now, when I look at -- in respect of full service and the question, we did have some plan, OneAmerica outflows finishing what was a really successful integration this quarter. We did see, though, overall, our Q3 full-service outflows are in line with the broader industry, and there's some equity market impact there, and you're going to see modest outflows in full service, going forward. But that's really not how we judge kind of the retirement progress. We look beyond flows, specifically delivering strong results in our largest business.

Full-year sales growth right now is in the mid-teens. We've got net plan growth. I look at a very high 38% margin business while we've been investing in wealth management. We've got almost $14 billion of defined contribution net flows and a 98% plan retention. Behind all that, our participant accounts right now are up more than 5%, and that's over 10 million, which is a really healthy number. And then, on a trailing 12-month operating revenue, which is really the ultimate equalizer on revenue, is up 6%, with fee income up 12%. And now fee income represents approximately 60% of operating revenue, so really a strong quarter in our largest business.

Operator: Our next question is from Suneet Kamath with Jefferies. Please proceed.

Q

Thanks. Good morning. I wanted to start with the severance actions. It seems like we've had, like, two of these charges now in each of the past two quarters. It feels like they've come as a surprise to us. Maybe they were part of your plan all along. But I guess is there a risk now that you're -- well, maybe to start, what is sort of behind the need to take these actions, and is there a risk that you're sort of cutting into the bone at some point on this?

A

Yes. Suneet, good morning. It's Heather. I'll start and just say, look, whenever we make these decisions, which are very thoughtful, we are never going to do so and jeopardize the service we're providing for our customers. So that's first and foremost. But really, this is a follow-through of what we've mentioned all year long, which is how we're self-funding our growth initiatives and specifically the build-out of the wealth management, the lead in sourcing, frankly some of the other things we're doing across our businesses of expanding MEP and PEP capabilities, broadening array of privates and investment management, so a lot of growth initiatives, but let me let Mike unpack that for you a little more.

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A

Yeah. I just would emphasize and maybe, Suneet, like, look, we take it really seriously, the respect of not surprising investors. As you, I'm sure, understand, we've got to be a little bit more careful on the severance front because that affects people. But as Heather said, like, when we were doing planning coming into this year, talking about wealth management, we were very clear that we were going to self-fund those investments. That happened at the beginning of the year. We're right in the middle of budget and planning for 2027 right now.

And so, when we talked about that, it was really important for us to demonstrate that I think we have, both with the actions we took in the second quarter and the third quarter. So what it's ultimately allowing us to do, as Heather just detailed, it's allowing us to offset inflation. It's allowing us to hit the margins that we've shared. But importantly, it's allowing us to continue to invest for growth. But this is really not a surprise. We've been planning this all year and trying to make that as clear to shareholders as we possibly could without crossing a line.

Q

Okay. That's understandable. My second line of questioning, I wanted to come back to something I don't think we've talked about in a while, which is the deferred tax asset. If I go back to 2021, I think you guys talked about maybe a five-year view where 50% to 60% of it would be utilized. I think we're kind of at that window now, so just want to get an update there.

And then in the past when you guys were asked about M&A, the I think the prior CFO used to talk about the deferred tax asset as being something that you'd want value for because it could go away in some types of transaction. So I just wanted to get maybe an update there. Like I said, I don't think we've talked about this issue in some time. Thanks.

A

Mike?

A

Yeah. On the second piece, [ph] Santosh (00:41:40) -- or, yeah, sorry, Suneet, we wouldn't in any way speculate with respect to M&A and how that would work because, ultimately, it's going to depend on facts and circumstances with respect to the DTA. But when you think about just as far as us being a cash taxpayer over the next handful of years, continue to expect that to not be material from a cash tax payment for the next three to four years.

We still, when we look at the deck -- the GAAP deferred tax asset, call it roughly $2 billion, the net present value of that particular tax asset is still close to $1 billion. So we've been able to continue to maintain a pretty strong tax asset, and we're taking advantage of it. Frankly, it's a big part of the 90% after-tax adjusted operating earnings that's turning into cash. So we continue to expect to benefit from that, I would think, three to four years, Suneet, before we get to that point where it's not fully offsetting. At that point, we'd still have some benefits. I wouldn't think about that as a cliff; it's going to be more of a glide path.

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Q

Okay. Very good. Thanks.

Operator: Our next question is from Ryan Krueger with KBW. Please proceed.

Q

Thanks. Good morning. First one was just on the sub-advisor change. Is that fully done now, the $5 billion came out this quarter, or would you expect any further impacts there?

A

Yeah. Good morning, Ryan. Matt will take your question.

A

Hi, Ryan. Yeah, happy to provide more detail. So we have signaled last quarter that we had a subadvisor outflow coming. So this is the $5 billion that you'll see in the divestiture line item. It is there because this is tied to the AGI acquisition some years ago where we brought on the sub-advisory business to distribute through this channel as opposed through our own distribution. So also think of that as having about the same average basis points as our retail business broadly. So, if you were to dimension the revenue, I think in the $15 million range on a full run rate revenue for a year basis. And so, obviously, just part and parcel for the quarter and for 2026 overall, but something that we can continue to outgrow when we think about the business more broadly of a bit over $1 billion and continue to grow quite nicely over time.

As far as what's left, still a relationship there, about $5 billion. These are in areas where we continue to be very confident in our investment management capabilities and ability to, over time, also distribute our own products as sub-advisory can be volatile, nice business, but you can see flows that are chunky from time to time. That's what you're seeing here. But our income and growth franchise team is strong, and we look forward to continued growth.

Q

Thanks. And then one follow-up on the Voluntary Benefits and Other. The 54% in Supplemental Health makes sense, but it seems as you do grow disability and it has a higher loss ratio, I was trying to understand how to think about where that total loss ratio expectation might be, going forward, as that does become a little bit larger part of the line.

A

Sure. Mike?

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A

Yeah. I think at this point, what I would -- I wouldn't want to project, just given it's so early in the build. I mean when you think about disability, Ryan, it's about 2% of total premiums. So it's really, really small. It did have a 1-point or a 1.5 impact in the quarter. I think what we'll do, to the extent that changes in any way to give you a sense of like how to think about what's running through that voluntary benefit, disability, and other line, we'll signal that. But right now, I would just say kind of mid-50s is what you should expect coming through that line from a loss ratio. That's aggregates of the 54% sub-health, including all the other pieces, disability, which is really, really small.

I think for us to step back on the benefits business, though, is when we look at the progress that we're making with respect to excess capital generation, it's been a big story for us. We've doubled the earnings in that business, more than doubled the earnings in that business this year, what we talked about in some of the questions around Stop Loss, certainly feeling very good about that. So our expectation, as we look into next year, is the Benefit business is going to continue to be a key part of the excess capital generation. That's why we have a lot of confidence in the fourth quarter and beyond, continue to generate more capital. The Benefit business is going to be a big part of that.

Operator: Our next question is from Wes Carmichael with Wells Fargo. Please proceed.

Q

Hey. Thank you. Good morning. I just wanted to come back to Stop Loss headed into the fourth quarter. I think you saw some modest reserve releases this quarter that related to 2025. But can you maybe just give us a little bit of color on how you're thinking about the 2026 loss pick headed into the year? And maybe just comment on how committed you are to that business, longer term, given kind of the amount of retention it's taking?

A

Yeah, sure. I'll let Mike start, and then I'll add some additional color.

A

Yeah. Thinking about it the same, Wes, like the reserves' high end of the best estimate range, follow the experience that's coming in, and then adjust reserves based on that same methodology. As I shared in my prepared remarks and we were getting into it a little bit with Tom, the experience is running well through October. So, if that continues, I think that's a good sign for the fourth quarter. I think we've talked about the fact that we expected loss ratios in Stop Loss to be down year-over-year, even on a calendar year basis. But our main focus is pricing this business at or better than target margins. I think we're making a ton of progress on that front. I think it's certainly boding well for the fourth quarter. But Heather, Jay, and I are going to see what happens in November and December and then make the right judgment.

A

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Yeah. And then maybe, Wes, to your broader question about just how are we thinking about the product, our focus has always been just making sure we get this business back to the target loss ratio. That remains our key priority. As we've talked about that we do see with a hardening market and we see incredible client demand for this product, there is a real need for this product. And so it's one of those let's land the plane on what we expect. And as I've said all year long, we think that this is a strategic asset in our portfolio, and it's one that we believe does give us leverage with some of our largest consultant relationships, given the fact that there is a few -- there's a great demand and lower supply.

So I would just say is that we think this is valuable. We're going to get the -- restore the loss ratios, and we'll always lift our head up, and we're always evaluating our portfolio broadly from a strategic perspective, and right now, we want to make sure we execute on what we said was in front of us.

Q

Thank you. That's helpful. And just coming back to the severance-related actions, appreciate your commentary on 2026 admin expenses. But I think, Heather, you also mentioned there should be some benefit in 2027 as well. So just wondering how you're thinking about that benefit for next year from these actions you've taken over the past couple of quarters.

A

Yeah. I'll just start, and what Mike and I and the team have talked about is that we're focused on creating operating leverage as we go into 2027. We think that's also an important driver of shareholder value. And so that remains a focus, making sure that we're taking -- we're using some of these expense actions to be able to reinvest in the high-growth areas that we've talked about, that we see high-return opportunities, particularly wealth management. But I'll let Mike talk a little bit more specifics.

A

Yeah, and I'll kind of build off your theme, Heather, on just operating leverage, but maybe, Wes, a way to think about it, again, we're in the middle of budget and planning, so fourth quarter call is the right time to get more specific. But we can give you a sense in Retirement, this operating leverage concept, and this has come up in a few different ways. Suneet was asking about this earlier with respect to the severance actions.

We are creating operating leverage in Retirement. What is it allowing us to do? It's allowing us to invest in growth capabilities like wealth management and maintain margins. So that 35% to 39%, unchanged. You should expect us to be in that margin range. You should expect us to continue to be investing where we see growth opportunities like the named wealth management piece.

In Investment Management, we're also creating operating leverage there. This quarter, a little bit more of the severance was associated with the Investment Management business. But we're at a margin call it roughly 30% that we're comfortable with. Now that's coming off a base that was in the low-20s. We're now in the high-20s. We like that. So there's probably a little bit of operating leverage we see heading into next year. But again, that balance of investing in the business at the same time that we're making sure that what gets to the bottom line is what we plan to.

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And then last on EB, I think this is the one where I just keep coming back to on pricing, underwriting, alongside the expense discipline. That's just what gives us a lot of confidence on the margin expansion continuing for the balance of this year into next.

A

Thanks, Wes.

Operator: Our next question is from Josh Shanker with Bank of America Merrill Lynch. Please proceed.

Q

Yes. Thank you for taking my questions. Just a question on proxy battles and whatnot. Obviously, there's an activist investor making a lot of noise in your stock. I'm wondering if the recent behavior and the proxy battle they intend to engage in changes how you will engage that strategy and that discussion.

A

Yeah. Josh, thanks for the question. Nothing has really changed in how we think about this all year long, and we're not going to speculate on any outcome. Our focus is on talking directly to our shareholders. We've got a robust shareholder engagement program, and we find the best feedback we get is when we're in front of them one-on-one and we can answer their questions directly and frankly hear their feedback, and that's absolutely something we look forward to doing after this call.

The second thing I'd mention, Josh, is that our focus is on running the franchise and delivering value for our shareholders and our customers, and I think this quarter is another great example of us doing that, right? We're driving revenue and earnings growth. We're showing great expense discipline. We're improving the margins in Employee Benefits. That is all collectively leading to increase in cash generation, and we're returning that capital back to shareholders. So we think that's -- those are good signs of a well-run franchise.

Q

That was it. Thank you.

A

Thanks, Josh.

Operator: Our next question is from Alex Scott with Barclays. Please proceed.

Q

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Hey. I wanted to follow up on the margin bit in Retirement, and specifically I'm interested, to what degree are you going to leverage the expense discipline to continue to build out recordkeeping, get more competitive on price and some of the platform offerings there?

A

Yeah. I mean, let me start and then I'll toss it over to Jay. I mean, I think one of the things you'll hear from the team is we continue to have a lot of pricing discipline across all of our different target markets. But one of the benefits is the fact that because we're a scale provider where we play, we're able to sell business at attractive margins across each of our businesses while continuing to reinvest. But let me toss it to Jay to add a little more color.

A

Yeah. I mean, if you think about the Retirement business, being a top five defined contribution provider by participant account, I mean, it gets to the strength of distribution. So some of the areas where we see opportunities to grow in market, Heather talked about our 50% growth in emerging markets, 20% in mid-market, and 50% in government. That happens because you make those opportunities to invest in distribution where you see an opportunity to gain market share.

In our service model, the easiest way to continue to retain 98% of your business is to make sure that your service delivery is where it needs to be and putting the customer at the center of that, and so enhancing our capabilities and how we service our customer. And then the last is the tie through with wealth management. And really important, this bridge between retirement and wealth is real, with over 10 million participants continuing to invest in guidance and advice at the workplace, listening to our clients that they're asking for this advice. That's playing out in our fees on the retirement side, and it's allowing us to continue to maintain these relationships to and through retirement. It's early days, but that's really where we've been focused in our investments.

A

Yeah. And maybe, Alex, if I can just build on Jay's last point for a second, I think it's also important the cross over the collection of our businesses, the value we have between Retirement and Investment Management. And so, when you think about it from a pricing perspective and leverage, the fact that we've got our own general account that's managed by our own team, as well as some of our own proprietary investment management products, those give us some pricing flexibility within the Retirement business, and it just speaks to another of the point of the collective nature of our businesses and the value of the combined entity.

Q

Yeah. That's all helpful. Maybe a follow-up on the value of the combined entity, actually. So Retirement and Investment Management, can totally see how those are extremely complementary and connected. Employee Benefits, can you just remind us there on like how intertwined is it from a core piece of the strategy perspective, just in light of some of the things that are out there in terms of pressure to take actions and so forth? I just want to sort of hear from you, like what are the ways that that is strategically important with the Retirement business?

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A

Yeah. Maybe, Alex, I'll start, and then I'll let Jay build. But maybe a couple of things that I would talk about of Employee Benefits inside the franchise. First, one of the big values we talk about is the ability to sell bundles inside Employee Benefits. That's why the Leave Management business is so important for us to be able to grow life, disability, and continue our leadership position in supplemental health. We also -- we have also talked about the Benefits Administration businesses as an important leverage point for us to be able to drive bundled sales and additional products.

But one of the other things, and again, I'm going to let Jay elaborate, where we see a significant opportunity, going forward, is we're a workplace company, and the fact that we win clients at the workplace, we see our ability to expand wealth management, not just into the 10 million participants we serve in Retirement, but in addition to the other 8 million to 10 million participants that we serve through Employee Benefits and Benefits Administration. So that's something -- again, we're early days, but we see a lot of opportunity. Jay?

A

Yeah. I think that's the starting point I jump off on here, which is we really do acquire our relationships at the workplace. And when you look at roughly 10 million [indiscernible] (00:56:55), in addition to 10 million-plus participants, it gets to a base of customers around 20 million. And so, when you think about -- right now, one of the biggest concerns from employers is the ability of their employees to retire on time with a plan. We know that 90% of those employees are unserved or underserved, meaning they've got a 401(k) asset that's under what the traditional wire houses and banks are covering. We think there's a tremendous opportunity for us to bring our advice and guidance to the workplace.

Now, we also work with very similar intermediaries and brokers. And so the ability now that I'm seeing, at the highest level, for the first time in many, many years, they're building my role inside the head of workplace inside our brokers. And so the ability for me to talk to a leadership team that has oversight over both retirement and benefits is really powerful as we're thinking about planning for growth, as we're being very transparent about our pricing and quite frankly the target markets we're getting after. So it's a great question. But I look at the totality of the workplace business as being more integrated today from a solutions than we've ever had and with Matt as a key partner on the back end and thinking about how we build those solutions together.

Operator: Our next question is from Pablo Singzon with JPMorgan. Please proceed.

Q

Hi. Good morning. So I think on the call, you highlighted investments in Wealth Management. I was hoping you could provide an update on what you're doing in Employee Benefits. I think some time ago you had talked about Leave Management. Are the upfront investments there mostly done, and what other capabilities are you adding aside from retail and medical stop loss?

A

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So I think, there, I just want to make sure we have your question right. It's really around where are some of the areas we're investing in Employee Benefits and some of the leadership changes? Do I have that correct, Pablo?

Q

Yes, that's correct. Thanks, Heather.

A

Okay. Great. great. Yeah, I'll take Jay take it.

A

Yeah. Pablo, I think if you think about the overall capabilities in the Benefits business, one of the things we wanted to make sure was we had the right leadership team around distribution, around our operating model, and around our products, and what we've really wanted to do is bring in best-in-class with the best-in-class resources we have. We've got a really great integrated team from when I joined in January of 2025 that's really been focused on delivering integrated solutions, creating a more simplified claims experience. And overall, we know if we service our business really well, we'll have high persistency, and that's been a key area of focus.

Kind of sitting at the center of that is our leave and disability capabilities to call that out. Right now, that strengthens our integrated offerings, and our clients right now, when you look at CHROs, kind of the number one capability they're looking for is really that insource leave capability, and we've talked about that in prior quarters. Our brokers and clients right now are responding favorably. It's early days, and we're getting feedback on how we can continue to even enhance those capabilities in year two.

So I look at the changes in distribution, the enhancements we've made in underwriting and risk, the areas we've done in service, leveraging our delivery centers, it's been a great 18 months of transformation. And right now, as Mike referenced, really turning this into a cash generation story is the next part that we're seeing in front of us right now.

Q

Thank you. And then my follow-up, it's a small piece of Employee Benefits, but Group Life loss ratios have been quite good. So what's behind it, and do you think this continues to sustain? Thank you.

A

Mike?

A

Hey, Pablo. Yeah. Look, in many ways, the Group Life piece is an earlier version of what we saw in Stop Loss, right, where Group Life during COVID, loss ratios were quite, quite high. So what did the industry do? They went

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out and got rate. It wasn't as big a theme as Stop Loss because I think everybody understood it at that time because we're all dealing with COVID and seeing what's happening on the news. But that price has now gotten into products, and I think that's why we're seeing and a lot of the industry is seeing favorable loss ratios in Group Life.

Now, we wouldn't overstate it. I think we still feel, and quarterly this can move around, that the low end of 77% to 80% is still the right place to be. We also expect that there will be a little bit more competition around price as we head into the fall. So a little bit of the opposite, but not the degree of what we've seen in Stop Loss and Group Life. We tend to renew about a third of the book every year. And so we still would expect this to carry into next year, to some degree. I wouldn't expect quarters like you saw this this quarter necessarily to be the trend, but we're certainly happy with what we've seen, Pablo, and certainly are encouraged by how that's contributing part of the earnings journey we've had on Employee Benefits.

Q

Thank you.

Operator: [Operator Instructions] Our next question is from Joel Hurwitz with Dowling. Please proceed.

Q

Hey. Good morning. A couple quick ones for me. Just one more on Stop Loss. Mike, can you quantify for us how much better the incurred claims are on the January 2026 block versus where the January 2025 block was at this point?

A

Joel, we can. We're just not going to do it because, look, it'll just set an expectation on where loss ratios might be. As I've talked about earlier, we're about halfway through, so we've got halfway to go, and we'd rather not get that out there. But it is running meaningfully better than 2024, 2025, feeling really good about where we're at. We're going to be on the high end of best estimate ranges next quarter. If it continues down that path, I think this is a good thing. But just we prefer not to put numbers out there at this stage.

Q

Got it. Worth a try. And then just my second one, in Investment Management, Matt, can you just provide some color on the other fee-based margin, the $8 million this quarter, and then any color on your outlook for performance fees in the fourth quarter?

A

Yeah, Joel, happy to give some detail there. So think about the other fee-based income as origination fees within the private asset business across both our private fixed income, our infrastructure business, and beyond. So that's a number that will be volatile quarter to quarter, but a key driver of value as we continue to expand in privates and alts. That's what you're seeing there.

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Performance fees, we've always guided towards that $10 million to $15 million per year, perhaps orient towards the higher end of that range. Hard to be confident with market volatility being so dramatic as it has been. Last year was quite strong. We called out the $33 million last year. We do not anticipate to be -- that to be repeatable. But think of that $10 million to $15 million range, perhaps towards the higher end, but to be seen as we enter the fourth quarter.

Operator: Our next question is from Andrew Kligerman with TD Cowen. Please proceed.

Q

Hi. Good morning. Thank you for taking my question. First question is around capital management and certainly very robust. I think I heard Mike mention $150 million to be repurchased in 4Q. How are you thinking -- I mean, I think I know the answer, but I want to hear it. How are you thinking about capital management? Is buyback the priority? How are you thinking of M&As? Are there any M&As in the pipeline out there? And how does that sync up with valuation at 1.5 on book?

A

Yeah. Andrew, maybe I'll just start, is how we think about cash generation is continuing to grow it. We've been loud about the fact that we expect cash generation this year to be above 25. We expect to continue to grow that in 2027. We've got a high bar for where we deploy it, and we expect to return a meaningful amount of that capital back to shareholders through share buybacks and dividends while we continue to invest in the growth.

On the M&A front, we are still in the market looking for retirement roll-up opportunities, but we continue to have a very high bar, and we think right now our -- buying back shares is still the most accretive action that we can do. But, Mike?

A

Yeah. Look, I -- hey, Andrew. I hope you're well. Just on the allocation priorities, it's always been our highest and best use for us. I think feeling really good about the balance sheet right now, everything Heather talked about on capital generation. And maybe the only other piece I'd add is what we're doing from a share repurchase perspective, the fact that capital generation continues to increase, it's also allowing us to increase the dividend every year. So we're happy to do that for our shareholders this quarter. I shared what we expected for the fourth quarter. We're not going to go too far out on capital deployment priorities because that can shift. But we feel really good about what we're able to give back to shareholders, and you should expect the same as we move forward into 2027.

Q

Super helpful. Going back to Retirement, and I'll preface by saying I know you said flows are just one metric and the like. But just for modeling purposes, as I look at $2.5 billion net outflows in full service and $16-plus billion in retirement, and I get that Jay mentioned one episodic win, which is great, but how can we think about this annually or quarterly over a long-term basis? Do the retirement -- do the full-service net flows start to reverse

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course, or should we expect outflows, net outflows there? And should we regularly expect recordkeeping to kind of really overtake full service? Thanks.

A

Yeah. Maybe, Andrew, I'll start on this one, is when you think about the full service, we're going to perform probably more in line with the industry where you're going to see the industry in outflows as people take money out of their plans and as we see higher equity markets, and we're not immune to that. And on the recordkeeping, one of the things Jay has talked about all year long is we've had an incredibly healthy pipeline. And, yes, we had one large plan this quarter; we had two in the prior quarter. We've got good visibility next year.

And so I think what's important is that we continue to attract new clients to join Voya and retain long-standing clients with a 98% plan retention level. So, for us, I still think it goes back to the point that Jay made earlier, which is how do we measure the overall growth of the Retirement business? And so, again, flow is important, as are recurring deposits are important. But what's the biggest driver is that revenue and earnings growth, and that's what we're continuing to do, is to build operating leverage into the franchise and drive the fee-based revenue.

And maybe I'll close with the key point Jay mentioned, which is 60% of revenues in Retirement are fee-based. Overall revenue is up 6% and fee-based revenues up 12%, and we want to continue that trend. And again, we appreciate the question.

Operator: This will be the end of our question-and-answer session, and this will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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