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PRESENTATION

Operator

Good morning, and welcome to Voya Financial's Fourth Quarter and Full Year 2022 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 and Full Year 2022 Earnings Conference Call. We appreciate all of you who have joined us for this call. As a reminder, material for today's call are available on our website at investors.voya.com or via the webcast.

Turning to Slide 2. Some of the comments made during this call may contain forward-looking statements within the meaning of federal securities law. I refer you to this slide for more information. We will also be referring today to certain non-GAAP financial measures. GAAP reconciliations are available in our press release and financial supplement found on our website.

We plan to release our fourth quarter 2022 financial supplement restated for the accounting impacts from long duration targeted improvements, or LDTI, with our first quarter 2023 earnings call. The restated financial supplement will include the impacts of the targeted improvements, which fill into effect in the first quarter 2023.

That said, we do include forward-looking guidance related to LDTI in the analyst modeling considerations within our presentation.

Joining me on the call are Rod Martin, our Executive Chairman; Heather Lavallee, our Chief Executive Officer; and Don Templin, our Chief Financial Officer. After their prepared remarks, we will take your questions. For our Q&A session, we have also invited the heads of our businesses, specifically, Christine Hurtsellers, 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***

Good morning. I would like to begin by sharing how energized I am to serve as Voya's CEO and lead this management team, as we execute on our strategic objectives and continue to deliver strong financial results for our shareholders. I also want to thank Rod for his leadership over the past decade.

Thanks to Rod and the incredible work performed by so many across our company, Voya has been at the forefront of strategic developments in our industry in recent years. We've divested capital-intensive businesses, grown high ROE and free cash flow generating revenues and deployed capital in a manner that maximizes value for our shareholders.

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I'm enthusiastic about our leadership team and Voya's prospects, as we continue to execute on our strategic and financial objectives this year and into the future. Together, we are guided by the same set of principles that have served Voya and its shareholders so well over the years, careful stewardship of shareholder capital, skillful management of expenses and a focus on profitable growth.

And as I think back to everything that our team has accomplished in just the past year, I see those principles in action. Today, we are reporting strong financial results for a year in which macro headwinds were among the most difficult we have faced.

Across every business, we have proven our resiliency and our ability to execute. We carried out transformative M&A transactions throughout 2022 that have positioned Voya for strong growth in the years ahead.

Our acquisition of AllianzGI's U.S. Asset Management business has added scale and diversification to Voya Investment Management and is already delivering outstanding financial results.

And we just recently closed our acquisition of Benefitfocus, adding a highly strategic business that provides the capabilities we need to fully capitalize on our workplace strategy. Through these 2 notable acquisitions, we have carried out in significant part the inorganic moves that we signaled at Investor Day just 16 months ago.

We are focused on continuing to execute and deliver on integration of the businesses we have acquired, achievement of the strategic goals these transactions have enabled and driving Voya's continued growth.

Before I cover our key themes from the quarter and full year 2022, I'd like to ask Rod to say a few words. Rod?

Rod Martin ***Voya Financial, Inc. - Executive Chairman***

Thank you, Heather. Today's call is special for me and everyone at Voya, as it's our first following our successful CEO transition earlier this month. As we approach Voya's next decade as a publicly traded company, we do so with a CEO and a management team that have my complete support and the full confidence of our entire Board of Directors.

Since we began our CEO transition 6 months ago. Heather with the strong support of our management team, has demonstrated that Voya will continue to build upon our proven foundation of success. Under Heather's leadership, Voya's next chapter is an exciting one.

Building on the commitments at our last Investor Day, Voya is well positioned to create even greater value for our customers, clients, employees and shareholders. I want to personally thank everyone at Voya for the dedication and commitment that has enabled our company to positively impact the lives of our customers and clients and to contribute to the communities in which we live and work. As Executive Chairman, I will continue to serve Voya and support our outstanding CEO and management team.

With that, I will turn it back over to Heather.

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

Thank you, Rod. Let's move to Slide 6 with some key themes, starting with our strong EPS growth in both the quarter and full year. For the full year, we grew adjusted operating EPS by 24%, well above our annual growth target of 12% to 17%.

Our strong EPS growth reflects Voya's continued execution of our net revenue growth, margin expansion and capital management initiatives. In terms of net revenue growth, commercial momentum continued across our businesses. For Wealth Solutions, we grew full service recurring deposits over 10%.

In Health Solutions, annualized in-force premiums grew nearly 11% year-over-year. In Investment Management, we generated approximately $150 million of net inflows during the fourth quarter despite a challenging backdrop for asset managers. This contributed to full year net flows of over $1 billion, reflecting, in particular, the strong performance of the business we acquired from Allianz's global investors last July.

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In a few moments, Don will share more on our results and performance. With respect to capital management, we concluded the year with approximately $900 million of excess capital after deploying $1.2 billion to repurchase shares, extinguish debt and pay common stock dividends.

And having completed our acquisitions of Benefitfocus last month, we expect to resume share repurchases in the second quarter of 2023 and assuming market conditions remain constructive. In addition to net revenue growth and capital deployment, we have also remained focused on margins, which has included our successful elimination of all stranded costs associated with prior divestitures ahead of schedule in 2022.

Underlying our results this year is our continued commitment to the execution of our plans, controlling what we can control despite the headwinds of the macro environment.

Let's turn to Slide 7. We completed our asset management transaction with Allianz's global investors only 6 months ago, and we are already seeing significant benefits from this acquisition, including strong earnings and positive net flows. Through this acquisition, we have significantly diversified our asset management business, transforming Voya Investment Management into a global provider of investment solutions to clients across numerous attractive asset classes and markets.

The transaction also added considerable scale to our business with $90 billion in new assets under management, as well as access to AllianzGI's extensive global footprint to distribute our investment strategies outside of the U.S. and Canada.

Let's turn to Slide 8. We also completed our acquisition of Benefitfocus last month. Benefitfocus helps us achieve one of our core strategic objectives: connecting workplace health benefits and workplace savings in a manner unique to the marketplace. With a Benefitfocus platform, Voya can meet the increasing demand among employers for workplace benefits and savings solutions that optimize their benefit spend.

Just as important, the acquisition allows Voya to simplify what is too often an overly complicated process for employees to select the right package of benefits to meet their unique needs and circumstances, providing a superior user experience for our clients and customers.

From a financial standpoint, it adds capital-light, fee-based recurring revenues, while positioning us well over the longer term to grow into highly attractive markets connected to health benefits at the workplace.

For 2023, we expect the business to generate EBITDA of approximately $50 million including expense synergies.

Turning to Slide 9. Our focus on our culture and the character of our brand continues to differentiate Voya. Once again, this quarter, we have been recognized externally by several prestigious organizations, including those noted on this slide. These honors speak to the Voya culture that we have developed during the past decade and is reflected in the diversity and strength of our Board, our management team and our workforce.

The transformation we have executed over the past 10 years is directly attributable to our people who have consistently worked in partnership to achieve the ambitious goals we have set.

As Voya's CEO, I will continue to protect and develop the strength of this culture, preserving the powerful legacy and differentiators that Voya has built over many years. Looking forward, our culture will continue to help us stand apart in the marketplace.

Before I pass it over to Don, I'd like to take a moment to welcome him to Voya. I'm excited to have him as part of our management team, and I'm confident that all of our stakeholders will benefit from his great experience and knowledge. We are looking forward to working closely with him as we advance our strategy and financial plans. Don?

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

Thank you, Heather. Let me begin by saying how delighted I am to join you all on my first earnings call as CFO. I'm incredibly excited to join a high-caliber management team with an established track record of execution. I look forward to working with this team to accelerate organic growth opportunities, maximize value from our recently acquired assets and drive long-term shareholder value.

Let's turn to our results on Slide 11. We delivered adjusted operating earnings per share of $2.18 in the fourth quarter and $7.58 for the full year. This included notable items totaling $0.13 for the quarter and $0.17 for the full year. Excluding these items, year-over-year adjusted operating earnings per share for the fourth quarter grew by 31% to $2.05 and for the full year by 24% to $7.41.

Organic growth was driven by higher investment spread revenue in Wealth and strong underwriting results in Health. This was partly offset by the impact of equity markets on fee revenues in Wealth and Investment Management.

Fourth quarter and full year 2022 GAAP net income was $190 million and $474 million, respectively. From an excess capital perspective, we generated over $600 million in 2022. This is meaningfully above net income, primarily due to the noncash impacts related to businesses we exited through reinsurance.

Our strong results exemplify how diverse revenue streams and complementary businesses enable us to effectively navigate through rapidly changing economic landscapes.

Moving to Slide 12. Wealth Solutions delivered strong fourth quarter and full year results. We generated $148 million of adjusted operating earnings in the fourth quarter and full year earnings of $707 million.

Full year net revenues ex notables grew approximately 3%, in line with our 2% to 4% target. Our spread-based revenues continued to benefit from higher interest rates. This more than offset the impact of lower average equity markets on our fee-based margins.

First quarter investment spread income is expected to be in line with fourth quarter 2022. While we expect to benefit from the higher rate environment, this will be offset by increased crediting rates.

Full year adjusted operating margin was 37.5%, this exceeded our target range of 34% to 36%, highlighting our ability to manage through challenging macro cycles.

Turning to deposits and flows. Full Service recurring deposits grew 10% on a trailing 12-month basis, consistent with our 10% to 12% growth expectation. Full Service net inflows were over $950 million in the quarter, reflecting strong planned sales and favorable retention. This contributed to a record year of Full Service net flows of nearly $3 billion, marking the seventh consecutive year of positive flows in Full Service.

Finally, recordkeeping net outflows were approximately $570 million in the quarter. Looking ahead, we expect a favorable trend in full service and record keeping net cash flows to continue, supported by a healthy 2023 pipeline.

Turning to Slide 13. Health Solutions delivered strong fourth quarter and full year results, demonstrating marketplace demand and pricing discipline. We generated $74 million of adjusted operating earnings in the fourth quarter and full year earnings of $291 million. Adjusted operating earnings grew on solid revenue growth, and operating margins were within our 27% to 33% target range.

Full year net revenues ex notables grew close to 13% year-over-year, reflecting favorable net underwriting results and premium growth across all product lines. Annualized in-force premiums grew nearly 11% year-over-year exceeding our 7% to 10% expectation.

We saw growth in all products, including 20% growth in voluntary. Total aggregate loss ratios were 69% on a trailing 12-month basis. This was better than our targeted 70% to 73% range, primarily due to favorable claims development within Stop Loss during the quarter, which more than offset elevated non-COVID mortality within group life.

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A successful sales and renewal season, the diversity of our revenue mix and the momentum from executing our workplace benefits and savings strategy gives us confidence in our ability to deliver on our growth targets.

Moving to Slide 14. Fourth quarter and full year Investment Management results reflect the strength and diversity of our platform and benefits from the AllianzGI transaction. We generated $42 million of adjusted operating earnings in the fourth quarter and full year earnings of $158 million, excluding the noncontrolling interest attributable to AllianzGI.

Full year net revenues ex notables grew 11% year-over-year as additional revenues from AllianzGI more than offset the impact of macro headwinds on both equity and fixed income fees. Full year adjusted operating margins improved over 100 basis points over the prior year to 26.8%.

We expect it to improve at least another 100 basis points in 2023. This will be driven by our expanding private and alternative franchise, growing retail assets and continued expense discipline.

Turning to investment performance. While our 3- and 5-year fixed income performance were impacted by the challenging markets in 2022, 100% of our fixed income funds outperformed on a 10-year basis and is a key differentiator.

Turning to flows. We generated $147 million of positive net inflows in the fourth quarter and over $1 billion for the full year 2022. It is worth highlighting that this was achieved in a year of significant headwinds across global equity and fixed income markets. And this marks 7 consecutive years of positive flows for our business.

Our positive net flow result is distinguished from the outflows seen across the industry, primarily reflecting the strength of our insurance channel, demand for our private strategies and the contribution from AllianzGI.

We are excited about our momentum going into 2023. We expect to build on the successes with AllianzGI, expand our private and alternatives platform and continue delivering strong long-term investment performance for our clients.

Turning to Slide 15. Our year-end excess capital was approximately $900 million. During 2022, cash generation was once again in line with our 90% to 100% free cash flow conversion target. We generated over $600 million of excess capital from our strong adjusted operating results.

Our ending RBC ratio was 488% well above our 375% target. We deployed $1.2 billion of capital over the year across share repurchases, debt extinguishment and common stock dividends.

Looking ahead, we expect to resume share repurchase activity in the second quarter of 2023, assuming macro conditions remain constructive.

With respect to leverage, we plan to utilize a new metric that excludes AOCI. This is consistent with the approach most rating agencies are taking and is more resilient across market cycles and post LDTI.

Going forward, our target leverage ratio will be within a range of 25% to 30%. Over time, we expect to manage to the lower end of that range to provide ongoing flexibility.

Our balance sheet and capital position is strong, and we are confident that our well-diversified investment portfolio will continue to deliver attractive through-the-cycle, risk-adjusted returns.

Turning to Slide 16. Our 2022 financial results build upon our strong execution track record. We are 1 year into our 3-year Investor Day plan, and we are ahead of our EPS growth expectations.

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Looking ahead to 2023, we expect at least 10% EPS growth. With Benefitfocus, we see a path to our 12% to 17% EPS growth range. And notably, this is off a higher 2022 EPS base.

In summary, our fourth quarter and full year earnings were strong, particularly given the challenging equity in fixed income markets, highlighting our execution strength and the benefit of our diversified businesses. We are focused on integrating and maximizing the full value from our recently acquired assets, while driving our workplace and investment strategy.

We are also focused on delivering exceptional customer value which should translate into shareholder value, and we will continue to be balanced and disciplined around our capital.

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 questions come from the line of Ryan Krueger with KBW.

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

Could you provide some additional color on the pipeline for Investment Management flows as well as the opportunity to -- from the enhanced AGI distribution as we move into '23?

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

Yes, good morning, Ryan, it's Heather. Christine will take your question this morning.

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Voya Investment Management***

Yes. Good morning. So how to think about the strength of flows going forward? Listen, we -- as you saw, we are quite proud of the business results we had in '22, which is a challenging year. And so we really are well set up to leap with strength into 2023.

So we see a very diverse, strong pipeline represented by many strategies. And we're seeing green shoots in what were headwinds last year in retail flows, as an example, and increasing interest in fixed income, just given where overall levels of yields are, right?

Globally, they're quite attractive. And so thinking about Allianz and our distribution partnership in 2 ways. Number one, there's going to be strong global demand for fixed income, given where our yields are. And when you think about leveraging that partnership near term and long term, we are going to launch -- we expect to launch 4 new funds this year with Allianz off their UCITS platform.

Two, earlier in the year that are off of the new teams that we acquired as well as, two off of Voya IM strategy. So there are many ways to leverage the strength of the partnership, the strong demand for income-related assets in Asia specifically, were really -- that's the high-growth area when you think about investment product demand. So overall, transformational year for the business, in terms of the strategic distribution partnership, and I'm very excited and optimistic as we go into the quarters ahead.

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

Great. And then just a quick one on Benefitfocus. How should we think about the $50 million EBITDA guidance in terms of how it would actually come through as GAAP operating income?

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

Ryan, Don, I'll take your question.

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

Sure, Ryan. So we have -- the $50 million of EBITDA, if we deduct from that what was sort of the historical depreciation and amortization of Benefitfocus, that gets us into a range of $25 million-or-so of pretax operating earnings.

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So for purposes of modeling, that's what we would expect to use is somewhere in the range of $25 million. I might note that our definition of EBITDA and their definition of EBITDA are different. So this -- our number includes stock-based compensation, the burden of stock-based compensation, theirs did not. So we've had some questions around that. But $50 million of EBITDA and roughly $25 million of pretax operating earnings.

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

And maybe, Ryan, it's Heather, if I can just add as a follow-on to that. While we talk about the financial benefit from Benefitfocus, we really acquired this for the long-term benefits and really thinking about how it accelerates our Health and Wealth strategy.

It really puts us right at the center of the customer experience as well as helping employers to optimize their overall benefit spend. And this is an established partner with an established business that we've acquired. And I'll close with what gets me so excited for Voya to own this property is we can put our muscle behind accelerating the road map, bringing in our health and wealth guidance tool into their client experience, helping to improve churn rates, RFP, close ratios and overall operating margins.

So while there is certainly real and significant financial benefits in '23, we're most excited about the long term and how this will help ultimately drive growth and shareholder value for our shareholders.

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, as we think about you guys going back to buying back your shares, should we still think about debt management being about 40% of buyback? And do you have a target on the buyback side of what you would want to return to shareholders during the last 3 quarters of the year?

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

Sure. Good morning, Elyse. Don will take your question.

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

Sure, Elyse. As we are -- as Heather indicated, we are committed to returning back to share repurchase and return of capital in the second quarter. I think with respect to pacing, there's a number of items that impact the pacing of that, including what happens in the macro environment. So we indicated that we expected to go back into share repurchase, assuming a constructive outlook.

We don't see anything that causes us to believe that, that won't occur, but that will obviously impact our ability to generate excess capital and then return it to the shareholders.

With respect to leverage, we noted on the call that we are going to be using a different leverage metric, a revised leverage metric, if you will, and we are in the sort of the higher end of that range. So the range was 25% to 30%, excluding AOCI. And I would anticipate that during 2023, we will be managing that leverage ratio down so that we do buy ourselves some capability or some flexibility.

So we are committed to returning capital. It will be influenced by a number of items, including sort of what happens over the next 2 quarters. But we are very confident in our cash generation capabilities. We are very confident in the forecast that we presented to you, and so we are very comfortable that we'll be back in the market at some point in time and returning capital to shareholders.

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

And then my second question. Within Wealth, you guys talked about higher crediting rates offsetting some of the tailwinds from the rising interest rate environment. Can you help us think through the longer-term benefit of rising rates? And how much of that should be credited back to customers versus falling to the bottom line?

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

Yes, thanks for the question, Elyse. Rob will take your questions.

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

Yes. So Elyse, I'd just step back and as we think about what we saw in the quarter. There was some element of credited rate increase that occurred in the quarter. There's more of that we expect to happen in the first quarter. It's the question of like, well, how much and how should we think about it? As Don said in his comments, we guided from a spread perspective to be consistent with fourth quarter, that's our best view of it as we sit here today.

And then look, as time marches on, and we're always trying to balance out what has been a very good retention story for the business. Credit rates are part of that, calculus that we need to do and the balance of decisions that we need to make.

So looking at it in isolation, maybe not the cleanest answer for me to give you, but I can tell you we're going to do it in a really balanced, thoughtful way looking not only at spread, but also the fee side of the business and striking the right balance as we move forward in an environment that we're all alluding to is going to have some twists and turns to it.

But again, if you look back over the last few years, I think we've gotten adapt at being agile and disciplined about striking those sorts of right balances as we move forward.

Operator

Our next questions come from the line of Erik Bass with Autonomous Research.

Erik Bass ***Autonomous Research US LP - Senior Analyst of US Life Insurance***

Maybe first to stay on Wealth. The Wealth margins came in above your 34% to 36% target range last year and it seems like there's a nice tailwind in the business still from higher interest rates, but you're guiding for margins to return to the target range in 2023. So I was just wondering is there any reason the margin can't remain elevated in the near term, given the rate uplift in a special way of kind of equity markets recover as well?

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

Yes, good morning, Erik. Thanks for your question. Rob will take it.

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

Yes, sure. So when we think about margin and just call it out, I think it's in the material and the modeling assumptions that we expect from LDTI, also to have a benefit to your specifics around rates and fees in the macro environment. Again, I won't be overly repetitive in my answer, at least. We're going to make good balanced decisions about growing the business, doing it in a disciplined way from a pricing perspective that includes being smart on expenses and all those factors come into play. But yes, we would think about our margin guide that we've given of the 34% to 36%, we're going to be at the high end of that or potentially over depending on how the market plays itself out. Does that help, Erik?

Erik Bass ***Autonomous Research US LP - Senior Analyst of US Life Insurance***

Yes. And then maybe a somewhat similar question for Investment Management as we think about the margin trajectory. I don't think you gave a specific target for 2023, but I believe Don indicated the goals to be up 100 basis points or more, which should be a little bit below the 29% to 31% range you talked about previously. So I'm assuming that's just market factors. So maybe if you could talk about how you're viewing the margin trajectory for Investment Management going forward?

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Voya Investment Management***

Yes, Erik. As you say, markets will definitely have an influence, right? But this is sort of near term when you think strategically, though, we continue to see great opportunity to grow the operating margin. And as Don said, based on our disclosed market assumptions as far as what drives a lot of our modeling, we fully expect that there's going to be a 1%-plus margin expansion in the year ahead.

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So it all goes back to the fundamental strength of the pipeline as well as, listen, we've seen good operating leverage and scale as far as what we've been able to do on expense synergies with the acquired teams. And as any good operator and we've demonstrated we're going to continue to be very focused on expense management as well and making sure that we're feeding and growing our strategic initiatives, but again, being very disciplined. So I see a lot of path, a lot of levers to deliver operating margin expansion despite potentially some market challenges.

Operator

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

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

Just a first question on -- I don't want to be too shortsighted, but just understand how you're thinking about the accretion of Benefitfocus versus share repo? Based on the numbers you're giving out, the GAAP PE is something like 15x. But I recognize, I think, that was a cash flow accretion number.

And -- but even looking at your EBIT number, assuming that's an approximation of cash flow, it looks like you paid over 10x when your stock sells at high single-digit multiple. So just curious how you would reconcile that?

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

Thanks, Tom. Don, will take your question.

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

Yes. So Tom, I think what's really important to sort of reflect back on was the guiding principle that we were focused on at the time that we were considering the Benefitfocus acquisition was, one, that it needed to make strategic -- it had to be of strategic importance and have to be impactful from a strategy perspective, but it also had to be accretive, and we were assessing that accretion compared to our base plan.

So our base plan at the time, if you recall, there were some fairly significant macro headwinds and some uncertainty about the future. The base plan was conservative, given that macro environment, and I think it was particularly conservative in relation to share repurchase and debt extinguishment.

So the deal model that we had at the time contemplated an EBITDA number that was very similar to the one that we've guided to. It contemplated a pretax operating earnings number that's very similar to the one that we guided to. And as a result, we believe that the deal economics are consistent with sort of that original base plan.

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

Okay. Don, just a follow-up for you. Can you talk a little bit about any lessons learned from your years spent at Marathon that you think can be applied to the new Voya role from a shareholder value creation perspective?

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

Yes, Tom, I really appreciate that question. So when I came to Voya, there was probably 3 things that got me really excited about Voya. One was the people. Secondly was the courage that the company had exhibited in trying to evolve the company. So you think about what it was at the time of the IPO and what the company looks like now, that's a significant change and took a lot of leadership and a lot of courage to undertake.

And then I was very optimistic about sort of the upside of Voya, so both from a cash generation capability and an EPS perspective. When I look now 80-plus days into my role here at Voya, I'm actually more excited about it than I was at the time that I came on board.

The chemistry and the nimbleness of the management team. And I think from my prior Marathon Petroleum days, you need to be nimble, you need to have great chemistry among the leadership team in order to operate in an environment where the macro can change very dynamically and very quickly. And I think the team has really demonstrated in 2022, as an example, that they are really, really good at

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that.

The plan that was delivered was above what was guided to and what we talked about at Investor Day, and you could never have predicted what 2022 would have been like at the beginning of the year.

The second thing that I've noted, and I'm really excited about and was also something that was really important to me at MPC, was the execution muscle, the leadership team has here, it is not easy to divest yourself of businesses, but they've done that effectively.

It is not easy to take significant costs out of the business, but they've done that effectively. And so I'm really excited about that. It's not easy to integrate companies. I saw that in my days at MPC as well. And I'm really heartened by the really positive momentum we have at AGI after owning those assets or having that relationship for just over 6 months, and I'm really excited about the opportunities that present themselves with Benefitfocus.

And then what I also learned at MPC, that I think is an appropriate carryover here, is that in a world that is dynamic, investors expect a management team that is committed to discipline and a management team that is committed to returning capital to shareholders.

We returned billions of dollars to shareholders at MPC and the management team here has returned, I believe, over $8 billion, $8.5 billion to shareholders since the time of the IPO. So that was a bit of a long-winded explanation, but hopefully, it gave you some perspective around why I came here, some of the things I learned at MPC and why I'm so excited about the future here at Voya.

Operator

Our next questions come from the line of Andrew Kligerman with Crédit Suisse.

Andrew Kligerman ***Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst***

I'm trying to get a general feel for how you're thinking about your capital going forward? So as I estimate post Benefitfocus acquisition, you probably have around $300 million of excess capital. So I'm wondering why not get to work earlier on the buyback given how cheap Voya stock is relative to peers? And along those same lines, M&A. You've done 2 material acquisitions last year? And how are you thinking about M&A going forward?

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

Yes, Andrew, thanks for the question. It's Heather. Don and I are going to tag team this one. I'm going to let him start on the capital, and I'll finish on the M&A question.

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

Yes, Andrew, I think we would have been pretty clear when we entered into the transaction and announced the transaction with Benefitfocus that we were going to pause the share repurchases for the fourth quarter and that we were going to pause the share repurchases for the first quarter.

We obviously delivered a very, very strong 2022. Our capital is in a very strong position. We're very optimistic about our capital generation capability, cash generation capability in the first quarter. And that's why we were able to, I think, so firmly and make the commitment that we would begin returning capital in the second quarter. I think pacing will depend a little bit on what happens economically and our actual cash generation in the first quarter, but we are really committed to returning to the repurchase of shares or the return of capital. And as I said, we're also going to balance that with making sure that we're managing appropriately our leverage ratio.

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

Yes. And Andrew, if I can pick it up from there. If you just go back to, Don referenced the $8.5 billion, $8.7 billion of capital we've returned to shareholders since we've been a public company.

If you just look at 2022 alone, the fact that we deployed $1.2 billion of capital and $750 million in share buybacks. I think that's a strong

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result and certainly, capital management is going to continue to be a really important lever for us as we go forward to be able to increase our EPS in addition to revenue growth and margin expansion. So just to kind of add that on to Don's point, but to your question specifically around M&A, and I'll go back to what we talked about at our 2021 Investor Day.

And we've said our approach to M&A has always been, it's got to be strategic, it's got to be additive, we want -- we've always been very opportunistic in terms of how we've approached it and very, very selective. So -- and at the end of the day, we want to do something that is in the best interest of both customers and shareholders.

So when we talked at Investor Day in 2021, we said that there were really 3 capabilities that we needed to fill. We talked about improving customer outcomes and experiences at the workplace, we talked about adding technology and data-oriented capabilities and then we also talked about in Investment Management, expanding international distribution and growth in privates and alternatives.

And so if you look at what we have done with the acquisitions that we announced and then recently closed, we have executed on the M&A. We believe at this point, we've got -- we've achieved scale, we have all the capabilities that we need to be able to grow. And hopefully, we were clear in our comments that our focus on '23 is, I'll just say 2 words: integration, execution.

Integration and taking full advantage of the AGI, including Czech Asset Management as well as Benefitfocus and really driving the revenue growth we see and increasing shareholder value.

And then execution is we're in year 2 of our Investor Day plan. We've executed on year 1. I think it's demonstrated by our full year 2022 results. And so we've got our heads down for 2022, and that also includes capital management.

And maybe the final comment for me on M&A is, as we think going forward, we're going to continue to invest in initiatives that -- whether it's organically or inorganically, that will accelerate our strategy and always be in the best long-term interest of both shareholders and customers. So hopefully, that gives you a little greater context of how we're thinking about M&A.

Andrew Kligerman ***Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst***

Yes. Very helpful, Heather. And if I could just ask a quick technical question with the Inflation Reduction Act putting forth a corporate minimum tax, does that affect Voya in terms of having to pay taxes going forward? And any color on that would be appreciated.

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

Yes. Thanks, Andrew. Don?

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

Yes. So we're evaluating that act. I mean I think there's some provisions that need to be clarified in terms of that act. At this point in time, we do not anticipate that we will be paying taxes. But that -- there's some consideration around the significant gains that we had in 2021 and how that gets evaluated for purposes of determining whether you fall into the category of being the alternative minimum tax payer.

Operator

Our next questions come from the line of John Barnidge with Piper Sandler.

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

Congrats to Rob and Heather as well. Health Solutions had a strong quarter for distribution across the products. Can you maybe talk about the experience there? How Benefitfocus enhances this, and then an early look on Stop Loss?

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

Thanks, John. Rob will take your questions.

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

Yes. Great. Thanks, John. Yes, so a couple of things. As you look our business, just historically, obviously, first quarter, we always guide towards 1Q is going to be a real driver of how we think about the full year.

Part of what we've started to talk more about though is also in particular with Stop Loss is broaden out, branching out our distribution approach and sort of the size part of the market that we focus in on, which helps lend towards some diversification on where we do business, who we partner with, how we partner with them. I would say what we saw this fourth quarter, while up a bit, not dramatic in the total of the full year, but those things are starting to create just a different diversity of who we're talking to, when do we talk to them.

And as you get away from what we historically talked about is our middle and upmarket approach, think 500 lives and up, we're going to start getting into different conversations, which also necessitates doing business and setting up cases in a more through-the-year sort of cycle.

So net-net, I wouldn't sort of view anything surprising there. It's a bit of an outcome of us just thinking about the right we've earned, I think, by executing really strongly over a number of years now, a reputation in a market that's brought us credibility and gives us access to more opportunities throughout the year.

To the Benefitfocus question, look, we're in early days. And again, to this point of when do you sell stuff? When are you busy in market? They're busy right now. And so I think from a management team and an integration perspective, we're really focused on not distracting them from what they need to do and what they need to deliver on.

As we move forward, though, we see tons of opportunity. Heather alluded to it a little bit in her comments already about Benefitfocus from a solution perspective, what do we deliver in the market, how we deliver it in a more integrated way. We're really excited about that.

Our strength in broker distribution should increase their strength in broker distribution. So I think it's early days, but the opportunity, I think we're excited about what we see. We'll be disciplined about how we pace into it and pick the right times to lean in again, all in the spirit of driving growth and value for the customer and shareholder.

And then on Stop Loss, look every year is a little bit different story, a little bit nuanced. I would do the step back and just say, we feel good about where we're at. Obviously, the results we had for '22, we feel like we're pricing the business right. I'm willing to win the right business and walk away from the stuff that we don't want. And that's both on the front end as well as the retention side of it.

So as we look at where we'll talk about things in first quarter as the dust settles, again, still come back to our guide in Investor Day targets are still our guide in Investor Day targets. So we're going to continue to be laser-focused on growing the book of business in a disciplined way.

Operator

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

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

First one I had for you all was on recordkeeping. I think in recent quarters, you've talked somewhat optimistically about the pipeline for recordkeeping. And I just wanted to see if there was an update there? I mean we didn't see a whole lot coming through this quarter, but wanted to understand if that's something that we should expect as we think through the first half of '23?

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

Yes. Thanks, Alex. Rob will take your question.

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

Yes, sure. So look record-keeping, I think the standard answer it's episodic. It's lumpy. All those things still apply. I think we're feeling good about just the activity and the volume of cases that we're seeing, as Heather and Charlie have talked about M&A and the things

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that have gone on in the market over the last 24, 36 months, it just inevitably creates opportunities.

So I think the story and the consistency of it is intact, right? It's going to be episodic. We're seeing things that we want to go after. And again, being disciplined on the stuff that we don't, recognizing we're in a position with a really balanced book of business, good strength across the market size segments, and this is a piece of it, but it's not the only way that we drive growth in the business.

And again, a quarter here where you see assets go down from a net flow perspective doesn't mean the participants have. And so when you get under the hood of what drives revenue there, we show you what we show you, but the undercurrent is also participant growth, and we've been happy with what we're seeing on that front.

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

Got it. Second one I had for you all is on the excess capital generation. I know you talked about a little over $600 million for 2022. When we think through sort of what you're guiding to on EPS growth in 2023 and the cash conversion that you're expecting, I think it triangulates to something closer to $800 million.

And I just wanted to understand sort of, is that right? And was there anything that maybe held the $600 million back a little bit this year? Like how do we think about bridging that gap year-over-year?

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

Yes, Alex, this is Don. Let me maybe start with 2022 and then we can get into 2023. So we indicated that we generated over $600 million of capital or cash generation this year. So if you think about our adjusted operating earnings, they were in the $835 million range. I guess, they were $835 million.

And then in there, included in there, was unlocking related to Wealth. So if you deduct that, that happened earlier in the year, a reserve release related to Health that happened earlier in the year and then we have the tax benefit, the foreign tax credit benefit that we talked about in the fourth quarter, that gets you from the $835 million to, I'll say, $700 million-ish and then you multiply that $700 million by the 90% conversion, 90% to 100%, you get yourself into the $600 million -- over $600 million range.

So that's the walk from 2022. I would expect that we would have a similar conversion ratio in 2023. Obviously, there will be things that come in and things that come out. But broadly, we've been able to deliver that in the past, and I'm confident that we can deliver that in the future.

Operator

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

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

Most of my questions were answered. But just on your point on spreads being flat from 4Q to 1Q. How should we think about just competition in the market and also your outlook for spreads? Assuming interest rates don't move up any further, should you assume fairly stable spreads beyond 1Q as you're going through 2023?

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

Yes, Jimmy, look, I'll hit it, and then I don't know if others want to talk about more of the macro view on rates at all. But look, the spread point, as I alluded to before, we're going to be balanced and sort of follow the ball where it goes and what the portfolio is doing, how we see competition in market. Given how the yield curve has moved around so quickly on the short end versus how the long end is trading, it's going to be dynamic, it may be the easy word to put around it.

But look, we get paid to make those hard calls and try to find the right balance between what we're seeing in our book, what we're putting on and selling obviously influences things, how reinvestment is playing itself out and pushing on the rate from a gross perspective and then figuring out what it's going to take to strike the right balance on the crediting side.

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So I'm not being overly specific here, on purpose because we'll be very much data-driven on what we're seeing in the portfolio and what we're seeing in market to continue to compete to both win but also retain business and strike that good balance.

Christine Hurtsellers ***Voya Financial, Inc. - CEO of Voya Investment Management***

Yes. And Jimmy, this is Christine. Just to add a little bit too from more of a macro context and how to think about the investable yield on the portfolio from that standpoint. So the new money rate or the investment opportunities, given where credit spreads are and interest rates, is above sort of our in-house, if you will, or existing portfolio yield.

Plus, when we look out at maturities, things will be rolling off over the year that are below. So I think that interest rates from that standpoint are still a tailwind for the overall company.

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

Okay. And then on the warrants are coming due in a few months, should we assume most of your buyback activity is just going to be normal stock? And given the ownership structure of the warrants, there's not much that you could do to maybe eliminate those before they're due?

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

Yes. So Jimmy, they obviously expire in early May. We I think we have been open to early extinguishment of those, and I think we've mentioned that on previous calls. But to date, it hadn't been economic to do so. So if it's economic, we would do it or consider doing it. Otherwise, we will let them kind of expire in normal course and have that unwind.

I guess, we're looking forward to sort of a post warrant period because obviously, there's a relatively large short position, and when that obviously -- or when that ends, we should get back to a much more normal situation, which we think will be good for trading and for our investors.

Operator

Thank you. 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.

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

Our achievements throughout 2022 reflect our strategic focus, the strength of our leadership team and our continued attention to the core principles that have long guided Voya's success. While 2022 was a year of transformation, we see 2023 as a year of execution on our critical integrations, on our strategic goals and on our growth objectives.

In this manner, we will continue to remain centered on the needs of all of our customers, which will help drive achievement of the objectives that we shared at Investor Day in 2021. We look forward to updating you on our progress. Thank you, and good day.

Operator

This conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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