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Voya Financial Inc at Bank of America US Financials Conference

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PRESENTATION

Joshua Shanker ***BofA Securities, Research Division - MD***

Welcome back to the BofA Financial Service Conference. I guess I keep calling this, the insurance sleeve. And we're really pleased to have Voya, be the company presenting today, mostly Q&A format.

I'd like to introduce the people here on this riser with me right now I guess that's -- first of all, we have CEO, Heather Lavallee, who started just this past year, a veteran at Voya for a very long time. Just want to read a few things. So first of all, she worked as the CEO of the Wealth Solutions business, prior to this, and she was the President of the company's Tax-Exempt Markets previously. Also, the President of the Employee Benefits business now called Health Solutions of the company. Before joining the company, she was at Mutual of Omaha and Sun Life, New York. Last year, she was named the Hartford Business Journal's top 25 women in business. And she's on the Board of the National Down Syndrome Society and Junior Achievement of Southwest New England.

I want to point out also that we have Don Templin here, CFO since mid-November, joining from Marathon Petroleum, and obviously bringing very different set of eyes to an investment management and insurance business.

And longtime veteran, Mike Katz, who was instrumental in getting the IPO underway, 2013, severed roles in various positions in business CFO roles and various [senior roles in product development, capital management, and business strategy] (corrected by the company after the call), pretty much everything Mike has done with this company. So I mean, there's no getting around it. And we're pleased to have them here.

I want to make a note, I calculated last night, a 24% compounded EPS growth over the past 5 years and the company has a commitment to a 12% to 17% continued growth over at least the next 2 years. I'm not sure that any of the other companies in my coverage universe have that same EPS CAGR. I could go check it out, but I think it's #1. Maybe you guys know that already, that's #1. And so it's really been an impressive journey that's not over with in any way.

And so let's begin. I want to encourage everyone at any time just to raise your hand. I don't stand in any ceremony, I have questions, but I'd like to hear your questions, if possible.

QUESTIONS AND ANSWERS

Joshua Shanker ***BofA Securities, Research Division - MD***

So my first question, I call it "bringing the whole firm". I sometimes think about Voya as being 4 businesses, I guess. It's articulated as 3 businesses. In my mind, the medical stop loss business and the group benefits business aren't exactly the same, although they're in one hierarchy Investment Management and then, of course, Group Retirement.

Can you talk about how these pieces of these businesses fit together into one seamless sort of enterprise? And how Voya when it's selling brings the whole firm to the clients?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. Maybe I'll start, and thank you for the kind introduction. So when we think about the alignment of our businesses, we should take a step back and think about where we've come from. So over the past 10 years, since our IPO, we had first had one major phase, which was an ROE improvement story and we had the divestiture story where we divested our life and annuity businesses, our high capital intensive businesses and those focused on the retail. And that really shifted our strategy to focus on the workplace, on institutions and our capital-light, high-growth businesses.

So when you think about today, the businesses we're in, with our wealth, which is our Retirement Business, the Health Business, which is our former employee benefit, our asset management business, and then the newest addition of benefits administration. These are really the core businesses that we have, and we're equally excited to be in all of them.

And to more specifically to answer your question, I would say the alignment fits under 3 different dimensions. First, from a strategic perspective, it goes back to what I talked about -- focusing on the workplace. We have a path to be able to help people invest, protect and plan. And so when you think about all those different components, retirement hits the planning, the benefit hits the protection element of it and then, of course, investing and thinking about helping people to be able to accumulate and generate returns.

From a cultural perspective, we have a purpose as an organization where we talk about together, we fight for everyone's opportunity for a better financial future. And there isn't a day that goes by where we don't think about the businesses we're in, where we're invested of how we are helping our customers grow and achieve all of them. So strategically, very, very much like the businesses that we're in.

Economically, they're all capital light. They have diversification of revenue, some are spread based, some are fee-based. Some are equity market sensitive, others are not. So there's a really nice diversification.

And then the last bit of your question, which is how do we think about going to market? Well, in each of these businesses, they have to stand on their own. So when we're working with intermediaries or distribution, we think about we've got to win the RFP that's coming in, whether it's the investment mandate, the Retirement, the health or the Ben Admin. But over time, as we develop a relationship and do a good job with those clients, we have a philosophy around landing the client, expanding the relationship, which is bringing in additional solutions and then deepening the relationship at the participant level.

So that's really kind of the mantra that we take and we think that the best client for us to target is an existing satisfied client. And that's really kind of how we think about this overall interlock between those businesses. Anything you want to add?

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

Perfectly said.

Joshua Shanker ***BofA Securities, Research Division - MD***

One thing I just want to understand, like, obviously, the businesses stand on their own. But between Group Retirement, group benefits and medical Stop Loss, if you're going to an educational institution or you're going to an employer, is the contact point for that sale, oftentimes the same person? Is it -- are there different -- does each of the businesses require different fingers into the organization or to make that relationship in broad net?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. It's a great question. So on the workplace, on the employer side of it, we're typically talking to the same buyer. And the buyers are going to be the CHRO and the CFO of a company. And that even includes Stop Loss. So Stop Loss may be more of a financial decision but it's usually going to be made between the CFO and the Benefits team. And so maybe a couple of stats that I would give to kind of talk about the intersection between these businesses.

Within our Retirement Business, roughly 40% of the assets are somehow tied to our Investment Management, whether that is underlying funds we have through our Voya Investment Management business, or assets that are invested in our general account. And so, there is a significant connectivity from the economics.

Within our health business, roughly 30% to 40% of our health clients have more than 3 lines of health products with that same employer. So we're essentially -- we may win the client on the Stop Loss and you do a good job with that client. And over time, they're interested in other solutions that we bring to bear. And again, it really comes down to the relationship and the service over time.

And then where we've been most excited recently is this connection between the wealth business and the health business and the solution that sits squarely in the middle is HSA. And so HSA is a solution. You think about a health account savings where we've embedded that into our Retirement experience to our clients when they have multiple products with us. They see their 401(k) accounts, they see their non-qual accounts. They see their HSA all into one. And so our teams are really both people who are winning the new deals as well as those the account management teams. They're working and supporting that client more holistically, but we're bringing in the right level of specialization from each business line.

Joshua Shanker ***BofA Securities, Research Division - MD***

Focusing a little bit on Group Retirement. I mean there's quite a lot of markets. We can make the markets more narrowed by three names, 401(k), 403(b), 457, I think Voya punches definitely above its weight through the 457. What are the different challenges in each of those marketplaces? In my mind, I think about corporate America is maybe more free enterprise, I think government as very controlling. Maybe that's the wrong way to think about it. Is the same skill set, the same for all 3 of those things and how can Voya be successful in each of the markets?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. So we really like the mix of business we're in on the Retirement side of it. So the fact that we're serving clients of all sizes from start-ups up to mega clients and across all the different sectors that you served. So corporate, government, education, health care. And what's important, it goes back to just simply, you've got to know your clients and you've got know their needs. So whether it's a corporate client or a government client, our ability to understand their unique need and be able to service them has really made the difference.

Now what we like about those sectors and where they're very complementary is, take some of the questions we've been getting around the layoffs in different industries. And one of the things we talk about is, more of the layoffs we've all been reading in the headlines are in the technology sector, large financial services institutions. We don't have a lot of those clients in our mix. So the corporate sector are more of service, transportation, oil and gas, legal, smaller employers, very, very stable. But half of our Retirement Business is in what we call tax exempt. So the government, education, health care, these are the sectors with very, very stable employment populations, frankly, growing in health care and education. So they act as a really nice ballast across our book of business.

And in the Tax-Exempt client base, the average tenure of those clients is roughly 25-plus years. So you win a client and maybe the needs are a little bit more complex. We're going to keep that client for a long period of time. Corporate clients are going to tend to be with us for 10 to 12 years. So again, we like that dynamic.

And the third and final piece that's a little bit different is within the tax-exempt space, roughly 20% to 25% of their assets in those plans are usually going to be in the general account or spread-based products. There's a bit more conservative nature of how they're investing. So when you think about a revenue diversification, that's opposite. Corporate markets is probably going to be more like 5% of assets in those products. So they serve really nicely. Again, it goes to the revenue diversification, the tenure of the clients. And if we're able to bring a new solution to market for government or client, believe it or not, we're actually able to leverage those in other sectors quite nicely.

Joshua Shanker ***BofA Securities, Research Division - MD***

So shifting gears a little bit to health. And I think about, again, dividing it into one side stop loss, other side group benefits. I mean, you have a nice sized health business, but if I break them up, I think about juggernauts like MetLife with huge health business. And Voya smaller by size in that group benefits category. Are there barriers to competing at your size? Are you at the right scale? Do you need more scale over time to deliver on the corporate goals?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. So as we look at our health business, and this has been one of our fastest-growing businesses inside of Voya. So you look at our guidance, and we've talked about 7% to 10% both premium and revenue growth, and we've actually exceeded our targets. So first, we like our organic growth within those businesses. Some of the companies that you mentioned within our health business, we tend to compete in the middle market space.

And so -- while we have capabilities that can serve up market, we think we're squarely in that. We're not a small market provider where within the employee benefit arena if different competitors serve different market segments. So we have been to compete, we've been able to grow revenues, and grow premiums. And if we look at our operating margins, we've been right within the guidance. So coming in right around low 30% which we think is a very healthy margin. So we have managed expenses, invested in the business to grow and so to get specifics our Stop Loss, we're a top 3 direct writer. We have been. We've been very consistent in our approach to underwriting. We don't need to lean in very heavily to continue to grow that business because there is a medical inflation trend that helps to grow revenues of that business.

So our focus there is play our game, focus on underwriting, and be disciplined [where we need to be] (corrected by the company after the call). This is something we've been continuing to innovate in that product space for a number of years, and we have been a top 5 grower in that space. And it's both innovating on the product end but also around our claims experience.

And one of the other things you may see less of, but their newer capabilities is our broad health account savings as well as lead management. So at the end of the day, we feel like we've got our ear to what the customers need, both from the end consumer and the employer. We think there is always going to continue to be a really healthy market for us to continue the growth that we have delivered in the past several years.

Joshua Shanker ***BofA Securities, Research Division - MD***

In that 7% to 10% target, I mean, in my mind, if we just assume that health care costs grow at GDP. So there's both unit and rate in that target over time. So I'll just call it 3%, 4% rate annually. I don't know if that's the right number, but let's say, 3% to 5% unit, how much of that unit growth is better penetration within customers you already have? And how much is taking share from people who already -- or for competitors who are in the market, I don't need any names, but who are you taking share from?

Heather Lavallee ***Voya Financial, Inc. - CEO***

So if I take a step back and kind of think about the question. So if I go back to that 30% to 40% of our health clients are -- we have more than 3 lines of health products with them. You can imagine that there's quite a bit of additional cross-selling we're doing within our health blocks. We have an established client. We're adding additional solutions on. So that's currently something that's quite important for us.

If you look at our competitors' by product segment, we're competing with different folks from the Stop Loss than we are from the Voluntary and Life and Disability. We're not chasing the large disability providers, you think like a MetLife or Prudential. And we think that's actually quite healthy given the fact that we talk about the capital-light nature of the business, the high free cash flow generation, we don't have tail liability in our benefits business.

And when you think about the penetration we have, a lot of the success we've had in the voluntary has come from -- we work with 90-plus benefit administration partners and the penetration and the participation there comes from the ability to make sure that our product is appropriately placed at the time of enrollment to be able to get that participation in and then to do ongoing work and support. So there isn't necessarily one client that one competitor that we're targeting. It's just that overall discipline in terms of how we manage businesses that I think has continued to have us resonate and compete across the markets we serve.

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

And I think if you break it up into the products, Josh, the GDP growth product line is probably Group Life. But we're essentially growing that product line roughly at that rate. If you think about the Stop Loss business, as Heather talked about earlier, we don't need to go out and win market share. We're going to be very disciplined in how we approach that from an underwriting perspective and medical trend or medical inflation is really what's driving that high single-digit revenue growth. And as long as we're consistent on underwriting, you're going to get the same thing from a bottom line perspective. And then where there's been tailwind is really in the Voluntary side. And that's -- I think that's an industry trend. I think most -- we're talking about like half of the Voluntary we write are with companies that don't offer these products. And so we still see upside not only in new companies that are looking to offer products like this because they worked quite well with high deductible health care plans, but also just the attachment rate.

So as we do a better job and as the industry does a better job of making sure that these policies are set up beside high deductible health care plans and drive more money to the bottom line for employees, we think the attachment rates can grow there with the existing companies we have Voluntary products with.

So I would kind of think about it through those 3 wins as you think about the growth going forward. All of that collectively gets to the 7% to 10% top line and bottom line that Heather was talking about.

Joshua Shanker ***BofA Securities, Research Division - MD***

And then just on the Stop Loss, right? And again, I kind of think of it as a slightly different business in some ways. That's a mature business where you are a scale competitor and kind of oligopoly a little bit, there's maybe about, I don't know, 7 to 10 competitors in that market, and each one of you has your own niches and positioning of that? Am I -- is that...

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

I mean it's a workplace benefit, but it's focused on the employer. And to your point, we are a must quote, top 5 player. And generally, the intermediators don't want to spread this around. They don't want to have all the risk with one particular player. We stay in our lane to Heather's point. We feel good about the underwriting, and that served us well. I mean it's been a consistent -- it's been a consistent grower for us, both from a top line and bottom line perspective. But I think you're thinking about it right, Josh.

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. And the piece that I would add to it is, well it may feel separate because it is focused on the employer how that leads to additional sales of other products comes through in terms of how we show up and follow through.

So at Voya, we talk a lot about the ethics and our commitment. We've had 9 years recognized by Ethisphere. We show up, we do what we say we're going to do. We make sure we're under-promising and over-delivering. And when we do right by our clients and our intermediary partners and they have stable underwriting year in, year out, stable pricing that leads to build a tremendous amount of confidence and reputation, which creates opportunities for us to expand the relationship with both the clients and the intermediary partners.

Joshua Shanker ***BofA Securities, Research Division - MD***

Well, I want to talk about AGI and Benefitfocus, but I also want to get Don, involved. So I'm going to shake up order a little bit.

Heather Lavallee ***Voya Financial, Inc. - CEO***

Perfect. That's great.

Joshua Shanker ***BofA Securities, Research Division - MD***

But if anyone has a question, please don't be shy, just raise those hands up. Come on. You can do it. I'll support you.

So capital return, cash flow conversion. I mean the company has returned a lot of cash to investors over the years, reduced the share count dramatically. A lot of that has been -- I sort of feel like archeology in some ways. You inherited a lot of these businesses that didn't necessarily fit with the full view of what Voya would become, collapse those structures, take the cash out and return. We're kind of getting into a steady state. I've always said, oh, this is a company whose free cash flow conversion was up above 100%. Well, it's not going to be above 100% forever. Where is the cash flow conversion right now? Where is it, I guess, let's say, 3 years out in a normal steady state? And how should we think about it?

Donald Templin ***Voya Financial, Inc. - CFO***

Yes, Josh, I think you're right. There were some unique transactions that provided us the opportunity to maybe to return outsized percentages of cash flow because we had a transaction that contributed. We've guided and feel very comfortable with the 90% to 100% cash conversion ratio. You saw that we delivered that in 2022 in an environment where there were a number of macro headwinds, and there were other things that were maybe a little unusual in the business.

As we look forward to 2023, we don't see anything that would cause us to move off of that percentage. And I think the same would hold true for sort of '24 and beyond. So we're in a sort of low capital, high cash generation conversion type of mode right now. We're very focused on making sure that we appropriately manage the balance sheet. I mean prudently managed balance sheet, prudently manage leverage, invest in growing the business organically because we did some strategic acquisitions last year. And then we see a pathway to generating significant amounts of excess cash or free cash flow and we're very committed to returning that capital to our shareholders.

Joshua Shanker ***BofA Securities, Research Division - MD***

And where does deferred tax assets stand on the balance sheet right now?

Donald Templin ***Voya Financial, Inc. - CFO***

So if we think about that asset, it's a very significant asset. It's probably on a present value basis over $1 billion right now. We don't expect to be a cash taxpayer for maybe 4 to 6 more years than we had originally guided, I think, last year to 5 to 7. So we're 1 year deeper into that. Obviously, we're watching closely what's happening with the regulations around alternative minimum tax. We haven't gotten a lot of clarity around what is going to be required and how those rules will manifest themselves. So we're closely monitoring that. But as it relates to regular cash taxes, we're in a very good position for the next 4 to 6 years.

Joshua Shanker ***BofA Securities, Research Division - MD***

And along those similar lines, does the stock buyback tax affect you in particular way that changes how you think about capital return?

Donald Templin ***Voya Financial, Inc. - CFO***

No. I mean, obviously, that tax exists but we will manage through that. It won't meaningfully impact how we're thinking about capital return.

Joshua Shanker ***BofA Securities, Research Division - MD***

I'm going to throw out numbers here. They run the risk of being wrong, so you'll correct me.

All right. So debt leverage and interest coverage is about 30% to 32% and 5x when Voya announced the sale of the Fixed Annuity business at the end of '17. At least that's what my research says.

About 33% to 36% and also 5x when you announced the sale of the Life business at the beginning of '21. Currently, the debt to capital to leverage about 25% to 27% and interest coverage is about 8x. Is that the right mix? Are we at a steady state here at this point?

Donald Templin ***Voya Financial, Inc. - CFO***

Yes. I think there's a number of metrics that we look at. I mean you've obviously stated some. There's a number of metrics that the rating agencies and others are important to them. We obviously want to make sure that we're managing around that. We signaled on our last earnings call that we're going to manage to a leverage metric, excluding AOCI, that's in the 25% to 30% range. We think, excluding AOCI, makes a lot of sense because of the volatility there. We also think it makes sense because the rating agencies are moving away from having AOCI in their metrics and we think the adoption of LDTI is sort of a good inflection point or a good time to rethink how we think about that leverage metric.

So we're going to use a metric that is, as I said, 25% to 30%, excluding AOCI. And over time, our expectation is to manage to the lower end of that range. Right now, we're closer to the 30%. We would expect to manage to the lower end of that range, but that will be over time. And we just feel like a prudent balance sheet provides you lots of flexibility in an environment where that can change quickly. I've lived through, at least in the last 15 years, sort of 3 very interesting cycles 2008, in my prior life, 2016 was a very disruptive year around commodity prices. Obviously, COVID impacted businesses and the companies that were prudently managing their balance sheet and have prudent leverage metrics were the ones that came out the back end really strong.

Joshua Shanker ***BofA Securities, Research Division - MD***

This -- last year and the year before -- before I came to Bank of America, this was the insurance conference, and we took the gamble this year, maybe it's the Financial Services Conference and my colleague Craig Siegenthaler is at the other room. And when I was working on

Voya, I already had a view, I said how much of these investment managers were?

He says, well, is it inflowing or is it outflowing? Like it's the end of night. What do I know. They [tend to] be inflowing? Is that unusual? Yes, that's unusual. There's not a lot of -- he's says, how big is it? I go, well, doesn't seem as big as yours. And generally, in a business that competes on basis points and scale, the idea that given the size, pre-AGI of the business that you guys were possibly inflowing. What's the secret sauce?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Well, I think it's a couple of things, right? And we'll tag team this, as you mentioned, even pre-AGI, we had 7 years of positive flows in the business. So I think it comes down to knowing your capabilities, generating solid investment returns. We talk a lot about the culture again of the Investment Management team and strength of the distribution.

As we think, though, about where we're headed and 2022, certainly being an inflection point with the acquisition of AGI, generating $1.4 billion of flows from AGI in the first 5 months of the year. After a transaction, after a little -- clearly, there was disruption of us coming in and taking over the business given the circumstance. So when we think about the path forward, we are amazingly excited about the breadth of distribution from AGI globally. So that was one of the things strategically we talked about as -- a pivot in our Investor Day is taking advantage of global distribution. What AGI brings to us is 500 relationship managers globally in 19 geographies. Really, really significant. So, it creates a lot of ramp up.

They also brought in additional capabilities for us within income and growth, in equities and some private and really shifted our mix of business, which was heavily institutionally focused to expanding our capabilities in retail. So that's an important component of it. And -- but outside of AGI, Christine and the team have already been making appropriate changes in our product lineup to expand capabilities around private and alternatives with the growth of Czech Asset -- the acquisition of Czech Asset Management. We've done some things with thematic equities. We've done some things around machine learning, intelligence team in London. So all of these are creating some additional capabilities that allow us to compete.

And then finally is our insurance channel. You look at us in 2018 and our fundamental Investment Management business kind of grew up in fixed income, managing insurance companies and specifically our own -- the assets of our insurance products. And we've been able to take that expertise and bring that into insurance clients where we now have over 60 insurance clients. So all of those create some different product segments, opportunities for distribution and then the global expansion.

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

Yes. And Heather, I think this really, if you think about the origination of our asset management franchise, it's fundamentally built on the heels of being a company that had a variable annuity business and had a Life Insurance business. And fundamentally, that drove the assets that, that particular franchise managed. But as we were becoming a public company, it became very obvious that we needed to be able to take those capabilities and offer those to other insurance companies.

So as Heather just referenced, we now do business with over 60 insurance companies, managing general account assets. By the way, that's what gives us a lot of confidence going into 2023, that we're going to be able to do that in a really prudent way.

And so that's really, I think, Josh, is a bit of the secret sauce that kept us very successful through the years. And then as I think about the AGI piece, it's just -- it's phenomenal to me, especially with the asset management backdrop and the backdrop of why we won this asset with a structured alpha piece down in Florida that we still put up $1.5 billion of flows in the last 5 months of the year. And that gives us, I think, a lot of confidence of the trajectory of where the things are going into 2023.

And fundamentally; we've been looking for international distribution. We talk a lot about the fact that if we could whiteboard a company to partner with for international distribution, we'd be hard-pressed to find somebody better than AllianzGI. The way we got this is phenomenal. Where we're going to take it, we're really, really excited about.

Joshua Shanker ***BofA Securities, Research Division - MD***

Can you talk a little bit about performance in equities. I think that fixed income and alternatives have had some fairly strong results. Equities not as much. And with AGI, maybe there's a difference what the plan is there, whether maybe there's a need to plan, maybe just it will naturally correct itself.

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

There's always a plan. And look, we -- there's no question about it, I think, historically, Josh, I think that's been an area that I think we can get better at. We made some changes in the management of particular equity franchises that we had going into the AGI transaction, we've made some acquisitions around quant equity capabilities that we think will help us over time. And then to your point, on the AllianzGI side, it gives us some interesting thematic equity that's really, really, really in demand internationally. And that's something we feel pretty confident about. So it's something that Christine and her team are laser-focused on. I think it's an area where we can get better, and we're fundamentally focused on that.

Joshua Shanker ***BofA Securities, Research Division - MD***

You made the comment that if you could whiteboard out a partner that you would want to engage in, you couldn't do better than AGI. Coincidentally, AGI was a bit of a distressed sale. Can you talk a little bit about the process about how that happened and how -- I'm sure there were multiple bidders and the best partner, best price might have been Voya, but also might have made the most sense and how you think about the valuation?

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

Relationships matter. And Rod had a relationship and CEO of Allianz. Christine had a relationship with Tobias, who is the CEO of AllianzGI. We had that relationship. When the event happened, it was fast. I mean the decisions had to be made fast around what they were going to do. And fundamentally, for me, I think it speaks to 2 things. I think it speaks to the quality of our asset management franchise that they would choose to work with us in this. And I think second is just our ability to execute, and we spent a lot of the day talking about execution.

For them looking at us, it really was about the divestitures. I mean we were the first one really to be able to move a variable annuity franchise. The deal that we did on the life annuity -- on the life insurance side, that gave them a lot of confidence because this was really 60 days from the time that this gets signed to when it needed to be closed and the SEC was fully involved in that. So the pace had to be there and the confidence on the execution. So I think that really was a big part of it. Heather?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. And one thing I would add to it, too, is one of really important element of this deal is that they had to have deal certainty. That was really, really important. And because we had been talking to our Board about the strategy and we were headed, we were able to be that company to give them deal certainty. So that's one of the components that I think gave us a bit of a leg up and then being able to move at pace on the execution. And we've talked about how that muscle of moving very quickly to integrate them, retain 95% of their assets, 98% of their people is a muscle we've now taken over into the Benefitfocus acquisition around its discipline, its follow through, its culture and all of that matters.

Donald Templin ***Voya Financial, Inc. - CFO***

Well, and I...

Joshua Shanker ***BofA Securities, Research Division - MD***

Please.

Donald Templin ***Voya Financial, Inc. - CFO***

I also think the ownership arrangement that we have with them is really incenting them to support us. So there's a real sharing of ideas of thoughts. I mean they are a very well-run franchise that's very good at what they do. And so we have the opportunity to collaborate with them in a way that I think the way the deal is incenting them to help us succeed. And when we succeed, they also benefit in that success.

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

Yes, the partnership has been amazing because in a lot of ways, we're manufacturing the product and they're really the ones out there driving the distribution internationally for us. And so to Don's point, that partnership has to be there. And I think that speaks to the first conversation to the conversations we just had even as recent as yesterday with them around, how do we continue to grow this franchise together.

Joshua Shanker ***BofA Securities, Research Division - MD***

And so if we think about -- you've studied Investment Management deals in doing this deal. This is soon to be there's some AUM leakage in any deal that goes together. How long is the timeline for those things to sort themselves out and to the extent to which how much have you budgeted and when will you know whether you're ahead of plan?

Heather Lavallee ***Voya Financial, Inc. - CEO***

I'll start and then I'll pass it to you, Mike. So we feel very good about the asset retention. As we said, 95% from immediacy of the deal. The teams really leaned in on the client retention and we feel like that has all sort of settled itself out, but we have contractual provisions that protect us.

Mike Katz ***Voya Financial, Inc. - Executive VP Finance***

Yes. And we were fully aligned with AllianzGI. And at this point that retention was critical. And so as we were approaching this, I think it was we were both laser-focused on that. But we did build in protections in the transaction such that when we talked about 6% to 8% accretion, we were going to get that no matter what the retention was. I think it was phenomenal to get 95%. But essentially, what we did was the 24% that Don spoke about as far as the equity interest unchanged. But what we're paying them for distribution fees can go up or down based on where retention was. And so the amount of distribution fees went down because we retained 95% instead of 100%.

The interesting piece here, too, is that we have another bite at the apple 9 months after close. So roughly 4 months after here, we get look at the retention again. And to the extent that that's different in any way that distribution fee would move. So we've got an additional protection to ensure we get that 6% to 8% accretion. But right now, I think it's been all systems go. I don't think that's going to change things very much. But to the extent that there is any turbulence, we have that additional protection.

Joshua Shanker ***BofA Securities, Research Division - MD***

If we can switch focus to Benefitfocus. The -- I guess we're not really sure as investors how much it's going to earn in year 1, although you've given some guidance because you said that the long-term guidance of 12% to 17% is still intact with 10% plus this year on a very, very difficult prior year comp coming from the legacy business and still hitting well within the 12% to 17% when you layer in the contribution of Benefitfocus. So that might give us some range about the earnings power a little bit, not perfectly weak. I can have several different outcomes in that path. But a lot of investors in the insurance space, particularly the life insurance space, have a little bit of a posttraumatic stress disorder from the Assurance IQ acquisition by Prudential. What can you tell investors? I mean, we've heard you speak about before. But given your comments that you saw this is what we need, that it made every sense in the world to do this deal when you did it?

Heather Lavallee ***Voya Financial, Inc. - CEO***

You want to take the financial and I'll take the strategic...

Donald Templin ***Voya Financial, Inc. - CFO***

Yes -- you start strategic, and I'll take financial..

Heather Lavallee ***Voya Financial, Inc. - CEO***

Okay. We'll do that. So the way we think about this from a strategic standpoint. So first, to answer the question around Prudential and kind of what they went through. This is an established firm, 20-year-old company. We've been partnering with them for the last 10 years. Established revenue, we know the firm, right? So that is -- this is not, in my words, kind of a [unestablished] (corrected by the company after the call) fintech that we're taking a big gamble on. We know the business. We know what they do. We know how they work.

From a strategic standpoint, we really -- we felt that as we were thinking about our workplace strategy at the intersection of health and wealth, that this was a critical capability that was going to give us the opportunity to accelerate into it, squarely puts us writing the conversation broadly around the whole health and the benefits landscape similar to where we sit on the Retirement side of it. So from a strategic perspective, what I will tell you is we bought this for the long-term capabilities. And Don will speak to kind of '23 and how we're thinking about the deal economics.

But we think long term, Voya as an owner can accelerate the growth plans that this business already had. So that's one opportunity. We think that it continues to allow us to accelerate, win new clients and expand and deepen existing relationships. We think it also gives us a real differentiation from a value proposition perspective to clients and intermediaries because we are thinking quite simply around how do we ease the administrative burden for employers to help them attract and retain employees. And for employees, it is really thinking about how do they deliver better outcomes. How do they make sure they don't overspend on medical and under save and all of the other benefits, and it squarely puts us in that conversation strategically.

And finally, it gives us an opportunity to grow in a fast-growing the health sector, where there is just a huge amount of growth opportunity that we think will emerge over time. But Don?

Donald Templin ***Voya Financial, Inc. - CFO***

Yes. So I mean I think Heather articulated why we think it makes good strategic sense. With respect to 2023, specifically, we indicated that we were guiding to or thought the contribution from Benefitfocus would be in the $50 million range from an EBITDA perspective. And it's important to note there that EBITDA number that we're communicating is different, not comparable to the way they measure EBITDA because their EBITDA did not include stock-based compensation. Our EBITDA number does. So our EBITDA number is burdened with stock compensation, but then it layers onto it the synergies that we expect to achieve this year, particularly on the cost side.

So the $50 million of EBITDA roughly translates into $25 million or so of adjusted earnings. If you tax effect that, that gets you the 2 percentage points that we add in to the 10%. So we would say we're guiding to the low end of the 12% to 17% with a high degree of confidence, including those projections for 2023 around Benefitfocus.

Joshua Shanker ***BofA Securities, Research Division - MD***

And we talk about the opportunity, maybe year 1 of Benefitfocus, I think, is obviously fees that Benefitfocus generates itself longer-term, populating Benefitfocus Voya product is obviously going to be a big part of it. How should we think about the opportunity between Benefitfocus as a stand-alone revenue generator and Benefitfocus as a conduit for Voya's further success?

Heather Lavallee ***Voya Financial, Inc. - CEO***

Yes. So one of the things we talked about from the market to manage channel conflict is that we're going to be open architecture, product agnostic and intermediary centric, which we think is very important strategically. So meaning our health side, at the end of the day, simply put, benefits consultants make recommendations on ben-admin platforms, insurance products and even Retirement platforms. And the employers make the decision. So what we're really focusing in on is the connection of all these different experiences to ultimately drive better outcomes for consumers.

And while they're standalone, we're thinking about connecting the front-end user experience with a guidance engine, they can sit on top of the Benefitfocus platform, which we think is going to be a meaningful differentiator in the marketplace. If you think about how Benefitfocus economics work today, revenue is generated from PEPM fees from base and admin services. There's also additional revenue that can be generated from add-on services and then there are additional fees that come from Voluntary product partners.

So there's a lot of different revenue opportunities within the organization. And so over time, we do expect that, that whole component can grow. It's not all about putting Voya product on. We think there's opportunity to leverage other organizations, product partnerships. But what it really does is it accelerates that connectivity with -- between the 2 health and wealth and then making a meaningful difference for the employers and the employees that they serve. And that we think it's a differentiated capability. We think that's going to win us more business in the market.

Joshua Shanker ***BofA Securities, Research Division - MD***

We've run over by a minute, maybe by design. I want to thank Mike, Don and Heather for being here and the whole Voya team thank you very much. Appreciate it. The next -- Globe Life is up next. But I hope everyone else has a very fruitful rest of the day. Thank you.