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Voya Financial, Inc. (VOYA)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Voya Financial Third Quarter 2019 Earnings Conference Call. At this time, participants will be in a listen-only mode. [Operator Instructions] After today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note participants are limited to one question and one follow up. Also please note this event is being recorded.

I would now like to turn the conference over to Michael Katz, Senior Vice President of Investor Relations. Please go ahead.

Michael Katz

Senior Vice President, Head-Investor Relations and Enterprise FP&A, Voya Financial, Inc.

Thank you, and good morning. Welcome to Voya Financial's third quarter earnings conference call. We appreciate all of you who have joined us for this call. As a reminder, materials 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 conference 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, investors.voya.com.

Joining me on the call are Rod Martin, Voya Financial's Chairman and Chief Executive Officer; as well as Mike Smith, Voya's 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, Charlie Nelson, Retirement; Christine Hurtsellers, Investment Management; and Rob Grubka, Employee Benefits.

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

Rodney O. Martin, Jr.

Chairman & Chief Executive Officer, Voya Financial, Inc.

Good morning. Let's begin on slide 4 with some key themes. Our results this quarter reflect the strength of our diverse business mix, and our clear focus on serving workplace and institutional clients. We also continue to demonstrate the value that our high free cash flow-generating businesses provide to shareholders.

Normalized adjusted operating EPS for the third quarter was $1.36 per diluted share. For the nine months ended September 30, our normalized adjusted operating earnings were $3.87, which is up 11% compared with the prior period.

We discussed at our Investor Day a year ago, that we've recognized that markets will shift, rates will change and claims experience can fluctuate. We also shared last November that we're committed to the plan that we outlined, including ensuring that we actively manage the levers that are within our control. In the six-plus years that we've been a public company, we've seen markets and interest rates swing, each time, we've stayed nimble and agile to ensure that we find a way to meet the challenges and overcome them to deliver on our commitments.

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Our track record, combined with the strong business profile and fundamentals that Voya possesses gives us confidence in achieving at least 10% normalized EPS growth for the full year 2019. Specifically, our results for the first nine months of the year, combined with our expectations for the fourth quarter, means we fully expect to achieve our targets of at least 10% normalized EPS growth in 2019.

As we've previously shared, our EPS growth objective will be achieved through a combination of organic growth, cost savings, and capital management, and we've made strong progress in all of these areas during the third quarter. As it pertains to savings, we now expect to achieve run rate cost savings of at least $250 million by the end of 2020, exceeding our original goal due to the strong progress that we've made. We're also driving organic growth in each of our businesses.

For Retirement, full-service recurring deposits grew 9% and exceeded $10 billion. We expect to be within our target range of 10% to 12% full-service recurring deposits growth in 2019. In Investment Management, we generated $1.3 billion of net flows in the quarter, including positive institutional and retail flows. We also saw improvement in our operating margin. And in Employee Benefits, total in-force premiums increased 12% compared to the third quarter of 2018, helping achieve a record quarter of operating earnings.

Turning to capital management, we had $471 million of excess capital as of September 30. During the quarter, we repurchased $290 million of shares, bringing the total shares repurchased in 2019 to $936 million. We're also now paying a higher quarterly common stock dividend of $0.15 per share. Since our IPO, we have returned approximately $6 billion of excess capital to our shareholders, which amounts to more than half of our original outstanding shares.

Additionally, in the fourth quarter, we completed a significant reserve financing that will free up $200 million in excess capital. This is part of our plan to generate at least $1 billion in free cash flow from our Individual Life business between 2019 and 2024.

Further, as we announced yesterday, our board has authorized the repurchase of an additional $800 million of common stock. We will continue to repurchase our shares to deliver value for our shareholders in support of our EPS growth targets.

Speaking of our board, last week, we welcomed Kathleen Traynor DeRose as a new director. Kathleen brings significant leadership and expertise from her more than 30 years of accomplishments in asset and wealth management. We're pleased to have Kathleen on our board, who along with all of our directors provide valuable perspectives, that helps us ensure we're thinking broadly and diversely as we advance our growth plans.

Turning to slide 5, we've achieved further recognition of our culture and our people. With Voya's vision to be America's Retirement Company, Voya has a noble purpose that emphasizes both what we do and how we do it. Most recently, we were once again recognized by the Great Place to Work Institute and we're also named as one of the 2019 100 Best Companies by Working Mother magazine. Additionally, Voya was named to the 2019 Dow Jones Sustainable (sic) [Sustainability] (00:07:59) Index for the fourth year. 35 companies in the financial services industry were invited to apply and we were one of only eight to become a member.

Finally, during September, we held our Annual Employee Giving campaign, with 69% of our employees helping us support more than 2,100 charities. As a reference point, the average workplace campaign, has a 32% participation rate.

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Our noble purpose is demonstrated through our ongoing investment in our people and our communities, and it is differentiating us with both our current and prospective customers. We continue to see a strong correlation between our focus on doing the right thing and our financial performance.

In summary, we made great progress on a number of fronts during the third quarter and we're on track to achieve the annual growth goals that we shared with you last November. With that, let me ask Mike to provide more details on our performance and results.

Michael S. Smith

Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

Thank you, Rod. Let's begin on slide 7. We grew in the third quarter normalized after-tax adjusted operating earnings to $1.36 per share. This is above the second quarter result of $1.30 per share and is also above the prior-year quarter results of $1.34 per share.

In the third quarter, we recorded $0.63 of unfavorable DAC/VOBA and other intangibles unlocking, largely reflecting the results of our annual actuarial assumptions update. I will cover the assumption update in more detail in a few slides.

Prepayments and alternative income were $0.08 above our long-term expectations. On a reported basis, after-tax adjusted operating earnings were $0.81 per share for the third quarter. Our third quarter GAAP net income was generally consistent with adjusted operating earnings, as favorable net investment gains were primarily offset by restructuring charges. Importantly, we remain on track to achieve at least 10% normalized EPS growth this year.

Moving to slide 8. In the third quarter, Retirement delivered $146 million of adjusted operating earnings, excluding unlocking. Trailing 12 months return on capital was 13.2%. Compared to our record quarterly adjusted operating earnings a year ago, prepayments and alternative income were less favorable, although still $5 million above long-term expectations. Investment spread and other investment income were lower. This quarter included a gain of approximately $5 million on a fixed income investment that we do not expect to repeat in the fourth quarter.

Administrative expenses were higher for several reasons, the three most significant of which were as follows. First, we recognized a one-time adjustment to a prior-period expense deferral that increased the quarter's expenses by $11 million. Second, as we've shared in previous calls, we continue to incur higher pension costs in 2019. Recall this was approximately $7 million per quarter pre-tax for the total company, of which roughly half is reflected in Retirement. Third, we realize increased volume-related expenses as we continue to grow our business.

For the fourth quarter, we expect our administrative expenses to return to the high end of the $190 million to $200 million range and we expect adjusted operating earnings to be consistent with our earlier guidance of roughly $150 million to $155 million.

Turning to flows. In full-service, we generated $1.3 billion of net inflows during the quarter, with positive net flows across both, full-service Corporate and Tax-Exempt Markets. Over the last 12 months, we have generated over $3 billion of full-service net inflows. Trailing 12 months full-service recurring deposits exceeded $10 billion in the third quarter. We are proud of this accomplishment and continue to expect 2019 annual growth in recurring deposits to be within our target range of 10% to 12%.

Total client assets finished higher sequentially, helped by favorable equity markets and continued client wins. Our pipeline of full-service and recordkeeping plans and implementation continues to grow. Within recordkeeping, we

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continue to expect over $38 billion of net inflows by the end of 2020, including nearly $20 billion in the fourth quarter of 2019. We encourage you to follow our developments on the Investor Relations website. We remain very encouraged by our pipeline, which reinforces our view that our value proposition is resonating in the market.

On slide 9. Investment Management delivered $46 million of adjusted operating earnings in the third quarter. This is $2 million lower than prior year quarter as favorable prior year investment capital results did not repeat. Fees were higher year-over-year, driven by institutional fee revenues generated by cumulative positive net inflows. Fees also improved sequentially, benefiting from net institutional and retail inflows and favorable equity markets. Administrative expenses were consistent year-over-year. Sequentially, expenses were lower as planned as technology investments in the prior quarter did not repeat.

In the third quarter, our adjusted operating margin, including investment capital, improved to 27.4%, marking the second quarter as an inflection point for margin growth. On a trailing 12-month basis, the operating margin was 25.9%. We continue to expect our operating margin to reach 30% to 32% by 2021.

Third quarter institutional net inflows were $332 million, marking 15 consecutive quarters of positive flows. Of note, in the quarter, we had continued success gathering insurance channel assets, and we closed another CLO. Over the last 12 months, our institutional business has garnered almost $3 billion of net inflows, representing close to 3.5% organic growth. We continue to build on the success of our institutional franchise and are expanding our suite of investment capabilities, particularly in the specialty category. As an example, we recently launched a real estate debt fund and closed on our first committed raise in early fourth quarter.

Turning to retail. Excluding variable annuity outflows and a positive sub-advisor replacement this quarter, we generated $791 million of net inflows. The retail flows were driven by continued success in our strategic income opportunity, securitized credit, and intermediate bond funds. The strategic income opportunity fund was recently added to a large wealth management distribution platform, helping to drive continued strong flows as a top asset gatherer in its Morningstar category. This fund has more than doubled from beginning of year assets, growing to almost $2.5 billion and continues to deliver strong investment performance.

Rounding up the net flows picture, we recorded an inflow of over $200 million from a sub-adviser replacement. Looking ahead, we expect further margin improvement in the fourth quarter due to continued asset growth and higher performance fees.

Turning to slide 10. Third quarter marked a record earnings quarter for Employee Benefits, delivering $57 million of adjusted operating earnings, excluding unlocking. Return on capital improved to almost 30% on a trailing 12-month basis. Adjusted operating earnings grew 16% year-over-year driven by 12% growth in total in-force premiums and total aggregate loss ratio at the low end of our 71% to 74% target range. We continued to realize strong year-over-year growth across all product lines, particularly Voluntary and Stop Loss.

Voluntary in-force premiums grew 27%. We continue to see more than half our sales coming from employers, who previously had not offered these products to their employees. Stop Loss grew 9%. We remain a must quote Stop Loss provider, with solid distribution partnerships with top national firms.

Additionally, Group Life and Disability in-force premiums grew 9% year-over-year. We expect fourth quarter adjusted operating earnings consistent with last quarter guidance of approximately $50 million as favorable third quarter loss ratios will likely moderate in the fourth quarter. We feel confident our capabilities will enable us to continue to drive strong future earnings growth.

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On slide 11, Individual Life adjusted operating earnings were $55 million in the third quarter, excluding unlocking; $11 million lower than the third quarter of 2018. Return on capital was 8.1% on a trailing 12-month basis. Third quarter results were affected by unfavorable mortality driven by severity. Average net claims were approximately 20% higher than expectations. The adverse severity was concentrated in our interest-sensitive block, which was partially offset by reduced intangible amortization.

Frequency of claims was in line with expectations. As we have said, mortality experience does fluctuate over time and the last 10 years' experience remains consistent with expectations in the aggregate. We expect fourth quarter mortality to return to levels more consistent with our long-term expectations.

Additionally, we continue to expect at least $1 billion of free cash flow to come from this block between 2019 and 2024. Early in the fourth quarter, as Rod highlighted, we completed a significant reserve financing transaction that will release approximately $200 million of capital. This amount will be reflected in fourth quarter excess capital.

Turning to slide 12. As is our practice, we conducted our annual review of actuarial assumptions during the third quarter. Overall, the review had a modest GAAP impact and importantly, no excess capital impact. We lowered our long-term interest rate assumption for the 10-year treasury rate to 3.75%, a 50 basis point reduction from the prior assumption of 4.25%. This resulted in an unfavorable unlocking of $52 million, which was in line with our expectations. Portfolio yields grade to our long-term expectation over a period of at least 10 years, but will vary depending on the characteristics of each underlying asset portfolio. The remaining unfavorable unlocking included modest adjustments to persistency, interest margins, and other refinements to our policyholder behavior assumptions.

On slide 13, we provide additional items to consider for the fourth quarter. Looking ahead, we expect to benefit from normalized Individual Life net underwriting, higher Investment Management performance fees, lower Corporate losses, reflecting seasonally lower preferred dividends and continued progress on cost savings, lower Retirement administrative expenses, with the one-time adjustment to deferrals not repeating and higher revenue due to recent Retirement plan wins. These beneficial factors will be partially offset by the following third quarter items we do not expect to repeat: a one-time gain on a fixed income investment, unusually favorable Employee Benefits Voluntary experience, and a favorable one-time tax adjustment primarily due to true ups of prior period estimates.

As a reminder, our quarterly earnings per diluted share count can include increased shares from outstanding warrants, depending on share price levels. In the appendix we have included a sensitivity table to help you calculate the impact of the warrants. The table incorporates exercise price adjustments related to our third quarter dividend. While we have provided some items to consider, there are of course other factors that may affect fourth quarter EPS results.

Turning to slide 14. We shared this slide on our second quarter call to highlight the diversification of our revenues due to our business mix. Relative to peers with long-term care and variable annuity exposure, the low interest rate environment has limited potential to impact our balance sheet.

Based on investor feedback, we believe it will be helpful to reiterate and clarify our interest rate sensitivity. The headwind from our current interest rate environment has now been fully reflected in our 2019 operating results to-date and the expectations for the fourth quarter that I just discussed. Relative to the plan we laid out at our Investor Day in November of 2018, when rates were more than 100 basis points higher than today, this headwind would represent the lower end of the 2% to 4% sensitivity range we have previously disclosed for a 100 basis point change in interest rates.

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If interest rates were to stay at current levels through the end of 2020, our 2020 operating earnings would face an additional headwind of 1% relative to 2019 results. And if they were to stay at current levels through the end of 2021, our 2021 operating earnings would face a further incremental 1% headwind relative to 2020 results.

We have a demonstrated track record of delivering strong results through macroeconomic challenges, including low interest rates. We believe our exposure to macroeconomic factors is manageable, and we fully expect to hit our 10% plus annual earnings growth target.

Turning to slide 15, we continue to have a strong capital position. Our estimated RBC ratio was 450% at the end of September, above our target of 400% and excess capital was $471 million. While third quarter share repurchases lowered our excess capital from second quarter, this was largely offset by the increase in RBC in our insurance subsidiaries. Our debt-to-capital ratio was 27.4%. During the quarter, we continued to repurchase shares at attractive valuations. We repurchased $290 million of shares in the third quarter, bringing our year-to-date share repurchase level to $936 million. The Board also provided authorization for an additional $800 million, increasing our total existing share repurchase authorization to $850 million.

In addition, as Rod shared earlier, we paid a third quarter common stock dividend of $0.15 per share. This represents an annual yield of over 1%. The introduction of a higher dividend reflects our confidence in generating sustainable free cash flow and will help to further expand our shareholder base.

Turning to slide 16, our diverse business mix today generates a higher free cash flow conversion than the average of our peers. Our free cash flow conversion is 85% to 95%, which supports our projected free cash flow yield of almost 10%.

In summary, we expect to grow normalized EPS by at least 10%, despite continued headwinds from persistently lower interest rates and unfavorable Individual Life mortality. Our business mix is focused on high cash conversion, has no long-term care, and minimal VA exposure. And our capital position and balance sheet remain strong.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Nigel Dally with Morgan Stanley. Please state your question.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks, and good morning. First question on the 403(b) market. There's been press reports stating the SEC is looking into that market. So, a couple of questions. First, if you can dimension just how large that market is for Voya? And second, do you see any impact of those investigations on your operations going forward?

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Nigel, good morning. It's Rod. Charlie will take the first part of that.

Charles P. Nelson
Chief Executive Officer, Retirement and Employee Benefits, Voya Financial, Inc.

A

Thank you, Nigel. Our K-12 business in our full-service represents about 15% of our total full-service assets and just about 6% of our recurring deposits. And I certainly understand that the interest in the SEC and the DFS inquiries has been top of mind for a number of people, given the recent headlines. And I'm sure you can understand that as a matter of policy, we don't confirm or deny specific regulatory inquiries. However, let me just say that we really value the service we provide to our educators and are confident that our business practices in that market have been entirely appropriate. I'd also say that I'm not concerned that any current inquiries into this market or our practices in it would have a significant impact on our earnings or require any material changes to our business practices.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. Thank you. Second question is I guess with capital, should we view the $850 million current authorization as a good indication as what you expect to execute between now and year-end 2020? And also a sizable portion of your excess capital is at the sub level, should we – I am hoping to get some details as to when you should be able to expect to dividend that out to the holding company?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

Yeah. Hey, Nigel, thanks. It's Mike. Our practice has been to regularly seek $500 million increments in share repurchase authorizations from our board and we've consistently, over the years, I think, demonstrated a very strong track record of exercising good judgment and prudence in managing our overall capital. So, I think, as you think about the $800 million, I think, for fourth quarter, I think, a reasonable place to start for expectations is $200 million. But, obviously, events will unfold as they do. The reason for the $800 million this time as opposed to $500 million is simply a recognition that we've got this excess capital coming from the Life business. We will see how events unfold and you can expect us to continue to exercise the good judgment and philosophy that we've shown up to this point.

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Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.
A

Nigel, I'd add, if you look back at last year by way of example, we repurchased about $1.150 billion of shares. If you take the $936 million in the guidance Mike just gave, add $200 million, we're going to be in a very similar place and certainly part of what we're trying to convey in our guidance up in the fourth quarter overall is further confidence in our momentum by the $800 million and the increase in the dividend as we push out.

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.
A

And, Nigel, I did miss one part of your question, which was the dividends from the operating companies. The practice that we followed is we'll have opportunity to seek those dividends in the second and third quarter of next year. In the meantime, we do have an intercompany loan facility that we can and do use to manage the cash levels between operating and holdco. So, I think we'll seek to manage and maintain a relatively stable level of share repurchase as we go forward.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC
Q

That's great. Thanks a lot.

Operator: Our next question comes from Ryan Krueger with KBW. Please state your question.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hi. Thanks. Good morning. Could you provide some additional detail on the Retirement pipeline and where it stands at this point, I guess in addition to the comments you made on the recordkeeping piece?

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.
A

Charlie?

Charles P. Nelson
Chief Executive Officer, Retirement and Employee Benefits, Voya Financial, Inc.
A

Sure. We remain very happy with the commercial momentum that we have. I think when you look at our net flows through the first three quarters of this year, we're roughly at about $3.2 billion. And that is really quite an accomplishment when you think in respect to both what's occurring in our Corporate as well as in our Tax-Exempt business. And I think – in that we talked – I think it was recognized in the comments that that we had our 24th consecutive quarter of positive net flows in the full-service business for our Corporate Markets. And over that time period in that streak, it's also been over $10 billion in flows.

So as I think about the kind of where we are in our pipeline for plans that are in implementation today as of the end of 9/30, I should say, we have about over 20%-25% of plans more than we had at 9/30 last year in the process of implementation. So we've got really good strong momentum there. And we expect that that's going to help contribute to the fourth quarter and into 2020.

Having said that, when we think about the recordkeeping business, as you noted, we did guide last quarter that we've got $38 billion and over a 0.5 million participants coming on between the fourth quarter of this year and

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through the fourth quarter of next year. And we have a number of large implementations that are occurring almost literally as we speak and occurred early in this quarter. So we're really quite pleased about both our ability to take the additional activity in the market, turn that activity into growth and ultimately starts to roll through in our financials.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. And then, on the performance fees in Investment Management in the fourth quarter, can you give an indication of how far above your typical expectation that might be?

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Christine?

Christine Lynn Hurtsellers
Chief Executive Officer, Investment Management, Voya Financial, Inc.

A

Yes. We do have strong performance fees. And it's in relation to a mortgage investment fund that we have. And so, when we think about do we normalize performance fees and have an expectation? No. So, as you know, these are tied to excellent investment returns that we're delivering for our clients. So the way to think about it, in the fourth quarter very strong performance year for our clients. This particular strategy, the returns and performance are tied more to US securitized markets, not to equities. So we're confident that we're going to be earning these fees as we put forward even if the market gets a little bit more volatile from here.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from Suneet Kamath with Citi. Please state your question.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Good morning, just wanted to circle back on capital first. Seems that with your excess capital pro forma for the $200 million from the Life business, $671 million could fund the majority of your $850 million authorization without dipping into the free cash flow that you will generate between now and year-end 2020. So just wanted to get a sense, are there any capital needs that you guys are contemplating either at year-end or in 2020 that could utilize next year's free cash flow be it AAT reserves or anything along those lines?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

Suneet, this is Mike. I'll take that. There's nothing on the horizon that we see, I think you may be hinting at cash flow testing. That work is underway. But at this point given current interest rate levels and the work that's been done so far, there's nothing that we see of any significance on the horizon. And there are no other planned capital needs. So, I think maybe the easiest way to describe it is we're in the same position we've been for the last several years is that we've built up a nice level of excess. We have a fair amount of flexibility in how we choose to deploy it. You can expect us to continue to focus on share repurchase as we have in the past again going forward, and we'll stay tuned.

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Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Suneet, the only thing I would add is and that fully contemplates the investments we have been making in our businesses and that's in our Investment Management business, our Group Benefits business, and our Retirement businesses to fuel the growth that you're seeing revealed in the outcomes that we're talking about on the call.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's helpful. And then just one more on the slide 13, that bridge to fourth quarter. The one-line item that jumped out at me here was the revenues from Retirement plan wins of that benefit of $0.04. I don't recall seeing something like that in the past. So, A, just want to get some color on that but, B, is these wins that you've already booked or is this stuff that you expect? I'm just trying to understand we should be thinking about this as sort of a core growth component, which is typically excluded from the slide.

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Suneet, good observation and I'm going to hand this to Charlie. We haven't provided that level before. You and others have been asking questions – appropriate questions – on we have made investments in anticipation of onboarding this half a million new customers and the $38 billion of recordkeeping that Charlie talked about, part this year, part next year. And you naturally all have wanted to see when does that begin to reveal itself? And we've given an update – Q1, Q2, now Q3. And why we call that out specifically was it is beginning to reveal itself. So there's a deferred nature of this and I'll let Charlie take it from there.

Charles P. Nelson
Chief Executive Officer, Retirement and Employee Benefits, Voya Financial, Inc.

A

Yeah. Thanks, Rod. It really is just that. It's the building sales momentum really across all parts of our Retirement business, I would point that it's not just the recordkeeping. We've had good momentum in our full-service and in other aspects of our Retirement business that is really – when you kind of look at it in total, it's kind of the combination of this growth and hitting really on all the cylinders that I think is driving that kind of fourth quarter $0.04 guide, if you will.

As Rod mentioned, we've got some notable recordkeeping implementations, which have gone live late in the third quarter and some in the fourth quarter and certainly those will contribute. But I also go back to the like we had $4.8 billion in total deposits in the third quarter, which is 30% – over 30% more than we had third quarter of last year. So, it's kind of that just building momentum. And I think it represents that our brand is strong. And I think it's demonstrated by how our value proposition is resonating in the market along with our ability to be able to take this activity and drive it into true growth.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks.

Operator: Our next question comes from Tom Gallagher with Evercore ISI. Please state your question.

Thomas Gallagher
Analyst, Evercore ISI

Q

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Good morning. Mike, just wanted to follow up on the way you guys are thinking about interest rate drag if rates remain low. And this might not be considered explicitly an interest rate expense, but I know in 2019, you'd flagged higher pension expenses as being a pretty meaningful earnings headwind. Is that likely to also increase in 2020, if rates remain where they are today? Because I guess, the favorable equity markets might be a partial offset to that. Can you elaborate a bit on how you see that impact for next year?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.
A

Yeah. And we'll certainly give more color in the fourth quarter, Tom, but kind of the early read is the equity market performance that we've seen so far, will largely offset the drag coming from asset returns that are supporting the portfolio.

There's also a question of the mark that comes in valuing the liability and that will be very dependent on exactly where rates are as of 12/31. So little hard to give very specific guidance, but I think in terms of the ongoing expense, so long as equity markets hold up at a level like where we've been, I don't think there'll be any meaningful impact from here.

Thomas Gallagher
Analyst, Evercore ISI
Q

Okay, that's helpful. And then my follow-up is just on the Individual Life Insurance business. It's second quarter in a row, you've had adverse mortality. I think we've seen a number of companies across the industry now have, I'd say, increasing numbers of quarters where you've seen this adverse mortality. Just curious, if you've done a deeper dive into your block, and are you still confident that your reserves are in good shape there? Thanks.

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.
A

Thanks, Tom. Yes, we've done a lot of work to try and get under what is led to these two consecutive quarters of adverse severity. And I want to really emphasize the fact that what we're seeing is just average claims are higher than you would otherwise expect. I think as everyone listening to the call probably knows, right? You make a frequency assumption – how many claims will you pay. The last couple of quarters that number has been basically right on top of our expectation and that's really the assumption we make is how many claims will we pay. And then the random part of it is, which policies are the ones you pay, and there's a wide range of policy amounts that we have in our 800,000 policies.

And so, of the very few policies where we paid claims this year, there was a higher average claim amount and in this quarter, it happened to be 20% higher than normal. In some past quarters, you've seen where it's been concentrated in blocks of – in the block where the policies are over $1 million or higher. In this particular quarter, there was no special – specific pattern. It was broad-based. The claims just skewed to higher amounts. So what gives me confidence is that the number of claims was right on top of our assumption.

I'm also confident because over the last 10 years, as I've said in the remarks, our expectations and actual experience over that whole period are right on top of one another. Now, that said, it's still – we're in the risk business. Random noise does emerge. Sometimes you flip a coin five times and it comes up five heads. It's possible we could get a six in next quarter. But I feel pretty good that that's unlikely to sustain.

Thomas Gallagher
Analyst, Evercore ISI
Q

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Okay. Thanks.

Operator: Our next question comes from Erik Bass with Autonomous Research. Please state your question.

Erik Bass
Analyst, Autonomous Research US LP

Q

Hi. Thank you. First, just wanted to follow up on Suneet's question on the kind of the Retirement earnings and revenue build. So I'm assuming the $0.04 that you get in the fourth quarter is something that we should think of as a new baseline that would annualize. But is it right to think of that continuing to build as you add new business and the rest of the pipeline comes through in the fourth quarter and throughout next year?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

The short answer is, yes. You should consider that as something that we will continue to build upon. And I think it's – hopefully you get the sense from my comments on both our pipeline, the plans and implementation as to, those are the reasons why we give – we have confidence that it's going to continue to build on that basis.

Erik Bass
Analyst, Autonomous Research US LP

Q

Got it. Thank you. And then in talking about the expense saves, you're clearly emphasizing that you expect to get at least the $250 million by the end of 2020. Where are you finding incremental opportunities? And can you help us think about where these could show up in your financials as you move to showing more of the savings in the business units?

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

It's Rod. Let me begin. The discipline that the organization has brought to this, we've had over 300 different singular initiatives that has been very much grounds-up, not top-down driven, that every one of the people on this call are intimately familiar with the glide path to get there. What's given us confidence is the kind of the muscle building as we've gone through this in terms of the programs and the problem solving has just demonstrated further ability to execute against the target. So we gave the range originally, as you know, of $230 million to $250 million by the end of 2020. You are correctly hearing us say, at least $250 million and we will naturally update you as we get to the fourth quarter and beyond.

I think it's important also to state, this is not primarily driven by people. This is about technology. This is about procurement. This is about being smarter in doing business with vendors. There's a whole bunch of things that are driving this and it's something that the team that's in the room with me right now, literally sits in a meeting once a week and we have a very clear path of where we are on the progress of this and the execution.

And then I think what's particularly notable and the message we're trying to send is, this is something that as we move forward, of course, all businesses have pressures to find ways to compete more effectively. And this is a skill set and a competency that we'll be able to use and execute against in mitigating margin pressure and finding ways to provide the appropriate solutions for customers in a competitive manner. Mike?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

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And then Erik, in terms of geography, I think as you know, when we've completed the sale of the Annuity and CBVA business, we moved the stranded costs that were associated with that, and kept it in Corporate rather than reallocating it to the businesses. And ever since, as we've reduced costs, we've applied it up against that ongoing stranded costs.

So we've redirected savings into Corporate. At this point, this stranded cost is likely to be zero or close to zero. The remaining stranded cost is likely to be close to zero by the end of the year. So, we'll stop that mechanism that we've been using to redirect saves and we'll give you a little clear picture of what that will do to the geography of saves relative to the business units in the fourth quarter as we start to set going forward expectations for 2020.

Erik Bass
Analyst, Autonomous Research US LP

Q

Got it. Thank you.

Operator: Our next question comes from Humphrey Lee with Dowling & Partners. Please state your question.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Good morning, and thank you for taking my questions. I have a question in Investment Management. Obviously the results were very good this quarter, especially on the net flows. In the [ph] IM sourced (00:46:01) retail funds, we've seen the highest sales level and the lowest redemption in recent quarters, I believe Christine talked about IM's hitting an inflection point last quarter. So, I was just wondering is this quarter's results in line with your expectation? And how do you think about sales and redemptions are going forward?

Christine Lynn Hurtsellers
Chief Executive Officer, Investment Management, Voya Financial, Inc.

A

Humphrey, yes. You're right. We did reference an inflection point and the strength that we saw is within our expectations. And so, what do we think about this going forward? And why are we confident that strength is going to continue? Just a couple of key things. I mean, number one, our investment performance is a curve and when you look at just some of the fixed income funds, notably a very strong flows. Mike referenced in his comments, strategic income opportunities fund. For example in the third quarter that funds got placed on a very large broker dealer and it also got moved to the recommended list, which is highly valuable at a very large broker dealer in the third quarter. So that's just one item that's going to really support the ongoing flow-through that. We have a very strong securitized fund.

So in addition to the strength that you're seeing in retail sales, you're also actually seeing the basis point starts to move up a little bit. Because again, last year and in the market generally the story is active equity going out, we're certainly not immune to that. But what you're really seeing is that, we're starting to sell some of the higher-priced, higher-margin retail funds, such as SIOs, we call it and securitized. So again, lot of momentum, lot of strengths.

And then on the redemption side, that is slowing down. Notably, we'd had some higher redemptions due to performance in some real estate funds, which has stabilized as well as in some of our equity funds. So overall, Humphrey, you expect the momentum that you're seeing to continue well into 2020.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

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Got it. I appreciate the color. Shifting gear to Employee Benefits, underwriting results continue to be strong, especially in the Voluntary and Disability product line. How should we think about that particular line, since you don't really breakout the – I guess the underwriting metrics for that particular product as that side of the business continue to grow. How should we think about that?

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Rob?

Rob Grubka
President-Employee Benefits, Voya Financial, Inc.

A

Yeah, thanks. Humphrey, I think, just stepping back from an underwriting perspective across all the products, we're really happy with where we're at. Obviously we had to get the whole book of business moving in the right direction to hit record earnings. As we think about it by product segment, we've talked a lot about Stop Loss in the past. I won't repeat that story, but we really like the trend line that we're seeing there from a Life and Disability perspective, again good results this quarter and throughout the year really. It's been performing well. As we think about Voluntary, as Mike mentioned in his comments, we'd expect some moderation as we go quarter into next quarter.

As we think about the longer term view into 2020, as we've been explicit and clear about 7% to 10% growth both top line and bottom line, Voluntary is going to be an important part of driving that growth. As we think about the in-force book of business, year-over-year we're up 27%, we expect that may moderate as well as it gets more scale. But the way it's operating our ability to compete in the market do it not just on price, I think, it's going to give us sustainability to the performance.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Got it. Thank you.

Operator: Our next question comes from John Nadel with UBS. Please state your question.

John Nadel
Analyst, UBS Securities LLC

Q

Hey, good morning. I have a couple of quick ones, I think. If we can characterize Investment Management margin, core margin in 3Q is a reasonable baseline, it looks like you need about 300 to 500 basis points of improvement to hit your target in the next couple of years. Could you sort of break down what the two or three most important drivers of that margin improvement will be?

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Christine?

Christine Lynn Hurtsellers
Chief Executive Officer, Investment Management, Voya Financial, Inc.

A

Certainly, John. So, first and foremost, the most important driver is organic growth. And organic growth in two forms, I mean, certainly very strong investment performance as well as when you think about the product suite

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that we have and taking a step back $14 trillion in the world are at negative rates. And so, what we have, a differentiated income-oriented strategy, such as commercial real estate are highly valued. And so, we're seeing a pickup in offshore demand for some of the strategies. And as you know, we've just talked about retail and that's an improving and strong story and an inflection point.

So, when you think about it, growth is paramount. We're very confident, we have a strong pipeline. We have strong unfunded wins across the business. So, that's the growth side and how to rebuild margin. Other things that we're working on, certainly expanding our products development and creating new both products that appeal to investors as well as thinking about expanding in new channels. So the examples that we talked about this quarter was we did launch our first commercial real estate debt fund. So that's an example of taking a core capability, putting the new vehicles that can penetrate into smaller insurance companies as an example.

And then finally, expense management. We have flat year-over-year expenses. So, we're very disciplined there. But you know what, as Rod just talked about, we're pretty scrappy and effective as a team. And so, it's not all about expense management reduction. We are investing in our business. And one of the things that I didn't mention on the retail side is in addition to strong funds and performance, we've also seen great results out of data segmentation and technology and investments in the talent and distribution. So, again, yes, we're keeping expenses flat. It's an important part of achieving the margins, but don't think for a minute that we are not very effectively investing to support overall growth to hit that margin of 30% to 32%.

John Nadel
Analyst, UBS Securities LLC

Q

That's very helpful. Thank you. And then a question on expense saves. With an expectation of at least $250 million by the end of 2020, can you just put in some perspective, Mike, where you stand or maybe you expect to stand coming out of the year in 2019 relative to that $250 million?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

John, look, I think we'll be maybe in the neighborhood – well, I think we said last quarter we are at $150 million, right, as what we had saved and we've made some progress from that point. It's going to be not quite linear, but I think if you model that as linear progress, it's probably good enough for the purposes that you're going to be trying to use it for. In reality, it'll be a little back ended, but not overwhelmingly so.

John Nadel
Analyst, UBS Securities LLC

Q

And if there's a chance I can sneak just a third one in, just a question related to – in particular related to Stop Loss. We're in November. This is a really important time for both renewal and new sales in group insurance generally, but just wanted to get a sense for what you're seeing in the Stop Loss competitive environments.

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Rob?

Rob Grubka
President-Employee Benefits, Voya Financial, Inc.

A

Yeah. I'll take that. Well, you hit it right that we're in the heart of it now. It probably also means it's too early to declare anything one way or the other.

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John Nadel
Analyst, UBS Securities LLC

Q

Yeah. Understood.

Rob Grubka
President-Employee Benefits, Voya Financial, Inc.

A

I think we've built muscle up over the last couple of years and the focus on renewal activity as well as new business. We've talked about it before. We took a step back to make sure our book was moving in the right direction and held back on sales a little bit. We changed course in 2019, and you're seeing that come through as the book has grown at roughly 9%. As we think about moving forward, we expect to continue to deliver, and we're going to be very focused on doing it in a margin positive way. But at this stage, I wouldn't say, I see anything surprising. It's a business where you only close a few percent of what you see. So we lose a lot, and we get over it really quickly and focus on the cases we want to win.

John Nadel
Analyst, UBS Securities LLC

Q

Thank you very much.

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Yeah.

Operator: [Operator Instructions] Thank you. Our next question comes from Alex Scott with Goldman Sachs. Please state your question.

Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. First question I had was just a follow-up on Life Insurance. And I was interested if there was any impact from either the actuarial review or the reinsurance transaction. And I know you said there was no impact on cash flow, which I know is the most important thing. But just wanted to make sure I was on top of it if anything was going to change from a GAAP earnings perspective as a result of it.

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

So just to parse that into a couple of pieces, in terms of ongoing impact to earnings from the assumption review, nothing of note – the numbers there were relatively small and certainly wouldn't be detectable in the ongoing earnings stream.

As it relates to the transaction, there are additional financing costs, so that is an ongoing cost. There is the loss of the assets that'll ultimately be distributed. And so you lose the income on that. However, and this is important, we would still expect Life earnings to suffer no meaningful degradation from normalized for mortality 2019 levels. And that's because there are – we see offsets in terms of expense saves, emergence of GAAP profits and patterns that we expect.

So overall, while there will be drag from the transaction, total earnings, you should think of as being basically leveled with the normalized 2019.

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Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. And then my follow-up is on Retirement. I guess, just on the crediting rate side and the guaranteed minimum interest rates and some of the group annuities, can you talk about anything you're doing there? Any action maybe you've taken or any action that's planned? I know you guys have done some of that in the past. And I'd just be interested if any of that is kind of incorporated in – anything into the 1% year-over-year headwind.

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

A

Charlie?

Charles P. Nelson
Chief Executive Officer, Retirement and Employee Benefits, Voya Financial, Inc.

A

Well, everything that we're doing is incorporated in the guidance that we've provided, first of all. And I would say that we do manage our Retirement business on our overall revenue. I talk about this from time to time both the spread and the fee-based. And that diversified revenue mix gives us a lot of tools to manage the interest rate challenges or headwinds potentially.

So, one, the GMIR initiative has provided benefits and continues to provide benefits, so it will emerge over time. Two, we do manage crediting rates on our business where appropriate, given the market and kind of where things are. Three, our overall planned pricing and fee revenue growth plans, we have an ability to adjust on plans depending on the market environment and where rates are. And then certainly as we talked about what we're doing with expenses in our growth. So, we have a number of levers from which we can certainly pull from and work to manage the interest rate environment as we go forward.

Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question comes from Andrew Kligerman with Credit Suisse. Please state your question.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Wow. Last but not least. Question on the financing in the Life Insurance area. It would appear to me that you could do so many more transactions whether they're block sales, maybe there are more reserved financings, what's the possibility that you could get done much sooner than 2024?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

Andrew, thank you. So, the financing transaction is something that we signaled back at Investor Day. I think it's been a long time coming. It represents accumulated redundant reserves from sales that we started in 2015 through the end of 2018. So that was kind of a one-time opportunity. That said, we'll continue to look at the block for other opportunities to accelerate cash flows where they make sense from a shareholder value perspective. We're not going to do something just to accelerate cash flows, if it doesn't make broader economic sense. And that was – the rationale for the decision we made to begin with was the thing that made the most sense from

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shareholder value at that time was to run it off. But rest assured, we are looking constantly and consistently for opportunities to accelerate that in a way that makes the – will create the most value for shareholders.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Are you seeing interest out there, Mike?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

Look, I think it's well understood that there's lots of interest for long-dated liabilities across the industry. I'm not going to comment on whether there's interest or not in our block. That wouldn't be appropriate. But I don't think there's anything about our block that makes it different in general.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Okay, Mike. And then with regard to – you were talking about the interest rate sensitivities. Just in a little more detail, could you give us a sense of the new money yields that you're getting today and what your – where that compares with your portfolio yield?

Michael S. Smith
Chief Financial Officer & Interim Chief Risk Officer, Voya Financial, Inc.

A

Yeah. I think the portfolio yield is in the high-4s right now, give or take. And it varies from business to business. But if you think of new money yields broadly as treasury plus 150 basis points to 160 basis points, I mean, that's across all of the asset categories that we invest in; that's a reasonable assumption for the quarter, because of where we happened to be investing and the timing of flows, we were probably closer to 4% for the new money that we put to work in the quarter. So that's a little bit more than the 150 basis points I talked about that's – the production of investment opportunities for the general account is lumpy. And it is a little bit timing dependent.

Andrew Kligerman
Analyst, Credit Suisse Securities (USA) LLC

Q

Excellent. Thanks a lot.

Operator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference call back over to Rod Martin for closing remarks.

Rodney O. Martin, Jr.
Chairman & Chief Executive Officer, Voya Financial, Inc.

Thank you. Our plans to drive organic growth, effectively deploy capital and execute on cost savings are delivering results and will enable us to achieve the targets that we set at our most recent Investor Day.

We fully expect to achieve at least 10% normalized EPS growth in 2019, validated by our results during the first nine months of the year, and our expectations for the fourth quarter. Further, we remain confident that we will continue to grow normalized EPS by at least 10% in 2020 and in 2021.

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We have a clear strategy, three complementary businesses that are enabling us to expand our presence in the workplace, and with institutional clients. We look forward to updating you on our progress in 2020 as we pursue our vision to be America's Retirement Company. Thank you and good day.

Operator: Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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