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PRESENTATION

Operator

Good morning, and welcome to the Voya Financial Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) 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.

Mike Katz ***Voya Financial, Inc. - Senior VP & Head of IR and Enterprise FP&A***

Thank you, and good morning. Welcome to Voya Financial's Fourth Quarter and Full Year 2019 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 that 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.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Good morning. Let's begin on Slide 4 with some key themes. 2019 was a strong and successful year for Voya, our shareholders and our customers. On a normalized basis, our full year EPS was $4.22, representing an 18% increase in Adjusted Operating Earnings per share compared with 2018. This earnings growth was driven by the significant progress we have made in reducing cost and in returning capital to shareholders. It also reflects the sale of our Individual Life business, which we announced in December. The Life transaction accelerates our plans to generate free cash flow from the business, reduces risks and marks the completion of a fundamental restructuring of Voya. The transaction will remove 5 regulated insurance companies, a broker-dealer and 15 administrative systems, creating significant opportunities for Voya to become even more efficient.

Looking ahead, we expect Normalized Adjusted Operating Earnings per share to reach a quarterly run rate of $1.80 to $1.90 by the end of 2021, representing a 10%+ growth from the 2018 base that included Life earnings. We remain committed to growing Normalized Adjusted Operating EPS by at least 10% in both 2020 and 2021, while generating a strong return on equity. We have purposefully

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evolved to become a company with a clear focus and strategy centered on high-growth, high-return, capital light businesses.

There are 3 reasons why we're confident in our continued EPS growth potential and the power of our core businesses. First, we're delivering cost savings. We remain on track to achieve the run rate cost savings of at least $250 million by the end of 2020. As of the fourth quarter, we successfully eliminated all of the stranded costs associated with our 2018 Annuities Transaction. We will bring the same focus in addressing stranded costs related to the Life sale. Second, we're generating high free cash flows and returning capital to shareholders. We had approximately $896 million of excess capital as of December 31. With our plans to repurchase at least $1 billion of our shares in 2020, we are on track to have returned approximately $7 billion of capital in 7 years. Third, we're delivering on organic growth with our 3 core businesses. We are seeing strong demand for our capabilities given the compelling value proposition that we provide for our workplace and institutional clients. Our confidence in the future stems from our ability to turn market activity into results. We saw positive flows in 2019 for Retirement and Investment Management as well as significant in-force premium growth in Employee Benefits. Looking ahead, we continue to see strong pipelines. This continues to give us confidence in our ability to achieve further organic growth in 2020 and 2021.

Turning to Slide 5. Voya's culture and character of our brand continued to earn external recognition. I'd like to highlight a few honors that were recently announced. Last month, we were named one of Fortune's World's Most Admired Companies within their Securities and Asset Management category. Just last week, we were recognized on Barron's list of the 2020 100 Most Sustainable Companies. We ranked third overall and, for the second year in a row, we were the highest ranked financial services company. Additionally, during the quarter, we were included in the Bloomberg Gender Equality Index as well as the 2020 Corporate Equality Index. Across our businesses, customers are increasingly citing the character of our brand and our culture as key factors in their decision to select Voya. It's having an impact on our business performance and our pipelines.

With that, let me ask Mike to provide more details on our performance and results.

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Thank you, Rod. Before we get to the numbers, I will talk through the most significant changes in the presentation of our financial results due to the sale of our Individual Life business. All earnings from our Individual Life business and the other Legacy Blocks included in the transaction are now reported outside of Adjusted Operating Earnings, both for historical periods and for future periods until close. These results are included, however, in GAAP net income. The transaction results in GAAP book value adjustments that we will recognize in stages between fourth quarter 2019 and close. Consistent with our communication when we announced the Sale, in the fourth quarter of 2019, we recognized a GAAP book value reduction of $1.1 billion. This represents the estimated loss on sale from the portion of the transaction that is structured as a sale of legal entities. At close, we will recognize a further adjustment to GAAP book value associated with the portion of the transaction that involves a sale through reinsurance. Our current estimate is that we would expect to realize a partially offsetting book value gain, such that the total reduction in GAAP book value due to the transaction would be in the range of $250 million to $750 million. The transaction will also have an effect on the manner in which we report expenses associated with the businesses we have sold. Although earnings from these businesses are classified as non-operating, GAAP held for sale accounting requires us to include associated indirect expenses as stranded costs in operating earnings. Because we continue to receive earnings from these businesses until the transaction closes, we will normalize for these costs when we report Normalized Adjusted Operating Earnings until close.

After close, we will include the remaining stranded costs in our Normalized Adjusted Operating Earnings, net of the transition service fee revenue we will earn from the buyer and the realized cost savings we achieve. With that explanation, let's turn to our financial results on Slide 7.

We delivered Normalized After-Tax Adjusted Operating Earnings of $1.19 per share in the fourth quarter of 2019. This normalized amount excludes $0.06 of unfavorable DAC/VOBA and other intangibles unlocking, $0.12 of prepayment and alternative income above our long-term expectations and $0.18 of stranded costs associated with the businesses we have sold. On a reported basis, Adjusted Operating Earnings were $1.07 per share for the quarter. Fourth quarter GAAP net income was affected by 4 significant items: First and most significant was the reduction in GAAP book value that I discussed a moment ago; second, as I also mentioned, Individual Life earnings were included in GAAP net income. Life earnings were adversely affected by unfavorable severity driven mortality experience in

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the fourth quarter; third, our annual end of year after tax pension re-measurement, primarily reflecting the impact on asset levels from higher equity markets as well as the impact on future liabilities from lower interest rates in 2019. In 2020, we expect our annualized net pension cost to be $20 million lower than prior year. In a change from prior practice, beginning in 2020, we will report pension cost in operating earnings of our corporate segment. The intent of this change is to remove pension-related earnings volatility from the business segments. In 2019 and prior years, we allocated pension costs to the business segments. Fourth, and finally, net income for the fourth quarter of 2019 was positively affected by a $250 million tax valuation allowance release.

Moving to Slide 8. Retirement delivered $172 million of Adjusted Operating Earnings in the fourth quarter, contributing a full year earnings of $618 million, excluding unlocking. Retirement's trailing 12-month return on capital was 13.2% for 2019 compared with 14.1% in 2018. Full year Adjusted Operating Earnings, excluding unlocking were lower than 2018. Full-serivce and recordkeeping fee income was higher, driven by net inflows and favorable equity markets. This was partially offset by lower investment spread, reflecting the impact of the low interest rate environment. Our administrative expenses were higher, reflecting higher pension costs incurred, legal accruals and expense accrual true-up and upfront volume-related investment costs. As you know, interest rates have dropped significantly since we gave our Retirement earnings growth guidance at our 2018 Investor Day. If current interest rate levels hold and considering the shift of pension cost to corporate, we now expect our Adjusted Operating Earnings CAGR for Retirement from 2018 through 2021 to be in the range of 1% to 4%. This compares with the original target of 4% to 7%. Importantly, our target for overall Voya EPS of $1.80 to $1.90 by the end of 2021 remains in place. This represents over 10% growth from the 2018 base that included Life earnings.

Looking ahead, we expect first quarter administrative expenses in Retirement to be $205 million to $215 million, largely consistent with fourth quarter 2019. Seasonality compared to fourth quarter 2019 retirement expenses will be largely offset by the recognition of cost savings in our segment results. This is a change from 2019 as stranded costs from the annuities transaction have now been eliminated. We expect full year 2020 administrative expenses for retirement to be in the range of $800 million to $820 million. This is lower than prior year levels as we expect cost savings to more than offset volume-related spend. Retirement generated $267 million of positive full-service net flows in the quarter, contributing to full year net inflows of $2.1 billion. This was driven by strong flows in full-service corporate markets. Full year full-service recurring deposits grew by 10.7%. We continue to expect recurring deposit growth to be between 10% to 12% in 2020 and 2021. We had a strong fourth quarter of recordkeeping net flows of over $12 billion. This was lower than our expectation of $20 billion due to known plan terminations that had been expected to occur in the first quarter of 2020, but were accelerated into the fourth quarter of 2019. We now expect an incremental $26 billion of recordkeeping net flows in 2020, largely in the second half. This represents the balance of the previously mentioned $38 billion of recordkeeping net flows to emerge by the end of 2020. We feel very good about our commercial pipeline of full-service and recordkeeping net flows and remain confident that we will continue to win in the marketplace.

On Slide 9. Investment Management delivered $59 million of Adjusted Operating Earnings in the fourth quarter and $180 million for the full year. Full year earnings were $10 million lower than 2018 as favorable investment capital results did not repeat. In the fourth quarter, we realized exceptional performance fees related to our mortgage investment fund. These fees reflect the excellent investment returns that we delivered to our clients. For the full year, we drove strong fee revenue growth from Institutional net inflows, which also produced higher AUM. Retail fee revenue was higher in the second half of 2019, helped by improved retail flows and continuing favorable equity markets. Our fourth quarter adjusted operating margin, including investment capital, improved to 29.9%. The operating margin was 26.6% on a trailing 12-month basis.

Turning to flows. Our diverse platform of investment capabilities and continued exceptional fixed income investment performance drove solid net inflows in 2019. This included $520 million of Institutional net inflows in the fourth quarter. For the full year, we had almost $3 billion of institutional net inflows, representing organic growth of over 3%. We expanded our suite of specialty investment capabilities in 2019, including launching our first commercial mortgage loan debt fund in the fourth quarter. In 2020, we expect to add more specialty products, including infrastructure debt funds and private equity. Retail flows improved in the second half of 2019. The improvement was driven by momentum in our core fixed income strategies, including our strategic income opportunity fund. This fund was added to several broker-dealer platforms helping to expand the fund from $1 billion at the start of 2019 to nearly $3 billion by year-end. Our securitized credit fund AUM reached $1 billion early this year, a positive milestone for future success.

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Looking ahead, we expect first quarter to include the sale of our subadvised real estate funds. The managed assets leaving Investment Management through this sale are approximately $1 billion, which will be reflected as other in our asset roll forward. The associated loss revenue is approximately $2 million to $3 million. We remain committed to achieving a 30% to 32% operating margin by the end of 2021, despite a reduction of assets under management upon close of the Life transaction. Our continued strong investment performance is driving our robust 2020 commercial pipeline. This gives us confidence in achieving our organic net flows growth target of 2% to 4%.

Turning to Slide 10. 2019 was another record earnings year for Employee Benefits, delivering $55 million of Adjusted Operating Earnings in the fourth quarter and full year earnings of $199 million, excluding unlocking. Full year return on capital improved to 31%, up from 28.2% in 2018. Adjusted Operating Earnings grew over 20% in 2019, supported by 10% growth in total in-force premiums which surpassed $2 billion for the first time during the year. We saw strong growth in in-force premiums across all product lines over the year. Voluntary grew 25%, reflecting our success in growing market share in an expanding market. The continued growth in high deductible health plans remains a significant tailwind for the business. We expect this product line to remain a strong growth driver as we continue to leverage our expertise and distribution relationships.

Stop Loss grew 7%, while improving margins. We maintained our pricing discipline through the January sales and renewal season. We saw rational competition on both new and renewal opportunities, leading to our continued confidence in Stop Loss results in 2020. Additionally, Group Life and Disability grew 8%. We had an outstanding underwriting year, with a total aggregate loss ratio of 70.2% for the full year, 230 basis points lower than 2018. Group Life loss ratios were below our target range of 77% to 80%. We expect experience to normalize to within our target range in 2020. We also remind you that we typically experience seasonally higher Group Loss ratios in the first quarter. Loss ratios for Stop Loss were within our expected target range of 77% to 80%. We remain confident that experience will be within expectations. Voluntary experience was favorable. Previously, we have communicated an aggregate loss ratio target range of 71% to 74%, driven by the rapid growth in Voluntary, which has a lower loss ratio than our other product lines, we now expect an improved aggregate loss ratio target range of 70% to 73%. Given the exceptional growth in 2019 and our expectations for 2020 and 2021, we are raising Employee Benefits Adjusted Operating Earnings CAGR target from 7% to 10% to 11% to 14%.

On Slide 11, we provide items to consider for the first quarter of 2020. In the first quarter, share repurchases will have a positive impact on EPS. We also do not anticipate the retirement legal accrual to recur in the first quarter. There are 3 offsetting items to consider: First, admin expenses are expected to be seasonally higher, primarily due to payroll taxes that restart with the calendar year though normal seasonality will be partially offset by cost savings; second, favorable fourth quarter Employee Benefits loss ratios are expected to normalize to the midpoint of our updated aggregate loss ratio range of 70% to 73%; and third, strong fourth quarter Investment Management performance fees are not expected to repeat in the first quarter, as discussed earlier. While we have provided some items to consider, there will, of course, be other factors that affect first quarter results, including share repurchases, business growth and market impacts.

Turning to Slide 12. We continue to have a strong capital position. Our estimated RBC ratio was 489% at the end of 2019, above our target of 400% and excess capital was $896 million. Our excess capital increased significantly from the third quarter as a result of strong earnings, completion of the previously announced Reserve Financing Transaction and some onetime capital optimization initiatives. Our debt-to-capital ratio was slightly higher than our 30% target due to the reduction in book value related to the Individual Life sale. In December, we entered into a $200 million ASR, of which $160 million was completed in the quarter. Full year share repurchases were $1.1 billion. Our remaining share repurchase authorization stands at $650 million. We expect to deploy at least another $1 billion into share repurchases ratably in 2020. Upon completion, we will have returned over $7 billion to our shareholders over 7 years.

Finally, we paid a fourth quarter common stock dividend of $0.15 per share, representing an annual yield of approximately 1%. The dividend reflects our confidence in our ability to generate sustainable free cash flow and augment our extensive capital return to shareholders through buybacks.

Turning to Slide 13. Our deferred tax assets remain a key source of value. The Individual Life Sale had a minimal impact on our net DTA position. The net present value of the deferred tax assets is $1.2 billion as of December 31 at nearly $9 per share. Separately, we expect our effective tax rate to fall in a range of 15% to 18%. This is lower than the previous 16% to 19% range, reflecting a largely unchanged dividend received deduction applied to lower pretax earnings projected post sale of the Individual Life business. More broadly, we now

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expect to use 40% to 50% of our DTA within the next 5 years, and we also expect to pay essentially no net cash taxes for the next 5 to 7 years.

In summary, our value-enhancing Individual Life sale completes the fundamental restructuring of Voya. We have purposely evolved to enable a clear focus on our high-growth high return capital light businesses. We expect to achieve quarterly EPS of $1.80 to $1.90 by the end of 2021. This represents 10%+ growth from the 2018 base that included Life earnings. Post close, our long-term earnings growth trajectory is expected to improve, and our free cash flow conversion should be at the high end of our 85% to 95% guidance. And our strong capital position and balance sheet puts us on a clear trajectory to return at least $7 billion to shareholders by the end of 2020.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Ryan Krueger of KBW.

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

Could you provide some perspective on how quickly you expect the Life stranded costs to dissipate following the close of the sale?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Ryan, this is Mike. I'll take that. At close, the first thing to keep in mind is that we'll have transition service fees to offset a meaningful portion of what we've identified right now as stranded cost. So right out of the gate, you'll see a change there in what we report. We have some work to do yet to determine the exact pacing by which we're going to remove the stranded costs. Maybe the best way to think about is they'll be fully addressed by the time we exit 2021. The exact pace and timing of that is to be determined. I would -- look, we just announced that we've completely eliminated the stranded costs from the annuity transaction. We've got the right kind of discipline in place to do it. As Rod said in his comments, this significantly simplifies our organization. We remove 5 legal entities. We remove a number of administrative systems. I think it's not going to be easy, but we are experienced and ready, and we'll be able to address that fully.

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

And then on Investment Management, the Institutional fee rate came down some in the quarter. Can you provide some more details on that as well as your expectations for fee rates in Investment Management overall going forward?

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Christine?

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

Sure. As far as how to think about the fee rate on the Institutional assets, certainly, the basis points of the fees that we earn is one health indicator of the business that we track. But also, as we think about it, basis points also don't equal margins. So what do I mean by that is, certainly, some of the larger scale mandates that we win tend to be lower fees for the size but we're very disciplined in thinking about the margin because those can be quite accretive because we have a very scalable business, notably in fixed income. But let me just pivot very quickly to the fourth quarter for you and talk a little bit about how we see 2020 unfolding. So in the fourth quarter, we did have a larger deviation of the basis points earned between inflows versus outflows. So outflows were 10 basis points approximately higher than inflows, and that was largely driven by a redemption in what we call CMOB. For an insurance company, that was related to a change in ownership. And so you saw the very strong performance fees in the leveraged version of that mortgage investment hedge fund. So it's a capacity-constrained asset. And so that's sort of a one-time thing, and we should be able to replace those assets over time. So that was a lot of what was driving the fourth quarter. Now how are we looking at the -- what we can see right now in 2020, we are launching a couple of higher-margin products in 2020. Examples would be an infrastructure debt fund as well as Pomona 10. We're going to be back in the market, and you might see a first close there as early as June of 2020, but certainly in the back half of the year. And again, those are higher basis points. But one thing that we're seeing now, we have a very strong pipeline in 2020. And we do have some unfunded and

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some finals and some pretty more scale product. So you may see that basis point dynamic persist through the first half of 2020. However, that's going to be associated with commensurate volume and will be very margin accretive. So again, we're on pace to hit our Investor Day target margin of 30% to 32%, have a very strong pipeline and confident that we're going to continue that strong organic growth of 2% to 4%.

Operator

Our next question is coming from Humphrey Lee of Dowling & Partners.

Humphrey Lee ***Dowling & Partners Securities, LLC - Research Analyst***

Just to stay on Investment Management, looking back at the past couple of quarters, you have benefited from the sub-advisory replacement in your flows. Even though I know these replacement can be episodic, I was just wondering, can you give us a sense in terms of the portion of the sub-advised AUM that could be in play? Meaning you either have comparable products with performance in line with currently existing sub-advised product.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Humphrey, Christine will take that also.

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

Sure. Humphrey, as you said, really the sub-advisory replacements are episodic. They are related to strong performance on Investment Management products that we have. But really, it's the mutual fund board that oversees the full variable portfolio product that looks for these opportunities and recommends where they think there are underperforming managers that needs to be replaced. So that being said, again, it's episodic. When you think about our growth, we're relying on our organic, institutional and retail flows to hit that 2% to 4% margin. So not relying on sub-advisory replacements in our pipeline or what we see. So again, it's really the organic growth that we have. And notably, another point where we're getting really strong momentum that also will go back to building our basis points is really on Retail. And so if you take a look at the trajectory of our retail flows -- Voya Investment Management retail flows, very strong for the second half of the year, and we see a good, strong start to the first half of the year there.

Humphrey Lee ***Dowling & Partners Securities, LLC - Research Analyst***

And then shifting gear back to the stranded costs, and I appreciate the Mike's comment about how the TSA and the ASAs will come in immediately after the deal close to provide some level of offset, but I was wondering if you'd be able to size the impact from the TSA or the ASA that would kick in?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Humphrey, it's too early for us to be able to do that. We actually are still in the midst of negotiating exactly what the scope and breadth of those services will be. And consequently, we don't have any ability to talk about the fee level.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Humphrey, the thing I would add, having just completed, in fact, we did it a quarter early. The Venerable transaction in terms of the TSA / ASA piece. We have a absolutely terrific blueprint and a team that just did a very complicated transaction that is transitioning to this that finishes, again, the transformation of Voya. So we will report as we did with the Venerable transaction as we go further in these discussions. We're targeting a third quarter close. We're very encouraged about the partner and the cooperation and the early stages. But as Mike said, it's simply too early at this point.

Humphrey Lee ***Dowling & Partners Securities, LLC - Research Analyst***

Got it. And I appreciate the color. And I don't disagree with you about your ability to execute in terms of eliminate the stranded costs. So good luck.

Operator

Our next question is coming from Tom Gallagher of Evercore ISI.

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

Just a quick one on $1.80 to $1.90 guide for 4Q '21. Can you quantify the level of performance fees in asset management that are embedded in that estimate? Whether is it an average of what you've been getting? Or how should we think about that?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Tom, this is Mike. I'll start. Look, I think it's still a little early for us to be giving that kind of specific guidance. I think it will be a meaningful part of the growth picture that we report for IM. That growth was something that we anticipated at Investor Day. And so it's been part of the story all along, and part of what fuels our overall expectation of the CAGR of 5% to 8% that we talked about from 2018 to 2021. I think the ramp that we're looking at to go from our current earnings level to the $1.80 to $1.90 is going to be fueled by that as well as growth in Retirement. We talked about the flows there. The continued growth in Employee Benefits, turbocharged by our cost saves and by the share repurchases that will come from the capital management that we've got coming. So there'll be a number of factors driving the growth to get us to that $1.80 to $1.90.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Tom, I would just add to what Mike said. As you heard on the call just now, we guided up in Employee Benefits, we've guided up when we announced the Life transaction, our ROE, including the DTA, and we've released more capital earlier as a result of the transaction, or will be upon closing, than we anticipated. So I'm really excited about the position that puts Voya in at this point in our ability to execute this over the 2020 and 2021 year. And again, as you heard, and frankly, just summarized, the $1.80 to $1.90 includes the baseline that started with the Life Insurance business. So the 10%+ earnings growth that's gone away. Our growth is inclusive of that over this glide path in '20 and '21, again, that we're highly confident in our ability to execute on.

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

I guess the -- just as a follow-up, I just wanted to -- and I asked that specific question because I know it was a good quarter for performance fees this past quarter. So I wanted to see, are you assuming you're going to build on that? Or that it's something more normal, just from a kind of higher level standpoint?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Tom, I may not have quite fully gotten the gist of your question. We don't build in any meaningful performance fees there. So to the extent that we have strong performance like we had last year then that would be gravy. That would be in addition to what we're talking about.

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

Got it. Yes, I just wanted to make sure that, okay, that's helpful. And then just a quick follow-up. Mike, I heard your comment on excess capital, yes, that came in surprisingly strong. The -- and you had mentioned, I think it was $200 million was freed up from the securitization of the Life block? And then the -- you also mentioned some capital optimization strategies. Can you elaborate a bit more on what went on there?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Yes, I think the way to think about the growth was there was just a little more than $200 million from the Reserve Financing. There was roughly $100 million in non-life dividends that drove that. That's not counted in excess capital until we actually dividend it up from the non-life companies. There was a meaningful portion that was just ongoing earnings and then the balance was a couple of initiatives. I think the way to think about that is, any time you're doing a transaction, it generates the creative juices and ways to think about structuring your organization, how you can stack entities, gives you opportunity to rethink some of your strategies brought more broadly and how you're funding benefits and so on. So I think those are both one-time in nature, but I think it's consistent with our ongoing focus on optimizing capital. I think we've consistently found over the years, opportunities to make the company more efficient. That was I think, been shown very clearly in our growth in ROE over the last now 7 years. We're now reporting an ROE, including the DTA north of 14%. So I think we feel good about that. We'll continue to look for future opportunities. And while I don't have any on the front burner, I can't say that there won't be some. So we'll continue to try and harvest those as best we can.

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Operator

Our next question is coming from Andrew Kligerman of Crédit Suisse.

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

So following up on the capital, $896 million in excess, a check coming in third quarter of $1.5 billion and the ability to return 85% to 95% of free cash flow. And we're talking about $1 billion-plus of repurchases this year. So could you give us a sense of what the plus part of the $1 billion has potential to be?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Andrew, look, I think we've got a track record that is second to none in terms of our focus in delivering value to shareholders and our willingness to pull the trigger on share repurchases. I think we're in incredibly enviable position right now. We've got enormous flexibility. We've got a transaction in the balance sheet coming that we're going to need to get into the place that we want to be in, so that we have the best possible position to go forward. So I think the numbers you shared are absolutely right on and so it creates a meaningful upside. So we'll continue to use the same discipline we have in the past. I think we'll see how events unfold. Obviously, there's a lot going on in the world right now. And so we're going to be judicious and prudent, but also very focused on delivering shareholder value.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

And as you point out, upon close of the transaction is when those funds are available. So we've got a couple of quarters to observe exactly what Mike has just outlined. And again, I just want to state again, $7 billion in 7 years, pretty significant number. And I love the position that Voya is in at the close of this transaction and the choices and options we have to continue to invest in our business and to continue to return capital to shareholders in the best interest of the aggregate stakeholders.

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

Yes. Great. And then shifting over to the Employee Benefits segment. So a terrific benefits ratio of 70.2% and then you said on the call that you're going to take the benefit ratio's guidance to an improvement to 70% to 73% now. And you elaborated on Stop Loss and how competition seems very rational going forward. Could you talk about the Group Life and Disability area in terms of pricing and then also the Voluntary benefits? I mean, both of those areas, too, have been incredibly strong. And I'm wondering how long it can persist?

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Rob will take that, Andrew.

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

Yes, Andrew, thanks for the question on that. As Mike underscored, resetting the range from an aggregate view, and as we think about that, it's not only influenced by what we saw in Stop Loss, how we see the Voluntary benefit business and that mix growing. We've talked consistently about the Life business as being a bit more sort of steady and flat, but an important part of the business still. I'd say, overall, from a pricing perspective and just rationality in the marketplace, it's disciplined. We're not seeing dramatic sort of year-over-year shifts and competitiveness. And while the player may change here or there, a new player emerge here or there, those are dynamics that I think across all of Voya's businesses we're used to adapting to adjusting to and finding our way forward. But from a growth perspective, Stop Loss, we did a lot of work to get the margin where it is today. We'll continue to be disciplined about striking that balance from growth and margin as we move forward. Voluntary has certainly been performing very well. We expect that to continue but potentially moderate. And from a Life perspective, certainly very happy where the results came in. You can look back over the last couple of years, though, quarter-to-quarter, you're just going to have noise there and it will be lumpy at times. But we've done a lot of work on our renewal approach with the life business as well as the Stop Loss business and feel like we're really positioned well to maintain that margin. And again, ultimately feed into what might reset instead of talking about 7% to 10% growth over the Investor Day horizon here over the next couple of years, we're talking about 11% to 14%, and all these products got to operate well to get there.

Operator

Our next question is coming from Suneet Kamath of Citi.

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Suneet Kamath ***Citigroup Inc, Research Division - MD***

On the cost savings, I just wanted to make sure we're tracking this correctly. So you're on track to realize the -- at least the $250 million of run rate cost savings by the end of '20. And then you have the stranded overhead takeout associated with the Life deal. Are those 2 sort of distinct buckets of expenses? Or is there some overlap between the 2?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Suneet, there is a degree of overlap to the extent we are able to meaningfully outperform the $250 million plus. So that will be part of the way we solve some of the stranded costs, but there will be additional savings that we'll need to generate beyond what we had contemplated from the original guidance. We have not yet quantified that. As I said earlier, we have work to do in terms of how we're going to go about that. We have TSAs and other things to work out that will affect our ability to remove those costs, so stay tuned. But we'll certainly give very clear guidance or as clear as we can in terms of what our expectations are as those plans come together.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Suneet, this is Rod. What we're really guiding to is the landing spot. And again, that's the $1.80 to $1.90 EPS at the end of '21. They're 2 complex transactions, we've just finished the Venerable transaction in the TSA / ASA. We're taking that blueprint. You're asking a precisely correct question on there will be costs associated with that. We will have TSA / ASA piece. What we're really trying to do is give you the glide path to where we end in '21, and that's back to the $1.80, $1.90 with life insurance out, but off the base that included the life insurance and significantly simplified organization, significantly reduced credit risk, and none of the tail liabilities associated with those former businesses.

Suneet Kamath ***Citigroup Inc, Research Division - MD***

Got it. Makes sense. And then just going back to the Retirement growth outlook, it seems like maybe the disclosure changed a little bit versus last quarter. I think maybe you changed the time period from 2019 to 2021 to 2018 to 2021. So I'm not sure if that had an impact, but you also talked about moving the pension costs outside of Retirement into corporate. So I guess, I just want to try to unpack that a little bit and just get a sense of is the lower growth rate that you're expecting from 4% to 7% to 1% to 4%. Is that really just all interest rates? Or is there anything else going on in there that we need to understand?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Suneet, the short answer is, it really is just the interest rate environment. There have been some other gives and takes. I think we've been happy with the level of underlying organic growth we're generating in Retirement. But as we said in our disclosure over the course of last year, the interest rate impact in 2019 of a 100 basis point drop was about 2% of earnings for Voya in total. It's about the same impact for Retirement. It's actually now a little bit more than a 100 basis point drop from Investor Day, at least that last look. So the idea here is to say, if interest rates stay mainly where they are then we'll have additional pressure that would take away 4% at the end of that period. And you can kind of look at the 1% to 4% -- going from 4% to 7% to 1% to 4% is basically entirely in line with about a 4% drag. And moving the pension costs, look, there is a shift of the baseline year 2018 included some benefit from net pension costs that we're not giving back now that it's the market conditions have changed. So we're keeping that in corporate to make it easier to understand the ongoing run rate of the various business segments. But that's a little bit of extra headwind in the growth to think about. It's probably worth a percent of the CAGR.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

And it affects all of the business.

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Yes. But Retirements is the lion's share, to be sure.

Suneet Kamath ***Citigroup Inc, Research Division - MD***

And do you have the total pension cost that you expect for 2020? I think you said something about a $20 million reduction, but what's the full cost?

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Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

It's about a $20 million improvement over last year in pension costs that will come through corporate.

Suneet Kamath ***Citigroup Inc, Research Division - MD***

Right. And then the total pension cost, do you have that number?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

That's the net. So that's basically the net pension cost, which is service cost and interest costs less the returns that come from the portfolio. And keep in mind that the way the pension cost works is it's all marked to the point in time as of 12/31/19 so as assets fluctuate throughout the year, it doesn't change, right? So we happen to get a pretty high mark, whereas last year, we caught a fairly low mark, right?

Operator

Our next question is come from Erik Bass of Autonomous Research.

Erik Bass ***Autonomous Research LLP - Partner of US Life Insurance***

I wanted to go back to the Investment Management business as it sounds like there'll be a few moving pieces in the earnings in 2020 with, I think, the real estate sale and then the lost AUM with the Life sale. So can you just help us think about the earnings power for the business in 2020 and then the margin will ramp over time?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Erik, I'll start and then I'll let Christine fill in. So the impact of the sale of the real estate is $2 million to $3 million spread over the -- that's an annual impact, so spread over the whole year. I mean, that's pretty absorbable. From a Life transaction standpoint that, let's say, closes in the third quarter, and it'll, to some extent depend on when in the quarter, but the amount of assets that are leaving initially is actually quite small. We have not yet quantified the earnings impact because we have a little bit more negotiation to do. It will depend on which assets transfer. The fee rates do vary depending on which assets go to Resolution and which ones we keep and manage. But you should think of it and certainly, for the balance of 2020, it will be in the single-digit millions. It's not going to be a particularly large number. Partly, if for no other reason, then it's just going to be for no more than 6 months and it could be 4 or 5.

Erik Bass ***Autonomous Research LLP - Partner of US Life Insurance***

Got it. So it's building to that $10 million to $15 million over time, but that's more of the drag in 2021?

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Yes, that will be the 2021 drag, and we'll give more specificity as we narrow down the exact terms of which assets are moving.

Erik Bass ***Autonomous Research LLP - Partner of US Life Insurance***

Got it. Okay. And then maybe for Retirement, I mean, you mentioned, obviously, you had the large recordkeeping win in the fourth quarter. And then a couple of losses. Can you just provide an update on competitive dynamics, and it sounds like your outlook for flows is still pretty robust, but any additional color you can provide on the pipeline there?

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Charlie?

Charlie Nelson ***Voya Financial, Inc. - CEO of Retirement & Employee Benefits***

Sure. Thank you. We are on track for our net $38 billion and 0.5 million participants actually that we spoke about last year. We had a couple of known terminations that we accelerated on a couple of M&As. So these were some clients that were acquired and they just merged their plan into their acquiror one. We actually have some M&As where we actually are winning from our existing clients that will benefit us in the first half of 2020. What we were trying to align to in terms of guidance for 2020 in recordkeeping is an additional -- is the $26 billion in net flows to be achieved in 2020, largely coming by the fourth quarter. It will kind of emerge through the year, but largely in the fourth quarter. And I would note that, that will come with what we expect as well, about 350,000 additional participants,

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which was on top of, if you look at our total growth of full-service and recordkeeping in 2019, we added nearly 0.5 million participants at 470,000 net new participants in our Retirement business in 2019. So that was very strong growth. We feel very good about our pipeline in both the recordkeeping and our full-service business, both the corporate and tax-exempt. I think, as I've said, we've got about 20% more plans in the process of implementation today than what we had on 9/30, so at the end of the last third quarter. So really good continued momentum and look forward to kind of building on that in 2020.

Erik Bass ***Autonomous Research LLP - Partner of US Life Insurance***

And I guess, just 1 follow-up. In terms of -- are there costs associated with onboarding those assets coming in that will be sort of weighted more in the beginning of the year and then you'll obviously get the revenues as the assets come in?

Charlie Nelson ***Voya Financial, Inc. - CEO of Retirement & Employee Benefits***

So the cost of onboarding, it does differ a bit between recordkeeping and the full-service. So I would say, generally, there is implementation cost as we look at onboarding the larger plans, but a lot of that work was underway in 2019. And I think that was some of the things that we guided to last year, and our investments in growth and the development and the on-boarding of our new business, just the growth that we had, both in ull-Service and recordkeeping in 2019. With our continued momentum, we would expect to continue to see that. But I'd also note that our expenses in 2020 will be lower than in 2019 in that range that Mike guided to and that we expect to see continued unit cost improvements as we get the benefits of all of our expense saves realized in Retirement. So we're looking at really having our expenses actually be a contributor to our earnings growth in 2020.

Operator

We're showing time for 1 last question today. Our last question will be coming from Alex Scott of Goldman Sachs.

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

First question I had was just on the passing of Secure Act and if there are any initiatives that you have underway, whether it's the multi-employer pools or anything else we should consider? And if there's any way how we could think about the tailwind that, that could provide to flows?

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Charlie?

Charlie Nelson ***Voya Financial, Inc. - CEO of Retirement & Employee Benefits***

Yes, thank you. Certainly, we're very pleased with the passage of the SECURE Act. I think it advances, as we've said, coverage the inclusion of lifetime income or annuities in retirement plans and certainly facilitate some additional savings. I would note that the passage of the SECURE Act, a lot of those provisions become effective over the next number of years. They weren't all effective on the signing date, if you will. And many of those provisions actually require individual plan sponsors and employers to adopt them, to take advantage of them, if you will. Thus, I think we expect the impact to the business really to emerge over time. So we are excited about the SECURE Act passage. It is going to help in advance coverage. You know that we have the capabilities, and we have a number of multiple employer plans today, as I've mentioned in previous calls, so we think we're well poised for that. But we also are pleased that it does advance the coverage and focus on savings rates that will be helpful to us, which are 2 central tenants, I think, of where Voya is focused on.

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

Got it. And then a follow-up question that's unrelated. I think around the time you did the CBVA transaction, on the other side of it, I think some of the assets that you ended up retaining, they were part of the net investment income. Going forward, were a little bit higher-yielding and it benefited the overall yield you're achieving. Is that something that we should contemplate here with the Resolution deal? I mean, once you finalize the decisions around what assets are going there, could we see shifts here or there that could benefit the yield or hurt the yield? Anything to consider in that direction.

Mike Smith ***Voya Financial, Inc. - Executive VP, CFO & Interim Chief Risk Officer***

Thank you. You certainly characterized the impact of the Annuities Transaction appropriately. There was a bit of a lift in yield for the ongoing businesses post close, and it was due to exactly that, that the residual assets that we kept. Too early to say for this transaction.

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It's a different buyer with a different attitude toward these kind of things. And so we'll certainly post you and others as the negotiations unfold, it's possible, but too early to feel confident in any of that.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

One thing I'd add is, as you may recall, we are one of the preferred providers in asset management for Venerable. One of the reasons they had lots of ambitions to get off of the TSA / ASA as fast as they could is they have ambitions of adding other blocks of business and other books of business to their platform. And in doing so, we'll have an opportunity to participate in that growth. So again, stay tuned on that, but we're excited about what that opportunity is. And again, as we've got to know each other more closely over the last few years, I think they've come to appreciate the particular capabilities that Christine's teams has in how we're managing the assets that they've selected.

Operator

This concludes our question-and-answer session. So I would like to turn the conference back over to Rod Martin for closing comments.

Rod Martin ***Voya Financial, Inc. - Chairman & CEO***

Thank you. Our plans to continue to drive organic growth, effectively deploy capital and to achieve cost savings are delivering results. In 2019, we demonstrated our ability to accomplish the targets that we have set, while further transforming our company. The sale of our Individual Life business accelerates our plans to generate free cash flow from the business, reduces risks and marks the completion of a fundamental restructuring of Voya. We have a clear strategy with high-growth, high-return, capital light businesses. Our focused and complementary business mix serves to expand our presence in the workplace and with institutional clients. It's also creating a greater opportunity for investors, enabling us to continue growing EPS by at least 10% while doing so with high free cash flow conversion. We're excited about 2020 and beyond. We look forward to further updating you on our progress as we continue to drive greater value for all of our stakeholders and pursue our vision to be America's Retirement Company. Thank you, and good day.

Operator

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

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