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Q4 2023 Voya Financial Inc Earnings Call

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PRESENTATION

Operator

Good morning. Welcome to Voya Financial's Fourth Quarter 2023 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the call over to Mike Katz, EVP of Finance. Please go ahead.

Mike Katz ***Voya Financial, Inc. - EVP of Finance***

Thank you, and good morning. Welcome to Voya Financial's fourth quarter 2023 earnings conference call. We appreciate all of you who have joined us this morning. As a reminder, materials for today's call are available on our website at investors.voya.com.

Turning to Slide 2. Some of the comments made on the call may contain forward-looking statements or 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 our website.

Now joining me on the call are Heather Lavallee, our Chief Executive Officer; and Don Templin, our Chief Financial Officer. After their prepared remarks, we will take your questions. For the Q&A session, we have also invited the heads of our businesses, specifically, Matt Toms, Investment Management; and Rob Grubka, Workplace Solutions.

With that, let's turn to Slide 3, as I would like to turn the call over to Heather.

Heather Lavallee ***Voya Financial, Inc. - Chief Executive Officer***

Thanks, Mike. Before we turn to our key themes, I'd like to take a moment to recognize Rod Martin, who will begin his Retirement at the end of the month. I speak for everyone at Voya when I say we are all thankful for Rod's vision, optimism and wisdom over the past 13 years, and we wish him the very best as he transitions to Retirement.

I'd also like to acknowledge Christine Hurtsellers who, after more than 7 years leading Voya Investment Management, announced her Retirement several weeks ago. Christine has been a transformational leader for Voya IM as it has undergone profound changes in its business, becoming a diversified international asset manager it is today. As she hands the reins over, I couldn't be more confident in Matt Toms and the team's ability to continue to deliver exceptional client service and superior investment performance for our customers.

Now let's turn to Slide 4 with some key themes. Our results for the fourth quarter and for full year demonstrated execution in the face of challenging headwinds, discipline in managing expenses and the benefit of Voya's diversified capital-light business mix.

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For 2023, we generated $7.02 per share of adjusted operating earnings, including $1.63 in the fourth quarter. These results reflected a record year in Health Solutions. Although the fourth quarter was affected by elevated voluntary claims, our aggregate loss ratio remained well within expectations. Strong earnings in Health helped offset lower earnings in Wealth Solutions, which primarily related to alternative results well below our long-term expectations.

Fourth quarter results were also affected by flows in Investment Management that were weaker than anticipated, as broader industry headwinds continued.

Looking ahead to 2024, we are reaffirming our EPS CAGR target of 12% to 17% for the 3-year period ending in 2024. We intend to remain vigilant on spend, protecting margins in Workplace Solutions and expanding them in Investment Management.

Our longer-term outlook is for annual EPS growth that exceeds 10% beginning in 2025. Our ability to deliver profitable growth is driven by our compelling strategic positioning in capital-light businesses, our track record for generating and deploying excess capital to optimize shareholder returns and our focus on providing outstanding experience for our customers.

As we head into the balance of 2024, our commercial momentum is strong. With robust pipelines in Wealth and Investment Management and a record-setting start to the year in Health. In Wealth Solutions, the pipeline includes $15 billion of plans and implementation for 2024, diversified across all markets.

In Health Solutions, annualized in-force premiums and fees grew 20% in 2023, and we expect growth of at least 15% in 2024.

And in Investment Management, we have a robust unfunded pipeline of over $10 billion for 2024. Strong investment performance will allow us to capitalize on cash moving off the sidelines as macro conditions normalize.

Turning to capital. In 2023, we generated $800 million of excess capital and ended the year with excess capital of approximately $400 million. We expect to generate at least $800 million of excess capital in 2024 and to deploy it through share repurchases and dividends. Don will cover our financial results in more detail shortly.

Turning to Slide 5. Voya's scale and reach across workplace benefits and savings distinguishes Voya in the marketplace and provides a compelling value proposition for our customers. Our strategy enables us to land new customers and increase retention. It provides us with an expanded solution set to grow business with our customers and create new revenue opportunities. And it allows us to deepen our relationships with employers and employees, as we provide tools and guidance to maximize the value of benefits and optimize savings.

With the distribution reach, few can match our Workplace Solutions businesses operate across virtually every market and industry. Our compelling solution set is driving new sales. Within Wealth Solutions, for example, we are adding managed accounts and nonqualified plans to our record-keeping customers.

Within Health Solutions, we are increasingly selling voluntary benefits, alongside group, life and disability.

We spent much of 2023 integrating Benefitfocus, which provides us with an important new workplace capability and opportunity to drive expansion. We recently concluded our first open enrollment season with Benefitfocus customers, and the results have been a resounding success.

Benefitfocus' Net Promoter Score, considered the gold standard for measuring customer experience and loyalty, rose an unprecedented 40 points in 2023 over the prior year. We had 100% of customer service standards over the open enrollment season. Those statistics reflect an elite performance among benefit administration providers. They will drive improved customer retention, a significantly larger base of referenceable clients and ultimately greater revenues and earnings.

We deepen our customer relationships when we help employers optimize their benefit spend and employees build a more secure

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financial feature. Our ability to connect workplace benefits and workplace savings drives better outcomes for our participants and their employers. Our market leading benefits enrollment guidance and our myVoyage integrated benefits and savings app are just 2 examples of our ability to drive better financial outcomes for employers and employees alike.

Turning to Slide 6. We've transformed our Investment Management business into a diversified international asset manager with a broad array of investment strategies across institutional and retail markets. Voya IM entered 2024 positioned for long-term sustainable growth with strong fundamentals, diversification across markets, a well-established presence in attractive asset classes and a robust sales pipeline.

Success begins with strong investment performance. More than 3/4 of our AUM is in strategies that exceed the benchmark or peer median on a 5- or 10-year basis, and our performance in 2023 was exceptional. This positions us well to capture flows in 2024 as cash comes off the sidelines.

We possess critical investment capabilities in high-growth strategies. Our privates and alternatives business continues to expand, with our strength in private fixed income and private equity secondaries increasingly supported by additional strategies, including infrastructure debt and renewables. And we continue to be a leader in the insurance channel with a top 10 market position in North America and top 3 in private fixed income strategies.

Our distribution reach extends to more than 20 international markets, including high-growth Asia Pacific markets, with robust demand for U.S. credit and U.S. dollar-denominated assets. In 2023, our retail net flows in these markets were almost $4 billion, with opportunity for further expansion as we add new strategies and markets to this channel. International markets have also catalyzed a turnaround in our retail franchise, further diversifying our business and creating opportunities to drive higher fee business.

Turning to Slide 7. Living our purpose and vision continue to drive positive outcomes for our clients, our colleagues and the communities in which we live and work. Our customers remain at the center of all that we do. We are committed to continuously improving our customer experience through enhanced digital tools, research and education. And we continue to win recognition for our strong culture and support of communities.

With that, Don will now provide more detail on our performance and results. Don?

Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

Thank you, Heather.

Now let's turn to our financial results on Slide 9. For the quarter, we delivered $1.63 of adjusted operating earnings per share. This included $0.34 of alternative and prepayment income below our long-term expectations. It also included higher-than-anticipated loss ratios in voluntary and $0.15 of favorable compensation accrual adjustments in corporate.

Full year adjusted operating earnings per share, excluding the impact of alternative and prepayment income, increased 7%. This reflects record earnings in Health Solutions and net revenue growth in all of our businesses.

Cash generation for the quarter and year were approximately $200 million and $800 million, respectively. And we expect to generate over $800 million of capital in 2024. This will build on our consistent track record of generating cash above our 90% target.

While we faced headwinds in part of our business, our financial results in the fourth quarter and for the full year demonstrate the benefits of our diverse revenue streams and the significant cash we can generate from our capital-light businesses. We continue to be disciplined with spend as we integrate new capabilities and invest for growth.

Turning to Wealth Solutions. This year demonstrated again the benefit of our diversified revenue sources, which supported strong capital generation. We continue to execute on our workplace benefits and savings strategy with a relentless focus on our customers. We ended the year with $544 billion of total client assets. This includes $185 billion of full-service AUM that benefited from recurring deposits

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approaching $15 billion annually.

For the full year 2023, we had full service net outflows of $2.9 billion, which included an expected large plan surrender in the fourth quarter. In recordkeeping, we generated over $7 billion of flows in 2023.

Looking forward, commercial momentum is robust. We have a $15 billion pipeline of plans that are won and in implementation. We expect approximately $5 billion of the pipeline to be implemented in the first half of the year, with the remaining $10 billion to fund in the second half.

Turning to Slide 11. Wealth Solutions generated $187 million of adjusted operating earnings in the fourth quarter and $742 million for the full year. Net revenues were higher year-over-year driven by fee-based revenues. We expanded our participant base, generated recordkeeping net inflows and benefited from favorable equity markets.

Spread-based revenues were broadly consistent year-over-year. Higher crediting rates and lower spread-based assets offset improved net investment yields. We expect spread-based assets to trend lower in 2024. Fee-based revenues should favorably offset spread income trends, such that overall net revenues will be 1% to 2% higher year-over-year. This is supported by our strong pipeline. Finally, we continue to be disciplined with our spend and have taken actions to maintain healthy margins, while still investing in growth and delivering for our customers.

Turning to Health Solutions. 2023 was a record year for the Health Solutions business. We continue to grow our core business, expand into adjacent markets and drive greater adoption and utilization of our solutions within the workplace. In 2023, annualized in-force premium and fee growth exceeded our 7% to 10% target driven by strong sales and favorable retention across all product lines.

In the fourth quarter, we experienced favorable loss ratios in Stop Loss due to continued favorability in our 2022 business and 2023 experience that remains consistent with our long-term expectations.

We also experienced higher-than-anticipated seasonal claims activity in Voluntary. This was due to our continued efforts to further drive customer value and increase utilization of our products. Overall, we met our pricing targets for our January 1 business, and we affirm our 69% to 72% aggregate loss ratio guidance for the overall health book.

Turning to Slide 13. Adjusted operating earnings of $341 million were a record, including $48 million generated in the fourth quarter. Net revenues grew nearly 36% year-over-year, reflecting strong sales, favorable retention and added fee-based revenues.

Adjusted operating margins were approximately 28% for the year. As planned, our adjusted operating margins were lower year-over-year due to business mix. Our business now includes a strategic benefits administration capability that we added in 2023, which has a lower margin profile, consistent with benefits administration peers.

As Heather mentioned, Benefitfocus recently completed a successful open enrollment and experienced significantly improved Net Promoter Scores. We expect overall 2024 adjusted operating margins to be in the range of 24% to 30%, and we expect margins to improve longer term as we integrate new capabilities and continue to deliver on exceptional service. 2024 is off to a strong start, and our expectation is for a second consecutive year of annualized in-force premium growth of at least 15%.

Turning to Slide 14. 2023 has been a transformational year for Investment Management. We strengthened our global distribution and enhanced our investment solutions. We continue to serve our clients with excellence in what was a challenging year for the industry.

Full year net outflows represented organic attrition of 4.9%. Consistent with the broader industry, we experienced pressure on our Institutional business. Importantly, approximately 1/3 of the net outflows in 2023 are one-time and are now behind us.

Specific to the fourth quarter, net outflows of $5.4 billion were higher than our expectation due to the timing of 2 client mandates, which are now expected to fund in the first half of 2024. It was also impacted by year-end profit taking in Japan following a strong year in

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global AI and tech.

Looking forward, we expect to return to positive flows in 2024. Our confidence is driven by several factors, including, first, we continue to build on our long-term track record of investment performance in 2023, which was strong across a broad array of asset classes. Notably, our leading 1-year performance in fixed income puts us in a position of strength to capture assets as clients rotate back into fixed income strategies.

Second, we are seeing client confidence start to return as market volatility has improved. This has led to an increase in insurance client commitments, including commercial real estate and private credit.

And finally, our international retail distribution partnership continues to benefit from demand in the Asia Pacific region for U.S. dollar-denominated solutions.

Turning to Slide 15. Investment Management delivered adjusted operating earnings of $47 million in the fourth quarter and $180 million in full year 2023. Net revenues grew approximately 17% in full year 2023 driven by higher management fees from favorable equity markets and higher international retail AUM, partially offset by the impact of lower institutional assets.

2023 adjusted operating margin was 24.9%, which was lower year-over-year. We took significant expense actions in 2023 to adapt to changing environments, while we integrated new teams and created greater investment capacity. We are taking further expense actions in 2024 and continue to prioritize investment in growth initiatives.

Looking ahead, our high probability pipeline remained steady from last quarter at $10 billion. This is diversified across all U.S. channels, including institutional and insurance, and includes unfunded client commitments expected to fund in 2024. And the $10 billion is nearly 70% higher compared to the same time last year.

Turning to Slide 16. Our strong capital generation continues to differentiate us from peers. We generated approximately $800 million of excess capital in the year, including approximately $200 million in the fourth quarter. And we expect to generate over $800 million of capital in 2024, which builds on our track record of generating free cash at over 90%.

Our focus in 2024 will be on deploying capital to shareholders via share repurchases and dividends given the actions taken to reduce debt in 2023. We will continue the practice of deploying in the current quarter the capital we generated in the prior quarter, and we expect to maintain our excess capital position until macro conditions become more constructive.

Turning to Slide 17. In 2023, we focused on integrating key acquired capabilities and executing on our workplace strategy. We also managed our spend to create additional capacity to invest in areas with the greatest opportunity for net revenue and earnings growth in 2024 and beyond.

For 2024, we expect EPS to be in the range of $8.25 to $8.45. In 2025 and beyond, we expect EPS growth of 10% plus, consistent with our historical track record. This is supported by profitable revenue growth, improving operating margins and strong capital return driven by our diversified and capital-light businesses, which continue to generate significant free cash flow.

With that, let's turn to question and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first questions come from the line of John Barnidge with Piper Sandler.

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John Barnidge ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Can you talk about the increased strategic spend in corporate? What's the focus there? Is any of it on standing up the Voya India operation that was completed last year?

Heather Lavallee ***Voya Financial, Inc. - Chief Executive Officer***

Thanks, John. It's Heather. I'll start. So what's driving the increase in some of our strategic spend is a couple of different things, and I'll give the reminder that we continue to be focused on being disciplined at expense management.

But we're really focused in on a few key areas. First, within our asset management business is making investments in technology to be able to support our client growth as we grow our private and alternative franchise as well as international distribution and expand that client base.

Second, in Health, you've heard us talk about the record growth and the start to the year and record results. We have invested in growing our distribution teams and our underwriting team to support our Stop Loss mid-market expansion, which has shown up in our 1-1 results in terms of the very, very strong sales growth. As well as within our Wealth business, we have strategically made investments to build out our mid-market sales and client-facing teams to drive revenue growth and improve retention as well as making investments in our field, phone-based advisers as well as our managed account team to be able to drive deeper integration. And all of those are really focused on driving the revenue growth.

To your comment about Voya India, we continue to remain focused on leveraging Voya India to help us innovate, but also to focus in on delivering on the strong margins we have across our business. And that will continue to be a focus is how do we simplify our IT environment and footprint, continue to find ways that we can drive efficiencies across our business.

John Barnidge ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

And my follow-up question, you talked about an Investment Management pipeline and called out the U.S. business. There's a component of international, I think, that's not captured, but I think distribution has been improved through some M&A there. So could you maybe talk about how you think about the international opportunity for the pipeline there?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Absolutely. Thanks, John. This is Matt Toms. I'll give you some background and color on that. So we're extremely excited about the partnership that we have globally with AGI. We continue to build upon that in 2024, as we really created that over the last year plus.

Importantly, there, if we look at what we've achieved in the international channel, $4 billion of flows coming from overseas is really a game changer for us. It's expanded our capability to reach internationally, and we only continue to build upon that product array that we have.

So you're right to call out the pipeline in the U.S. as something we have had historically and really happy with the turn. But it's only building internationally, and we're very excited as we move through this year.

Operator

Our next questions come from the line of Tom Gallagher with Evercore ISI.

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

First question is just on the lower Health earnings. What drove the weaker supplemental Health margins this quarter from a product perspective?

And it looks like your guide is assuming that gets better. Can you talk about whether your confidence level that, that's going to improve heading into '24?

Guys, you might be muted. I'm sorry.

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Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Can you hear me now?

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

We could hear you now, yes.

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Okay. Great. So this is Rob Grubka, I'll start over Tom. Thanks for your question there, we had some technical difficulties. So fourth quarter is where we typically see seasonality in the voluntary results. What I would say was different this quarter is just the amount of incidents that was reported in the fourth quarter, but actually occurred in first, second or third. And so that seasonality element looks more elevated this year than in prior years.

So as we've talked about in the past, and Don highlighted in his comments around trying to strive for the right customer value, this is a business that we have grown dramatically over a long period of time at this point. We service this business really well, and that balancing act of margin for customer value is something to think across the industry. We aren't alone in this, trying to always strive for doing the right thing and making sure that we're putting process in place.

We're doing things from a customer service perspective that helps support them. And we've talked in the past about medical claim integration is an innovation that we put in place, and we'll continue to focus on making it easier being able to anticipate claims activity for a customer and, again, strike that right balance.

I'd close with 69% to 72% for the business is where we expect to come in. If you do the step back and you look at the full year, I know results have felt a little bit choppy in Health, but the full year results, record earnings, 67% loss ratio, well below what we think is sustainable, which is why we're guiding back into the 69% to 72% range.

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

So Rob, there's nothing in the 4Q results from a trend. First, you view that as more seasonal and you would -- I presume that means you would expect there to be a little bit of more consistent results throughout the course of '24 because it sounds like you also had some '22 favorable development sort of at least on the Stop Loss business. But would you expect the results to be a little more consistent throughout the course of '24 on Health?

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Yes. So talking in totality, yes, look, I think it was a quarter-to-quarter more volatility than we would ultimately expect to see in '24. I think I can say that with a lot of confidence.

But look, these are products, and Stop Loss in particular, where there can be volatility over period to period, but as we look at it, understand what was going on with the book of business that drove the results quarter-by-quarter, we see ahead a more consistent pattern to '24.

Heather Lavallee ***Voya Financial, Inc. - Chief Executive Officer***

And Tom, it's Heather, if I can just add maybe one other point. I think it's important to do, as Rob kind of concluded, with a broader step back on Health is that we have continued to drive an outpaced organic growth in this business, while managing loss ratios very effectively.

Rob and his team have a tremendous track record of doing that, and we've got the confidence that we'll be able to do that going forward, as proven by the 1-1 start we already have through the year. So we feel very, very good about the continued growth and ability to manage the loss ratio on Health.

Operator

Our next questions come from the line of Ryan Krueger with KBW.

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

My first question was a higher level one on the EPS guidance. I think last quarter, you had pointed more towards the midpoint of the 12% to 17% EPS CAGR and had said there could be potential upside if the equity market rebounded, which ended up happening.

But ultimately, I think the '24 guidance points more towards the lower half of the EPS CAGR. Seems like there were a few different things impacting that. But I guess, I was just trying to understand maybe at a high level kind of what you attribute the change in your EPS outlook for '24 maybe versus what you were thinking the last couple of quarters.

Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

Sure. Ryan, this is Don. So let me start by saying we're expecting profitable growth in all of our businesses in 2024. And as I said, we're expecting to generate significant cash from those capital-light businesses. But the pace of growth in our businesses in 2024 is slightly lower than maybe anticipated last quarter and also slightly lower than what we're anticipating going forward in 2025 and beyond.

And really, that's impacted by, I think, 3 things in the business. First, on the Health side, we had record results, as Rob just talked about in Health, and we see that normalizing back to loss ratios that are in that 69% to 72% range.

In Wealth, we continue to have participants surrenders. So as part of our look forward to 2024, we're modeling or expecting or guiding that we'd have surrenders in 2024 that are consistent with the second half of 2023. And obviously, that will impact our results.

In IM, we had negative flows in the fourth quarter, so we're starting with asset levels that are slightly below where we anticipated. So as it relates to the business, those are the key components.

I might also point out that on the corporate side, there's a relatively big difference in expenses. We were roughly at $200 million, just slightly over $200 million for the full year 2023. And our guide for 2024 is $240 million to $260 million. That's made up of maybe 3 primary components.

The first relates to incentive compensation. So partly as a result or largely as a result of the performance in alts in 2023, we actually recorded, booked and are going to pay incentive compensation that's below target. For 2024, we expect that incentive compensation will come back up to target levels. And so that's embedded in our guidance and in our forecast.

We also have 2 other things that are impacting our corporate expenses and our thinking on 2024. One is we're expecting about $10 million more of pension expense. This relates to service costs. It's non-cash and primarily attributable to the increase in our employee population based on the addition of Benefitfocus.

And then we also continue to -- we have some amounts in corporate related to strategic investment. Heather talked a little bit about that in her opening comments, but we would expect to be investing in technology, continuing to invest in technology. So that's embedded in corporate.

So you have higher incentive compensation, $10 million or so of pension cost and about $10 million or so of this incremental strategic investment. And that's impacting our guide on corporate expenses.

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

Great. Appreciate the color. That was helpful. And then just a follow-up. Investment Management, do you still think the margins can trend higher over time? Or do you think at this point, 25% to 27% is kind of the right range for that business?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Yes. Thanks, Ryan. I think -- thinking about the 25% to 27% and where we've been and where we're growing, we're very confident in that margin. That's an increase from the prior year. And as we look forward, we look at the growth behind that margin and the breadth of that growth, both domestically and internationally as our business partnership matures with AGI.

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We're very confident at that growth level. We're more focused on the scope of the business that can grow. Our pipeline is incredibly strong. As Don mentioned, the $10-plus billion that we have in place to deliver on through this year and beyond continues to broaden, both domestically and globally. We're more focused on the growth of the business at this point and expanding that margin further, but also confident that you'll see that margin bounce back as we move into 2024.

Operator

Our next questions come from the line of Jimmy Bhullar with JPMorgan.

Jimmy Bhullar ***JPMorgan Chase & Co, Research Division - Senior Analyst***

I had a question on asset management and just your comments on the pipeline. I think you've been fairly upbeat about the pipeline for the past year, yet flows have been consistently negative.

So what gives you the comfort that the pipeline will actually end up translating into net flows? And what's different this year versus maybe last year?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Yes. Thanks, Jimmy. This is Matt. I'll take that. I think the key here is that we're really through the transformation of the partnership with NNIP through the AGI. We knew this would create headwinds in the short term, but really provides amazing opportunity longer term, and really confident with the year plus we have got behind us, the building of products and the developing of channels to be able to deliver upon that. And I think that's really the game changer.

And if we step back and look at that pipeline, there's also the diversity of the pipeline domestically and internationally. So we have the ability to deliver solutions in the U.S. market as well as the global market. There's a lot of demand for dollar-based assets.

There's also a pivot back into fixed income that we have very strong performance. As Don referenced in his remarks, our performance is what opens the door, and we have that, and look forward to delivering both domestically and globally with a very strong partnership for many years to come.

Jimmy Bhullar ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Are the NNIP withdrawals, are those already gone? Or is there some more to go?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

So the NNIP withdrawals are a 2023 event. So while a headwind for 2023, as you put it, into 2024 and our confidence in that $10 billion-plus pipeline is because that's behind us. And while never fun to go through that transition, we're much more confident and excited about the growth trajectory with AGI over the years and decades to come. And that's behind us now as far as NNIP.

Operator

Our next questions come from the line of Suneet Kamath with Jefferies.

Suneet Kamath ***Jefferies LLC, Research Division - Equity Analyst***

Don, on the cash generation, I think you said around $800 million for 2023 and maybe a bit above that in 2024. As we look out maybe beyond this year, do you feel like that cash generation should be pretty stable? Or are you anticipating any kind of bigger moves as we kind of go into out years?

Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

Well, the cash generation is really reflective of sort of our 90%-plus cash generation capabilities. We've had that in the past, and we expect that in the future. As we look forward, and you saw in our guidance, for 2024, we're expecting that the businesses are going to grow at sort of 2% to 4%.

I mean, I obviously talked about what was happening in corporate, but the businesses are -- we expect them to grow. In the years 2025

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and beyond, we expect them to grow at a more accelerated pace, so we're guiding to 4% to 6%.

We expect that, that growth will then contribute to incremental cash generation because we're very comfortable with that 90%-plus conversion ratio. So I would expect that, over time, that cash generation will grow in proportion to the growth in our business.

Suneet Kamath ***Jefferies LLC, Research Division - Equity Analyst***

Okay. That makes sense. And then I guess, somewhat related, when I'm looking at Slide 17 and I'm looking at your adjusted operating margin targets for '24 and then '25, it seems sort of flattish to me, kind of in that low 30% range.

And I would have thought just given the scale that you have in some of the businesses, we'd see some sort of positive operating leverage. I acknowledge that it's 30%-plus, which means there could be some upside. But maybe just some color around -- are we kind of flattish margins over the near term? Or should we expect some sort of inflection at some point?

Heather Lavallee ***Voya Financial, Inc. - Chief Executive Officer***

Yes. Thanks. This is Heather. Maybe I'll start with that. I think as you look at the operating margins we generated across our business, and particularly within Wealth, we're very proud of that margin. And we've talked about the fact that we've delivered in that high 30% range since we've been a public company. And for us to be able to continue to drive revenue growth in that business and still deliver exceptionally strong operating margins, we're very proud of that.

In Don's comment, when we talked about the health insurance and providing the slightly lower guidance in the Health with the addition of Benefitfocus and, again, highly strategic, but a lower operating margin for that specific ben admin business, we see an opportunity to continue to improve that margin over time.

So what I would say is we certainly think that in '24 for Health, you've got the moderation of the loss ratios, but we see opportunity to continue to leverage our expense discipline, our focus on innovation, our focus in on just driving the integrations across Workplace to be able to see some improvement in the operating margins.

And then Matt already talked about Investment Management as we do see a steady path. So I would think about that as a bit of a baseline, but we're always going to be focusing in on how we can continue to grow margins across our businesses.

Operator

Our next questions come from the line of Elyse Greenspan with Wells Fargo.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

My first question is on Investment Management. You guys called out on 2 mandates, I guess, in the fourth quarter that you said were moving to the Q1. Can you just give us the size of those? And then how would you expect that $10 billion pipeline that you're talking about to come online during 2024?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Elyse, this is Matt. I'll answer that for you. So as far as timing of mandates, always a lot of moving parts around clients and markets. So we're very confident about the pipeline we have moving forward. And the timing of first quarter, fourth quarter, you've got really the peak in rates, if you think about it was the middle of last quarter. So client behavior and around year-end can be variables.

It's always hard to be extremely precise, but the size of the pipeline and the breadth of the pipeline continues develop. So I can't put a precise number on any client funding when and where. But the importance of that is the diversity of that pipeline, growing across fixed income, equities and international and domestic demand.

And as far as timing through the year, again, likely to build some of this is a client behavior and the market stability comment, but we are very confident in that $10-plus billion number.

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And also for the prior questions, we look internationally the time we've had to build the relationship with AGI, and the product array will continue to benefit as we move through the year.

So look for some increase as we move through the year. It's always impossible to be perfectly precise with market volatility and client behavior, but it's a building trajectory. And we're very confident with the break we have out of the gate to start in 2024.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

And the size of those 2 mandates that moved?

Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

The size of the 2 mandates is -- it's -- well, there's always -- there's an array of mandates, right? So you're thinking on the order of $10 billion pipeline, that's never going to be equally weighted through the year. So I don't have precise numbers. Client demands are always moving as well. But again, very confident in the size of the pipeline throughout the year. We expected to build through the year quarter-by-quarter.

Operator

Our next questions come from the line of Wilma Burdis with Raymond James.

Wilma Burdis ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Could you talk a little bit about the capital return outlook? Is 4Q '23, is that kind of a good run rate heading into '24?

Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

Yes. I think we are sort of -- we want to make sure that we're focused on the practice that we have been carrying out throughout 2023. We thought it was prudent to be in a position where we were deploying capital in the current quarter that we generated in the prior quarter. So we generated about $200 million of capital in the fourth quarter, so I would expect that we would be deploying something in that neighborhood in the first quarter of 2024.

And we've indicated that we expect to have a strong cash generation year. We've also indicated that our bias for 2024 will be on returning that capital through share repurchase and through dividends. So think about that $800 million of excess capital will be biased to those activities.

Wilma Burdis ***Raymond James & Associates, Inc., Research Division - Research Analyst***

And then anything to note in terms of alternative investment returns heading into 2024? I know your outlook assumes, I think, a 9% rate, but maybe just give us some color on what you're seeing so far this year and how that will progress.

Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

Yes. You're right, Wilma. Our guidance -- our long-term guidance continues to be at that 9% rate. We feel like over the long term, that's been a return that is representative of our actual experience. So we have not adjusted that. We are confident in that over the long term.

Obviously, in individual periods, you can deviate from that. But maybe I'll turn it over to Matt to talk a little bit more about -- we had a lot of conversation around this. And we felt really comfortable when we put it in our guidance, and maybe Matt give you a little bit of color around how we got to that conclusion or reaffirm that conclusion.

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Thanks. And look, precisely forecasting the return of any market is a difficult thing to do. The long-term assumption, I think, is conservative and something. If you look at our historical track record, we're very confident in delivering. And if you look at market volatility, where we stand right now and how markets perform across equity, fixed income and into privates and alt, there's been a lot of transition over the last 1.5 years.

So as we step back and we look at the quality of our portfolio, what is delivered over time, in the area that it's oriented towards, those are the areas of strength and of resilience. So I think we're extremely confident because of the underlying asset quality within that portfolio.

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Operator

Our next questions come from the line of Joel Hurwitz with Dowling and Partners.

Joel Hurwitz ***Dowling & Partners Securities, LLC - Analyst***

So in Health, you highlighted the 15%-plus in-force premium growth. Can you just talk about your outlook across the product lines and what you saw with the 1-1 renewals?

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Yes. Joel, this is Rob. Look, the guidance at a high level is sort of where I'll anchor us to. And product by product, we'll let the dust settle of 1-1. And there's things within that, just that we'll feel nuance, but very important is reenrollment activity influences things.

There's other elements of amendments within the book. And so it can move the numbers around a little bit more than you might otherwise expect. But look, you should take from the 15% that we have momentum across all the products. We had a really strong Stop Loss season. We had a really strong supplemental Health season, and Life wasn't too bad.

Again, to get us to 15%, we were firing on all cylinders. For 1-1 and the team is just working -- worked really hard to get us there collectively. But we feel good about the number in totality. We will give you the -- obviously, the nitty gritty details as we get into 1Q reporting.

Joel Hurwitz ***Dowling & Partners Securities, LLC - Analyst***

Okay. And then when I look at tax exempt flows, it was almost $5 billion of outflows for the full year. I know you called out the one large mandate redeeming in Q4. But just what's going on there? And then does that business have the majority of the concentration of the spread-based AUM? And are you seeing some of these outflows pressuring the spread asset levels?

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Yes. So look, on [TM] is -- Heather knows well and she may chime in here. That's a business we've been in a long time. We've been extremely successful. We got market leadership position in that business. And it is one where general account plays a bigger role versus the corporate segment.

So -- and as a reminder, we called out sort of what happened in fourth quarter. But as a reminder, in first quarter, we also had a large case go there. So that's close to $4 billion of the number from those 2 particular cases that has been with us a long time, large general accounts. That was certainly a piece of the story.

And then what we've seen and Don highlighted, the participant behavior is an element that has been nudged given where rates have moved in this sort of unique environment in our guide on our best view of things as we sit here today is that will continue as we look out through '24.

But obviously, quarter-to-quarter, we'll be able to update you on what we're seeing and how that's actually transpiring. But we think how we're guiding on it is prudent at this point and, again, gets back to all the other guidance that we've given you around margins and growth. Those things are embedded in it.

But Heather, do you want to...

Heather Lavallee ***Voya Financial, Inc. - Chief Executive Officer***

Yes. I think to me, to the broader step back on the Wealth business, you've heard us talk about for a number of years of the diversification of the markets that we serve for mega clients down to micro. There are different growth trends that we've been able to capitalize in over time. And that really emerges in not only the steady revenue growth, but the strong margins, the high free cash flow of the business.

And if you look at just last week's job report, one of the highest growth sectors was in government, and we happen to be the #1 provider

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in the government market segment. And that will shift from time to time, but we feel like we've got an at scale Retirement franchise that is going to continue to be able to drive some steady growth for us across and across all different segments, not just tax exempt, but corporate market as well.

Operator

Our next questions come from the line of Alex Scott with Goldman Sachs.

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

First one I had is on Wealth Solutions and wanted to know if you could just help us think through sensitivity to the shorter end of the curve on interest rates. And I know you guys used the forward curve in your guide, so that's helpful. But just help us think about sensitivity, particularly the rate cuts and if they're greater than expected or if it ends up in fewer rate cuts this year.

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Well, look, Alex, I guess where I'd start with it is part of how we got to the participant behavior that we've seen was certainly driven by alternatives in the market that was exacerbated, is maybe the right word, for the different value that was either perceived or promoted to a participant on what might all -- might be available outside of plan.

Now participants aren't sitting around necessarily trying to figure out how sensitive their behavior is going to be for short ends and changes and what the Fed decides and how that plays itself out. Again, I think we're at a place where we're given a guide around our best view of participant behavior given the environment we're in. As you're saying, the environment is going to change. How sensitive it is, honestly, is very hard to sort of quantify in any meaningful way for you.

I think what we're trying to do into Heather's point around diversity of the business and the actions that we're taking, we're -- we feel like we're at an inflection point. You went through a change in yields in markets and impacted the general account that is going to allow us and put us in a position to continue to grow the fee row of the income statement faster and as we do that continue to drive diversity of how we earn money, how we make money moving forward and then, importantly, continue to support the dividend approach and the free cash flow approach that we have overall.

And this all factors into what is that mix of general account, what are the new solutions and services we're trying to provide. Heather talked about retail wealth as an area that we want to continue to invest in. We've got a lot of different ways to continue to drive growth and serve participants as an effective way as possible.

But I'm dodging your specifics to your question because it's a really hard one to answer, but those things are going to factor in, and we'll be able to give insight as it occurs quarter-to-quarter.

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

And just sensitivity on the specific net investment income and exposure to floaters, we can see sort of the gross exposure to floaters, but it's a little hard to tell on the crediting rate side, how much of it actually flows through to earnings?

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

So Alex, maybe we've been -- let me just come out at a high level and then can maybe be more specific, so I can make sure I'm hitting it. But look, we've been tactical in our approach around investment strategy and what we've been doing in this sort of rate environment to be thoughtful. As participants are leaving the general account, you would imagine, we're sitting there thinking about the cash that we have available in the general account.

And so taking advantage of floaters in the shorter end of the yield curve is something that was smart to do financially, but also wise to do from a risk perspective. And so we've done some of that on the edges. But is that getting to your question? Or...

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Don Templin ***Voya Financial, Inc. - Chief Financial Officer***

Well, Alex, maybe -- this is Don. I might add that sort of floating rate sensitivity is embedded in our -- in the sensitivities that we show around the interest rate changes. So on our Slide 2023 -- or 23, that has guidance and assumptions. It's incorporated in there.

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

Understood. And if I could maybe sneak one more in. I just wanted to see if you could update us on the commercial real estate portfolio. And I know you provided the slide, which is very helpful.

Is there any other color you can give to us just around how much is maturing in 2024 and progress there, comments on how that will unfold and if you expect any headwind to cash flow?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Yes. No, and thanks for the question. Actually, a real pillar of strength in our opinion as far as our positioning within our balance sheet broadly, but within commercial real estate very specifically. When we step back and look at our position in office relative to peers, 14% in office relative to the ACLI peers at 21% and also the diversity of that portfolio, a $12 million average loan size across 450 loans.

We start from a position of strength, and we also start from a position of strength from CM1 to CM2 to go into detail. 71% CM1, this is a differentiated portfolio relative to the market. It's very diversified. I think the stats speak for themselves. We provided more detail in the materials. You'll see that I think will drive to the point specifically. But overall, we feel very confident in our commercial real estate portfolio. Clearly, a difficult environment for office. We think we're well positioned.

Operator

Our next questions come from the line of Michael Ward with Citi.

Michael Ward ***Citigroup Inc., Research Division - Research Analyst***

Maybe just a quick color on that last question. Curious about the deed in lieu that you mentioned, where it sounds like that's kind of when you take the keys back. Any comment on how much of that you've done and maybe the capital impact of it?

Matt Toms ***Voya Financial, Inc. - CEO of Investment Management***

Yes. Let me maybe build on a little bit. And we put a call out in the presentation, I think you're referencing a $16 million unpaid balance. And just to put that in the context of our balance sheet of $37 billion, that's not to be a statement of strength.

If we look at the guide forward as far as losses and you look historically as far as our loss rates, very mid-single digits loss rate. We feel very confident with the portfolio, even going through the CML component of office that we will continue to likely underdeliver, what the market does as far as losses and what our long-term planning assumption is. So that's $16 million is not an accrual, as you referenced. But we really don't anticipate any meaningful losses.

Michael Ward ***Citigroup Inc., Research Division - Research Analyst***

Got it. That's helpful. And then maybe just on the Health guidance. Curious if you can speak to Benefitfocus and if you can kind of call out the contribution from that within health. Just kind of want to try and figure organic sort of guide there.

Rob Grubka ***Voya Financial, Inc. - CEO of Workplace Solutions***

Yes. This is Rob. So on Benefitfocus, and as we've alluded to in the conversation here, incredibly excited about the strategic opportunity that continues to present. As we talked about a quarter ago, brought down on what we said the adjusted operating earnings would be, that played out as a little bit lower in the fourth quarter.

As you do the step back, what I would say is focus in on the fee row within the Health business to capture the bulk of the momentum that we see from a revenue perspective in that business. We've also talked about sort of the patients required because of the longer sales cycle in that business. I would hone in on -- the strategic piece here is also getting exposure to the Health business and the health market and health care market in a bigger, broader way.

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So things that we're in flight with and going to continue to talk about as we move forward is how do we influence health care spend, the efficiency of it, the effectiveness of it for both participants as well as employers.

So this is the thing that in an HR department, they're going to spend most days of the year talking about health care, what's going on, how do we influence it, how do we bend the cost curve, be more efficient, more effective and drive better outcomes for their employees.

And we think we're in a sweet spot to bring those things together as you look at the totality of our business in Health but then, importantly, how do we connect in with the Wealth business and bring benefits and savings together. We're really excited about what that can bring to us.

So coming back to your question under where we wanted to be, but really excited about where we're going and how that's going to translate into growth. Also as Don and Heather touched on the Net Promoter Score, effectiveness of open enrollment was a big reason why we continue to spend and invest in that business throughout the year, regardless of where the revenue was going. And that's just playing this thing in a strategic way, in a smart way as we think about the future.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to Heather Lavallee for any closing remarks.

Heather Lavallee ***Voya Financial, Inc. - Chief Executive Officer***

To summarize a few key messages. We remain focused on executing our plan, profitably growing each capital-light business and delivering an outstanding experience for our customers. Our commercial strength continues to grow, supported by our robust pipeline across workplace solutions and Investment Management. We are confident in achieving our EPS growth and cash flow generation targets in 2024 and beyond.

Thank you, and we look forward to updating you on our progress throughout the year.

Operator

That does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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