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VOYA.N - Q1 2024 Voya Financial Inc Earnings Call

EVENT DATE/TIME: MAY 01, 2024 / 2:00PM GMT

OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

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

Matthew Toms *Voya Investment Management LLC - CEO*

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

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

CONFERENCE CALL PARTICIPANTS

Kenneth Lee *RBC Capital Markets, Research Division - VP of Equity Research*

Michael Ward *Citigroup - Analyst*

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

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

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

Nick Annitto *Wells Fargo Securities, LLC - Research Analyst*

Wes Carmichael *Autonomous Research, LLP - Equity Analyst*

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

PRESENTATION

Operator

Good morning. Welcome to Voya Financial's First Quarter 2024 Earnings Conference Call. (Operator Instructions). Please note this event is being recorded.

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

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

Thank you, and good morning. Welcome to Voya Financial's First Quarter 2024 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 during 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.

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

Good morning, and thank you for joining us today. As you can see from our first quarter highlights on Slide 4, we delivered on our financial targets. Adjusted operating EPS was $1.77, up 23% year-over-year and we remain on track to deliver our full year 2024 EPS target of $8.25 to $8.45.

We generated excess capital of approximately $200 million and returned more than that amount to shareholders in the form of share repurchases and dividends. Our Board has approved an additional $500 million share repurchase authorization that will allow us to execute on our capital return plan. That capital plan includes a generation and return to our shareholders of $800 million of excess capital in 2024.

Strong sales momentum and positive flows this quarter have us well on track to achieve our commercial and revenue targets for 2024. We are maintaining strong discipline on spend to enhance margins, while preserving the investments that will sustain our long-term growth. And we continue to deliver an attractive return on equity, reflecting the achievement of our earnings targets and the capital efficiency of our businesses.

Turning to Slide 5. We are executing our strategy with competitive advantages that establish our clear right to win. As one of the few players in the market with leading positions in both Retirement and group benefits, we have a distinct ability to succeed with our workplace benefits and savings strategy. We have scale and credibility across markets, tax codes and employer sizes.

We've distribution through virtually every intermediary channel, providing a diversified platform to grow revenues and add participants, and we have a leading brand in the marketplace with a reputation for putting the customer first and for a culture of service. I will mention just a few examples of how our workplace strategy is landing new clients, expanding our revenue base and deepening our relationships with customers.

In Retirement, we've evolved the way we approach the mid-market for customers who had different needs and expectations from those in smaller and larger market segments. Our efforts are yielding results with mid-market sales up almost 300% over the same time last year. In stop-loss, we've added new quoting capabilities and expanded our distribution reach to smaller employers, who are increasingly self-funding their medical plans.

This has contributed to the 17% growth of in-force premiums and fees we've achieved in Health Solutions as compared to last year. And we're deepening our relationships with our participants, creating new opportunities to drive revenues from a rapidly increasing participant base. As we surpassed 7 million participant accounts on our Retirement platform, we are strengthening our field-based retail advisory team to capture a greater share of economics out of plan. We're also growing our managed account business with managed account revenues up 27% in the first quarter of 2024. Our workplace strategy is building deeper relationships with our customers and creating new sources of growth for our business.

Moving to Slide 6. In Investment Management, our competitive advantage begins with a well-established foundation in institutional fixed income and leading market positions in third-party insurance asset management and income solutions. Our strength in private assets and our global distribution reach create expansion opportunities that build upon this platform for growth, with scaled presence in international markets, our investment strategies meet the increasing demand for U.S. denominated assets. With strong investment performance and an established market presence, we are well positioned to capture flows as asset rotations increase. We are seeing new flows begin to emerge with $1.3 billion of insurance channel net flows in the first quarter.

In private and alts, we're executing our expansion strategy with three private fund launches planned this year. We've also strengthened our distribution team with further private markets expertise to help us meet new client demand. And our growth in international markets continues with international retail flows of $1.3 billion for the quarter.

Turning to Slide 7. Voya's purpose and vision continue to drive positive outcomes for our clients, our colleagues and the communities in which we live and work. For our customers, we continue to roll out our MyVoyage guidance tool to help employees choose the right benefits and savings options to meet their personal circumstances and improve their financial outcomes. Customers who use MyVoyage are 50% more likely to choose a less expensive health plan option and 50% more likely to elect to save funds in a health savings account, while increasing their Retirement savings rates.

For our communities, we are working to advance financial literacy among young people. Through a partnership with a Council for Economic Education, we are sponsoring a national personal finance challenge and continue to support advocacy for positive legislative change in this area.

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With respect to our colleagues, I'd like to highlight a recent achievement that involved almost 2,000 Voya employees, those who work at Voya India. In April, we completed the final step in our operational separation from our joint venture partner, creating powerful new opportunities for greater innovation and collaboration among our teams.

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

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

Thank you, Heather. Now let's turn to our results on Slide 9. We delivered $1.77 of adjusted operating earnings per share in the first quarter compared with $1.44 a year ago. Our first quarter results reflect the benefit of diverse revenue sources and strong expense discipline. Fee revenues were higher across all businesses, which more than offset lower underwriting income and health as loss ratios normalize from exceptionally favorable levels.

First quarter GAAP net income was $234 million. Net income exceeded adjusted operating earnings in the quarter due to the impact of several noncash items including a $38 million tax benefit, robust cash generation and a strong capital position supported the return of capital to shareholders. Excess capital generation for the quarter was approximately $200 million, consistent with our track record of generating capital above our 90% target. We remain on track to deliver $8.25 to $8.45 of adjusted operating EPS in 2024. And we also remain on track to generate and return $800 million of excess capital to shareholders.

Turning to Wealth Solutions on Slide 10. We continue to improve outcomes and deliver value for our customers, consistent with our vision and values. This is supporting our ability to consistently grow assets and our participant base. Full service net inflows were $22 million in the first quarter, a significant improvement quarter-over-quarter. We expect momentum to build in the second half of the year, resulting in full service net inflows of over $1 billion for 2024.

In recordkeeping, net outflows were $312 million in the quarter, following a year in which net inflows were over $7 billion. Larger plan activity can drive variability in quarterly net cash flows. Our full year outlook is over $3 billion in recordkeeping net inflows.

Moving to Slide 11. Wealth Solutions generated $186 million of adjusted operating earnings in the first quarter, a more than 40% increase year-over-year. Higher fee-based revenues and alternative investment income more than offset lower spread-based revenues, and our continued focus on expense discipline, balanced with investing in the business resulted in administrative expenses over $17 million or 7% lower than the prior year quarter.

Looking ahead, we expect full year net revenues in 2024 ex notables to be 1% to 2% higher than 2023. While we took actions in the first quarter to enhance portfolio yields, and improved interest income on cash balances. Second quarter spread income is expected to be between $220 million and $230 million as spread-based assets continue to trend lower. And we also introduced new money products that we expect will increase inflows into the general account and stable value products over time.

Turning to Slide 12 on Health Solutions. We continued to grow our core business, expand into adjacent markets and drive greater adoption and utilization of our solutions within the workplace. Growth in the first quarter was driven by a record sales season and favorable retention across all product lines. Annualized in-force premiums and fees grew 17% to $3.9 billion, well above our target.

Premium growth was largely driven by stop loss, where we improved capabilities to quote new plans as well as enhanced our distribution down market. In the first quarter, our total aggregate loss ratio was 74%. In stop loss, results reflect updated experience for our 2023 block, which is nearing completion, and is expected to finish at the high end of our 77% to 80% target loss ratio range.

Looking forward, updated results from our 2023 block and pricing metrics related to the strong in-force premium growth suggested it's prudent to expect we will finish the year on the high end of our 69% to 72% aggregate loss ratio range.

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Moving to Slide 13. Health Solutions adjusted operating earnings of $59 million reflects strong book growth offset by loss ratios normalizing from historically favorable levels in 2023. Net revenue growth year-over-year reflects strong sales, favorable retention and diversification into fee-based revenue. The adjusted operating margin ex notables was 25.4% on a trailing 12-month basis and we expect it to be at the lower end of the 24% to 30% target range for the full year.

This reflects both our full year underwriting expectations as well as continued discipline managing expenses, while investing in growth. Growth examples include investing in lead management. This capability is of increasing importance to employers and often influences decisions to bundle supplemental, life and disability products. Additionally, we are continuing to enhance key capabilities within benefits administration to support growth in 2025 and beyond.

Moving to Investment Management on Slide 14. With the international transition now behind us, we are seeing the results of Investment Management's reach as a diversified global investment manager with an enhanced platform of investment solutions emerging. The diversity of our business across client type, client region and asset class provides multiple paths to scale and grow.

Our leading positions in institutional fixed income and third-party insurance asset management serve as competitive advantages, which will support continued client and asset growth. We generated positive net inflows of $574 million in the first quarter. First quarter included approximately $2 billion of flows generated in U.S. and international intermediary channels, reflecting demand for income and growth solutions, our retail private equity fund, and core fixed income.

In Institutional, the industry headwinds in CLOs and softer demand for fundamental and thematic equities were partly offset by strong demand for core fixed income in the insurance channel. Overall, we expect our positive net flows momentum to build throughout the year driven by strengthening investment performance, improving client sentiment across domestic insurance and retail channels and increasing demand in the Asia Pacific region for U.S. dollar-denominated solutions.

Turning to Slide 15. Investment Management delivered adjusted operating earnings of $42 million in the first quarter, net of AllianzGI's noncontrolling interest. Higher net revenue year-over-year reflects strong sales in intermediary and insurance markets and benefits from favorable equity markets. Adjusted operating margin ex notables improved meaningfully to 26.1%. The improvement reflects higher net revenue and the result of significant expense actions in 2023 and continued discipline this year. We are encouraged by the momentum early in the year, and we expect our diverse pipeline will support continued growth inflows and a return to 2% organic growth.

Turning to Slide 16. Our strong capital generation differentiates us from peers. We continue to build on our track record of generating excess capital above 90% of earnings, while still investing for growth. In the first quarter, we generated approximately $200 million of excess capital and returned over $200 million to shareholders, including $172 million via share repurchases. We remain on track to generate over $800 million of excess capital in 2024 and longer term, we expect excess capital generation will grow in line with business growth.

Turning to Slide 17. We are focused on executing our strategy and meeting our financial targets for 2024. We continue to generate excess capital in line with our 90% plus free cash conversion, supported by our diverse and capital-light businesses. We expect to return over $800 million to shareholders in the form of share repurchases and dividends. First quarter earnings put us on track to meet our full year adjusted operating EPS target of $8.25 to $8.45. And the significant improvement in first quarter net flows supports the momentum we expect through the balance of the year.

With that, I will turn the call back to the operator so that we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Mike Ward with Citigroup.

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Michael Ward - *Citigroup - Analyst*

I was just wondering, if you could maybe comment on the really strong sales growth that we saw in Health? It just seemed like a very -- I think it was up 50% excluding Benefitfocus?

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

Yes, sure, Mike. So we clearly had a really strong year to start. And then as you do the comparable to last year, I'd say we felt like we were a little bit light. So the year-over-year percentage impressive, nonetheless. But look, I think it's really a testament to the work the team does from an execution standpoint across all of our products. I think the distribution depth and breadth has just continued to build.

I would also say as we think about bringing Benefitfocus into the mix, that's only gotten better. Our relevance at the workplace, our relevance with distribution partners has only increased. The touches has only increased and I think our ability to bring credibility to everything we're doing across the workplace.

We're as in as good position as anybody to take advantage of what we think is a really unique opportunity to solve problems in a different way. But look we, obviously, you do the step back and you want to make sure it was a disciplined growth I'm sure we'll talk more about that as we go, but we feel good about how we started the year, and we'll continue to be disciplined as we think about moving forward.

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

And Mike, this is Heather, if I can just build a finer point on the Stop Loss sales, and very strong growth. Two key points there is that we had expanded down market. And so we saw that contributing to the very favorable Stop Loss sales. And we've also done some things to leverage AI and machine learning to be able to expand our quoting capabilities.

Historically, we typically would have to decline about 50% of the 1/1 business that came in and through this new capability. It's allowed us to be able to bid on a larger percentage of opportunities, which has contributed to the favorable sales.

Michael Ward - *Citigroup - Analyst*

And then maybe on the outlook for flows and I guess more towards Investment Management, but retail, fairly solid. Curious if maybe in 2Q to date, you're seeing any indication that some of the institutional players might be looking to, I don't know, put some excess cash to work that could be maybe bolstering the outlook for inflows?

Matthew Toms - *Voya Investment Management LLC - CEO*

Mike, thanks for the question. Certainly, encouraged by the turn inflows in the first quarter. We talked about an inflection point at the end of last year, and we've seen that inflection point inflows. And as you referenced, strong internationally and in the retail markets domestically, we are seeing with the market environment, let me just categorize the market environment a bit. The lower rate volatility, even a higher rate, that lower volatility and the narrative around how persistent is growth as opposed to has the Fed already killed growth. That's an environment where institutions are more likely to act.

So when we look at our investment performance, which continues to be strong and we look at say, pipeline, which we referenced last quarter, again, still in place that $10 billion plus pipeline. We are quite confident on that organic growth rate 2 plus percent. And we have seen, as we move into the second quarter, institutional activity improve. And we've used the word build in the past and that visibility into 2Q builds your confidence around achieving a 2 plus percent growth rate.

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

Maybe two builds for me for Matt's comment is to emphasize the point that the transition year is behind us. We recognize we still have work to do, but we do feel very good about the full year outlook. And secondly is that if you look at the strong results we delivered in the quarter and the visibility we have into 2Q, we did that during a very successful leadership transition within asset management with both Matt and Eric and that speaks to really strong client confidence in Matt and the team.

Operator

Our next question is from Ryan Krueger with KBW.

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

I had a follow-up on Stop Loss. I guess, first, can you provide some additional detail on what you think is driving the higher Stop Loss claims? And then just as a follow-up to the very strong sales, to what extent are you concerned that you may have underestimated the medical trend in your 2024 Stop Loss pricing?

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

Yes, I'll start with the first one. From a 1Q perspective, what we saw driving the loss ratio there was really the more complete nature of the '23 cohort of business. As you'll recall, last year, we started the year focused in and talking about during the year about the 2022 block of business. And that cohort ran incredibly well. Sort of start of the year was showing good results and then it continued on in the second quarter and impacted what we were showing then.

The '22 block, easy for me to say here is running and ran at low 70%. So as we look at the '23 block and how that is finishing and how that impacted the quarter, we're ending up at the higher end of the range. And so to connect to the second part of your question, we -- and Don said this in his comments, feel it's prudent to be at the higher end of the range. We'll see how that obviously plays out quarter-to-quarter and continue to guide and give you the best view in the underwriting margin, which we put in the modeling considerations to help bridge that gap.

But as you think about where we're at today versus where we were a year ago, you got two cohorts of business that are much tighter aligned from a loss ratio expectation perspective. Now again, '24, we're just getting started as we get into third and fourth quarter, obviously, you've got much more experience to look at versus reserving. And so that dynamic of how the credibility builds versus reserving that plays out at the back half of the year.

But as we do the step back, things like lapse rates on the renewal activity we drove, the guidance that we set around renewal targets. And then the new business pricing was at win rates that were consistent to the prior few years, a little bit better than last year, but consistent with the years before that. So with that, I'll pause and see.

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

Yes. I think just the one thing I would build to emphasize the examples that Rob was highlighting there is we have a disciplined approach to how we price this business over the long term. And as you saw in the materials, we also have a very strong track record of growing this business, while effectively managing the loss ratios over a long period of time, and we plan to continue to do that in the '24 book and going forward.

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

Shifting to Wealth. Are you still seeing the same type of trends on somewhat elevated participant withdrawals. And then if it is so, are there any actions you're trying to take to retain more of those assets within Voya?

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

Yes, sure. So from a participant behavior piece of it, I think, consistent to how we guided at the end of last year, how we have seen things play out at the start of this year, our views really most come to light when you think about both net flow perspective and the guidance that we're giving you there, that's incorporated. And then also from a general account perspective and guiding you on the spread income, that's the most meaningful area to look for outcomes or the impact of that.

As we think about what we're trying to do, again, last quarter, we talked about new product introductions. So both general account and stable value product introductions are going to be happening or are happening. Those will build and help over time as we think about the decision and the actions that a consumer is taking, obviously, it's a complex point in time when they're making those choices and decisions.

We want to be there to provide thoughtful education guidance and potentially advice depending on who they're working with, within the Voya team. And again, I'll turn it over to Heather here to talk a little bit about retail and what we're doing and how we're thinking about that moving forward.

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

Yes. Let me just add on that is that the real point is we've got a strong retail wealth management business inside Wealth. And today, we've got a combination of ways that we're going to deliver education and advice for our participants. We do take a holistic view of participant needs, and we've got a breadth of solutions to serve them both in plan and out of plan.

We are -- this is one of the areas when you hear Don talk about our investments in growth. We are continuing to invest in our capabilities to serve customers' needs out of plan, and it really links back to our purpose to help our clients to and through Retirement. So I would say on this one is stay tuned. We'll continue to provide updates on how we are continuing to expand our out-of-plan capabilities in support as well of our strong in-plan capabilities within Wealth.

Operator

Our next question is from Wes Carmichael with Autonomous Research.

Wes Carmichael - *Autonomous Research, LLP - Equity Analyst*

I had another one just on Stop Loss. I think you mentioned being able to go down market and price some smaller employers. I'm just curious if you think that, that business is kind of accretive to margin on a relative basis, do you kind of price those to a lower loss ratio? Or is it kind of similar to the in-force book?

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

No, I think about them being similar. At the end of the day, as we think about this is just an important opportunity to continue to expand from a capability standpoint, we've got the foundation. We did do some deliberate things from just an underwriting talent experience perspective in that space. You get into lower deductible levels. And so you get into a different set of drivers of claims and claim severity. But we wanted to make sure we had the right people in play.

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And so this is really a build of the capability over really 3 to 4 years, and we're starting to see the benefits of that come in and start to be a more material piece of the overall sales story, which I would think of as roughly 10% of the sales for Stop Loss coming from that expansion. We think that will continue to build over time. But I would not think about it as something that's going to drive our margin in a material way to be anything different than what we've historically experienced.

Wes Carmichael - *Autonomous Research, LLP - Equity Analyst*

And then on Investment Management, I think you pointed last quarter to the $10 billion pipeline, I think you highlighted that, that kind of remains in place and I heard your comments, Matt. But just thinking about if Fed cuts could do move out to 2025, do you think the funding in some of that pipeline kind of moves towards the back half of '24 or even later? Just curious to hear your perspective there.

Matthew Toms - *Voya Investment Management LLC - CEO*

Yes. Thanks, Wes. On the institutional side, again, we're seeing more of a build. The relative stability or the lowering of volatility is the important thing. And if the Fed is staying still for an extended period, while it may disappoint the market over a short-term horizon. That stability builds confidence and movement within the institutional asset base. We've already seen that on the retail base, both domestically and internationally.

And we've seen that on the insurance side, the insurance side, which is a preeminent business of ours really paused through last year that created a headwind has accelerated this year, and we're seeing that expand into the pension space, where there's a lot of industry articles around increased allocations to fixed income. We are seeing client engagement increase there. Again, we've got strong products, a strong performance. That's really the next inflection point for us to see in our business.

And again, the second quarter outlook for that is strong. But again, as we step back, it's really the breadth of products and distribution channels. They're all starting to improve. As we look to the second half, hard to know from a forecast, there's an election, the Fed has activity to undertake. We have announcements today. But just I would want to really highlight the point, stability at a high level of rates is not harmful to client activity. It's volatility, and that's been declining.

Operator

Our next question is from Tom Gallagher with Evercore ISI.

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

First question, just a follow-up on medical Stop Loss. Rob, what did you do with pricing in that business for this past year renewal heading into '24. Did you get rate over and above what you normally get? Or was it just in line? And what are your plans? I assume we're entering into, getting close to where you're thinking about pricing and renewal season for this year. Just given your current experience, would you expect to push through more rate than usual?

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

Yes. So the more than usual is the key part of that question. Look, we're -- I think as we completed the renewal cycle, it was very much in line with the target we set to bring clarity to that piece of it. And the other thing I'd add is also our retention was in line with expectations. And just in a normal year, that's losing 20% of the book roughly. That's sort of the right benchmark. You vacillate a little bit around it. But -- so there's always tension to the renewal process, as you would expect. So I would say those two factors played in and played out relatively close to what we would have expected.

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Now as we think about the future, I will tell you, every year, I'm thinking about getting more rate. It's a business with inflationary trend perspective in it. The risk that we take is leverage trends, so you should think about it even being higher than sort of traditional medical trend. And so that's always the element that we bring into it, as Heather and I have alluded to from a process standpoint, we'll go through the same rigor that we go through every year, we'll be sort of quarter turn, half turn the screw on the disciplined alignment with the team and making sure there's clarity on execution for sure.

You can expect that. But I wouldn't also think about it as dramatic shifts. This is a market that continues to grow. We've done it over a long period of time and have a lot of confidence in the team and the process.

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

And maybe, Tom just one clarification, build from me on Rob's comment is, first, when we're setting the pricing, we look back over a 3-year period. We're not just looking at the prior year claims experience, which we know can be a little bit volatile, but go back. And I know, Tom, you know this is why do we like this product so much is that there's built-in protections in this product.

The fact that we have the ability to annually reprice it, the fact that we use reinsurance to protect against large claims. Stop Loss creates really nice growth opportunities and diversification. And I think over the long term, has demonstrated really strong contribution to shareholder value, and we expect that to continue going forward.

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

My follow-up is just on the pipeline in Wealth and how we should think about that translating into your flow guidance. I think the $15 billion is the number you've used. I don't know, if you've split that out between recordkeeping and full service of the $15 billion pipeline. But how do you -- can you help us sort of map the $15 billion into the $1 billion for full service and $3 billion into record keeping and how that sort of -- how we should think about the, I guess, overall deposits and then the persistency and how that all nets out?

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

Yes. No, great question, Tom. I'll try to maybe just reiterate some things but also hopefully make sure it's crystal clear. From a flow perspective, we've again talked about the $1 billion for full service, $3 billion for recordkeeping. We implemented, obviously, part of that $15 million in the first quarter. So you sort of see the net result and impact of that just in the ending point for the quarter.

As we think about activity moving forward, we've tried to provide the guidance around general account, which is obviously a piece of the full service story more in particular, and so I feel like we've given the pieces and parts. You've got also the spread guide on what we think next quarter will look like. So I think we've tried to make as much visible as we possibly can. But the high level of fundamentals on new business activity, I feel good about that.

As we foreshadowed in Don's comments, the second half of the year is where you'll really see the net flow emerge and as you know, in the larger end of the market, you get things swinging from quarter-to-quarter a little bit, but we feel really good about, again, that guide for the full year.

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

And I would keep in mind, when you think about Wealth beyond the flow story is really the strong organic growth story. You saw in this quarter, we gave you the participant growth. So we've continued to drive participants. We've driven plan counts, we've driven asset growth. We've all done it organically, and it really also goes back to the revenue diversification of this business. We've been able to navigate very different macro environments over a long period of time.

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And finally, as the free cash flow contribution from this business is significant towards that $800 million of capital we expect to generate in the year.

Operator

Our next question is from Wilma Burdis with Raymond James.

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

Most of my questions have been answered, but just one quick one. Could you please discuss the upcoming $400 million debt maturity in February 2025. We understand you have $400 million of excess capital, which can help address this. But could you walk us how you would think about the potential financial impacts of refinancing versus paying down.

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

Sure, Wilma. As you have rightly noted, we have approximately $400 million of debt maturing in the early part of 2025. We are currently evaluating how we'll handle that maturity, but I guess I might offer up, we have considerable optionality and flexibility to manage that situation.

Our balance sheet is well positioned. Our leverage ratio is 28%. And as you know, our target is 25% to 30%. So we're comfortably in that range. And as you also noted, we are consistently generating capital and have $400 million of excess capital. So we've not yet made a decision on how we're going to move forward, but I think we have a lot of good flexibility there. We expect to have more certainty around that plan in the next coming quarters and would communicate it to you at that time. But I think that we sit from a position of strength right now and feel good that we will be able to make a decision around that debt that isn't forced on us that we get to choose the pathway.

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

Just a quick follow-up, if I can. Would pausing share repurchases be on the table or no?

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

We've committed this year to returning $800 million of capital to shareholders. And so that commitment in my view, is steadfast.

Operator

Our next question is from Suneet Kamath with Jefferies.

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

I think on the fourth quarter call, you had talked about some additional expenses in Wealth Solutions. And it looked like the expense discipline this quarter kind of was pretty visible. So were you able to make those investments and just offset it with cost savings elsewhere? Or are those investments sort of still in front of us?

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

Yes, Suneet, thanks for the question. It's Heather, I'll take that. So a couple of things. As you know, we've got a long track record of being disciplined about expenses and we took meaningful expense actions in the quarter across our businesses, while still being able to invest in the business.

The way that I would think about those is Rob was able to do some things in terms of combining the teams across workplace. That is allowing us to achieve some expense saves. We continue to take advantage of Voya India more broadly across our businesses, which is quite meaningful. But we -- I may turn it to Don to add some additional color on the expenses, but this is something that is a strong muscle for us and something we're going to continue to lean into from time to time.

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

Yes. As Heather mentioned, this is a strong muscle for us. We did lean in in 2024. And I would say that we have a track record of taking significant expenses out of the business but that doesn't keep us from continuously trying to reduce expenses and be very thoughtful and disciplined around that.

I would put sort of the expense reductions in a few categories maybe. One is optimizing our operating model. So we think it's appropriate for us to look at our operating model, we have had some significant divestitures over the last several years. And so we are very focused on making sure that the back office and the systems that we have in place to support the new business as it's been repositioned is appropriate.

The second area where we've been very focused is around driving expense synergies. So we obviously had the AllianzGI transaction and the Benefitfocus transaction and both the teams in IM and in Health are driving real meaningful reductions in expenses there. We're leveraging actions that we've taken in the past to drive incremental value. So Heather mentioned Voya India, we took full ownership of that, and we're seeing the real benefits of that.

And then finally, maybe I'd mention that we have ongoing optimization of our real estate footprint, and that's also been benefiting us and then reflected in the reduction in expenses.

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

And Suneet, just to close your question I didn't answer upfront is we did make the appropriate investments as expected.

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

And then I guess on the Wealth side, can you just unpack the participant withdrawals and kind of what's going on there? It seems like we've been talking about that for the past couple of quarters. Are these folks that are at Retirement age that just kept the money in the 401(k) plan previously and now are moving it elsewhere. If we get some color on that? And then is there any meaningful difference in terms of these participant withdrawal trends between the 401(k) business as well as the tax-exempt business?

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

Yes, Suneet. So yes, we've been talking about it for a number of quarters now. We will probably continue that as we've guided to on expectation that the full year would play out in a consistent manner to first quarter. So you do the step back and obviously, we've been peeling apart as best we can, and we can do it well.

What is going on? What is the situation for these individuals? You think about different age cohorts. You think about are the separated from service? They've left money behind? And are there things going on that are driving activity in the --? Look, the main thing that we've talked about historically

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is also I still think through as you look across the industry and who's talking about getting flows, obviously, annuity providers and the influence of advisers have on those decisions is just apparent.

That's a piece of the story is that people have fixed rate options that they didn't used to have outside of insurance product and just banking products. I think there's an element of there was some pent-up demand. And as you get older, obviously, you think a little bit more conservatively about where you want your money and how you want to allocate it.

The thing Heather and I alluded to this already. I think this is an area where we think there's opportunity for us to continue to lean in on advice and education to support those decisions better around the retail story. But we're going to continue to evolve the product set, the solutions we have and the capabilities that we want to own and control versus how we continue to partner and work with not only plan sponsors, but also our distribution partners. As you can imagine, it's a complex decision point, and there's a lot of players involved that we think we can continue to work better with.

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

And I would just point to within the quarter, just a reminder that when we see higher equity markets, you tend to see elevated participant surrenders just because their account values have grown and the recurring deposits that come in just the ongoing contributions just can't necessarily offset that. So there certainly was some impact of that in the first quarter on participant surrenders.

Operator

Our next question is from Nick Annitto with Wells Fargo.

Nick Annitto - *Wells Fargo Securities, LLC - Research Analyst*

On for Elyse. Most of our questions are answered, but just had a follow-up going back to Stop Loss. I think you guys said that 10% of new sales are coming from kind of that lower market. Is there an overall target for that going forward or as a percent of the book? Or is that just kind of dynamic?

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

No. Look, I would just say it's current state. It's a state we'll continue to think about growing and have it be a more meaningful part. But again, back to one of the earlier questions, would I then think about that bringing in business at a different margin expectation? I would bet not. So I think from a -- as you think about modeling, it isn't a variable that at this stage, you need to be concerned about or worried about changing the dynamic within Stop Loss, but that's current state.

Nick Annitto - *Wells Fargo Securities, LLC - Research Analyst*

And I guess just as a follow-up on alts, is there any sense or expectation for 2Q, it seemed like you guys held up a little bit better than some peers this quarter?

Matthew Toms - *Voya Investment Management LLC - CEO*

Yes, Nick, this is Matt. I'll take that. Close to the long-term average in the first quarter, we stated confidence in the 9% range for the year. We did provide in the materials this quarter, additional information around the makeup of our alternatives portfolio. You referenced that we've held up a bit better than what is a -- I'd say higher dispersion within the industry we view is correct and we think driven by the quality of the portfolio, you'll see it in the materials, the heavy skew towards private equity.

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And within that, while diverse, a reasonably low number on commercial real estate at 3% of that alts book. We think that's different than our peers. It's provided returns above that 9% number historically close to that in Q1. And the forward look is encouraging to us. Always hard to know exactly where valuations will come in. But as we look into the second quarter, we think there's a bit of a tailwind, but we're comfortable 9% for the entire year.

Operator

Our next question is from Kenneth Lee with RBC Capital Markets.

Kenneth Lee - *RBC Capital Markets, Research Division - VP of Equity Research*

Just one on Investment Management. Revenue yields they were picking up pretty nicely the last couple of quarters last year, a slight decline this quarter. Wondering whether there was anything to call out in particular or whether it was just due to mix shift?

Matthew Toms - *Voya Investment Management LLC - CEO*

Yes. Thanks, Ken. Let me provide some detail on that. It is really, as you point out, a mix shift. We've seen our revenue yield as a counter industry trend. It's been increasing as you referred to, over recent quarters. We're projecting more stability as we look in the year forward. There's always different flows at different time.

And if we think about Retail has helped support that over the last number of quarters. We think about the institutional and insurance channels growing. You can have some influence that will move that around. We do not view this as an inflection point or a change in the moving forward. And ultimately, that revenue yield is driving the margin improvement, as we mentioned. So both on the top line and on the expense base is happy how that's playing through the overall business.

Kenneth Lee - *RBC Capital Markets, Research Division - VP of Equity Research*

And just one more, if I may. In terms of the retail net inflows in the quarter within Investment Management, any way that you could help us size out the contribution from the AGI international distribution? And perhaps how we should think about any kind of forward trajectory in terms of the contribution to net flows over the near term?

Matthew Toms - *Voya Investment Management LLC - CEO*

Yes. No, happy to provide that. It's balanced across the different products. The incoming growth and the AGI component is a strong contributor to that. I think the small majority of that. But really the story there is the breadth and what we've seen engagement in client activity more broadly. So we're still happy with the income and growth component, particularly in the Asian market.

In the domestic market, we're seeing better engagement across fixed income, core fixed income that Don mentioned in his comments. Also in the multi-asset and the model business, we're seeing better uptake and in our equity strategies, performance really haven't improved there in demand on the small cap side. So we're seeing that breadth improve. But again, balance more than historically when it was more international, the more of the domestic and international pairing together right now.

Operator

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

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

Thank you. To summarize a few key messages, we delivered on our financial targets in the first quarter and remain on track to achieve our targeted full year results for 2024.

Our commercial strength remains strong with robust pipelines across workplace solutions and Investment Management. We remain focused on strategic execution, expense discipline and prudent capital management, while continuing to invest in growth. Thank you, and we look forward to updating you on our progress.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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