S&P Global
Market Intelligence

Voya Financial, Inc. NYSE:VOYA

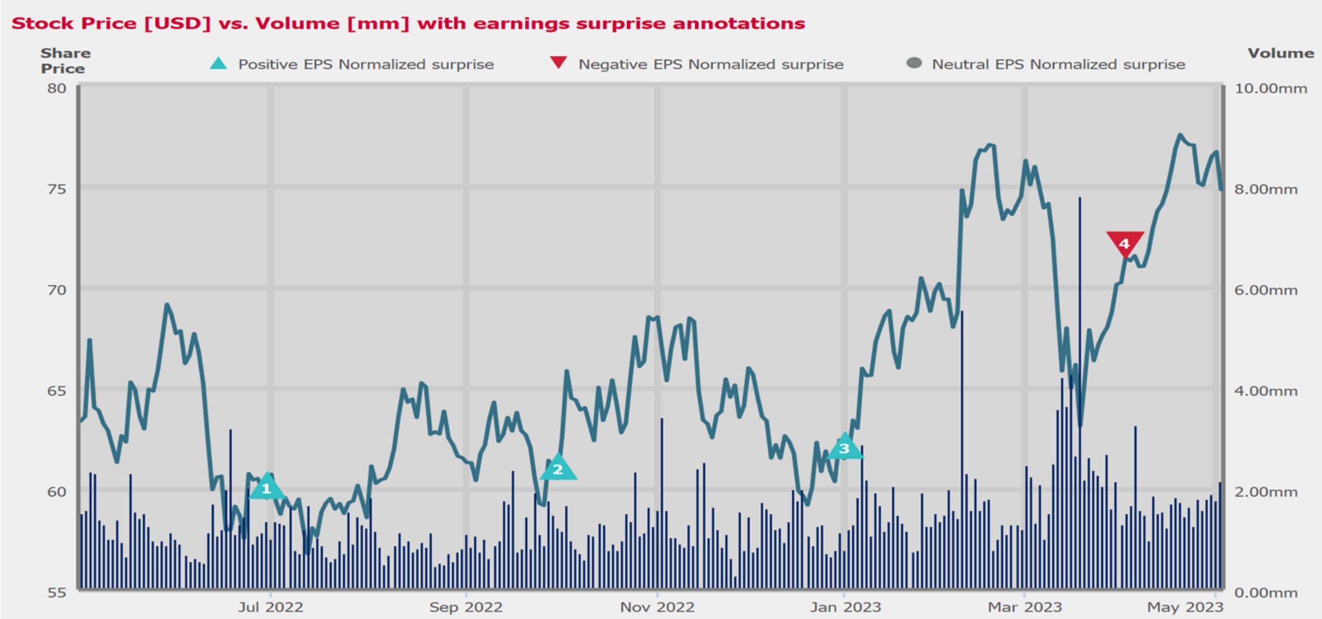
FQ1 2023 Earnings Call Transcripts

Wednesday, May 3, 2023 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.71	1.69	▼(1.17 %)	2.02	7.93	NA
Revenue (mm)	1662.05	1697.00	▲2.10	1694.90	6875.00	NA

Currency: USD
Consensus as of May-03-2023 7:13 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	1.26	1.67	▲1 32.54 %
FQ3 2022	1.06	2.30	▲2 116.98 %
FQ4 2022	1.54	1.77	▲3 14.94 %
FQ1 2023	1.71	1.69	▼4 (1.17 %)

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Call Participants

EXECUTIVES

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Donald C. Templin
Executive VP & CFO

Heather Hamilton Lavallee
President, CEO & Director

Michael Robert Katz
Executive Vice President of Finance

Robert Lawrence Grubka
Chief Executive Officer of Workplace Solutions

ANALYSTS

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Erik James Bass
Autonomous Research US LP

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Joshua David Shanker
BofA Securities, Research Division

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good morning. Welcome to Voya Financial's First Quarter 2023 Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to Mike Katz, EVP of Finance. Please go ahead.

Michael Robert Katz
Executive Vice President of Finance

Thank you, and good morning. Welcome to Voya Financial's First Quarter 2023 Earnings Conference Call. We appreciate all of you who have joined us this morning. As a reminder, materials for today's call are available on our website at investors.voya.com. Turning to Slide 2. Some of the comments made during the call may contain forward-looking statements or refer to certain non-GAAP financial measures within the meaning of federal securities law. GAAP reconciliations are available in our press release and financial supplement found on our website.

Additionally, prior period comparisons have been recast for LDTI and include refinements to adjusted operating earnings in corporate. I refer you to this slide for more information. Additionally, beginning this quarter, Benefitfocus will be reported as part of the Health Solutions segment. Now joining me on the call are Heather La Vallee, our Chief Executive Officer; and Don Templin, our Chief Financial Officer. After their prepared remarks, we will take your questions. For the Q&A session, we have also invited the heads of our businesses, specifically, Christine Hurtsellers, Investment Management; and Rob Grubka, Workplace Solutions. With that, let's turn to Slide 3 as I would like to turn the call over to Heather.

Heather Hamilton Lavallee
President, CEO & Director

Good morning. Voya Financial delivered strong results in the first quarter of 2023 as we continue to meet or exceed our earnings and revenue growth targets. We continue to expect to meet our 12% to 17% and annual compound growth target over the 3-year Investor Day period ending in 2024. Our focus remains squarely on executing our plan and on successfully integrating the businesses that we acquired last year to ensure that we maximize their strategic and financial benefits will share more on our results and performance.

Turning to Slide 5. Our recent acquisitions have delivered immediate revenue and earnings accretion. And while delivering essential components of the strategy that will drive Voya's growth well into the future. We continue to see significant benefits from last year's acquisition of investment strategies, and assets formerly with AllianzGI which have been a powerful source of positive net flows and revenue growth. This business is proving highly resilient, even in a challenging macro environment. and it will be a catalyst for Voya Investment Management's further growth and margin improvement. Our distribution partnership with AllianzGI provides Voya Investment Management with a world-class international distribution capability that we are already capitalizing on. With several international fund launches planned for 2023.

Turning to Slide 6. We completed our acquisition of Benefitfocus in January and have made great progress with its integration and remain fully on track with our financial and strategic objectives. Benefitfocus is a critical accelerant for our workplace benefits and savings strategy because it provides a strong connection point across our businesses. Benefitfocus is an essential building block as we develop a market-leading workplace benefits and savings experience, which is already being brought to life with our My Voyage App. With Benefitfocus, Voya can engage customers at decisive moments providing guidance as they enroll in and use their workplace benefits while enhancing the support we provide as they grow their workplace savings. AllianzGI and Benefitfocus together represent transformative strategic acquisitions that we've executed on in less than a year, putting in place the key components we need to drive Voya's strategy in future years.

Turning to Slide 7. By living our purpose and vision together, our culture continues to help us stand apart in the marketplace and drive measurable outcomes that are benefiting all of our stakeholders. We are doing this by addressing the growing health, wealth and investment needs of our clients and customers, while also supporting our colleagues and communities. For example, we helped one of our clients, the City of Milwaukee, increased retirement plan participation rates for black and Hispanic employees by 40% and 25%, respectively. We also earned several notable recognitions during the quarter, including being recognized as one of the world's most ethical companies for the tenth consecutive year. Every year, we have been eligible. With that, let me ask Don to provide more details on our performance and results. Don?

Donald C. Templin
Executive VP & CFO

Thank you, Heather. Now let's turn to our results on Slide 9. We delivered $1.44 of adjusted operating earnings per share in the first quarter. This compares to $1.55 in the prior year quarter. Excluding notable impacts, first quarter 2023 adjusted operating earnings per share was $1.69 our adjusted operating results reflect profitable growth in all our businesses, highlighted by favorable net underwriting experience in health solutions, higher investment spread in wealth solutions and favorable AllianzGI GI impacts on investment management. First quarter GAAP net income was $69 million. This included approximately $50 million of cash impacts from our recent acquisition of Benefitfocus and continued integration of AllianzGI. Overall, our results continue to illustrate how our diverse revenue streams and complementary businesses enable us to navigate through challenging economic conditions.

Turning to Wealth Solutions on Slide 10. We are continuing to improve outcomes and deliver value for our customers and clients, consistent with our vision and values. In turn, this is supporting our ability to generate positive net cash flows and grow assets over the long term. As shown here, we have generated nearly $9 billion of full-service net inflows over the past 5 years. While first quarter full service inflows were impacted by a large case departure and higher participant surrenders, we continue to feel good about our pipeline for the remainder of 2023. Full service recurring deposits grew 9.6% on a trailing 12-month basis, and we expect full year deposit growth to be above 10%. Moving to Slide 11. Wealth Solutions generated $132 million of adjusted operating earnings in the first quarter, excluding unfavorable alternative income, adjusted operating earnings were $166 million. Net revenues ex notables grew 2.3% on a trailing 12-month basis. This reflected the benefit of higher interest rates on our spread-based revenues, which more than offset the impact of lower average equity markets.

In the quarter, we raised crediting rates on part of our in-force block. We anticipate further rate actions to pass on the benefits of the higher rate environment to our customers. Going forward, we expect second quarter net investment spread to be consistent with the first quarter. Adjusted operating margin was 38.6% on a trailing 12-month basis, ex notables. While administrative expenses were elevated in the quarter due to seasonal and timing-related spend, our full year expense outlook remains unchanged. Our Wealth Solutions business is well diversified across plan sizes, industries and tax codes. This diversification gives us confidence in our forward-looking revenue and margin targets.

Turning to Slide 12. We remain focused on pricing discipline and excellent service across our health solutions business. This has enabled us to grow annualized in-force premiums above our target of 7% to 10% over the long term. Excluding Benefitfocus, annualized in-force premiums in the first quarter were 15% higher year-over-year. We saw growth across all product lines supported by favorable retention. Our total aggregate loss ratio was 66% on a trailing 12-month basis. This was primarily due to favorable net underwriting in stop-loss and voluntary. Group life returning to pre-COVID levels will be a further tailwind. We expect full year loss ratios to be lower than our long-term target range of 70% to 73%.

Moving to Slide 13. Health Solutions delivered exceptional results in the first quarter generating $94 million of adjusted operating earnings. Net revenues ex notables grew 25.9% on a trailing 12-month basis. This resulted from core business growth and the addition of Benefitfocus fee-based revenues. Adjusted operating margin was 33.5% on a trailing 12-month basis ex notables. Looking ahead, we expect full year margins to be within our 27% to 33% target range. Together with our wealth business, our leading brand and differentiated workplace value proposition gives us confidence in our long-term growth. Moving to Slide 14. Investment Management has a multi-decade track record of generating significant value for our clients across different market cycles. We have continued to invest in our platform and have significantly expanded our capabilities to become a global player. Our total assets under management increased nearly 30% from a year ago reflecting the onboarding of AllianzGI assets. We have generated meaningful net cash flows over the long term. And our organic growth has consistently outpaced the industry including the first quarter of this year. While we did experience net outflows in the first quarter, we generated positive net flows in retail supported by our international distribution.

Additionally, the institutional business continues to see strong insurance channel demand. Although the challenging backdrop has resulted in a slower start to first quarter flows, we continue to expect 2% to 4% organic growth in 2023. Looking beyond this year, we are excited about the growth opportunities in international distribution and the continued expansion in our private and alternative capabilities. Turning to Slide 15. Investment Management delivered adjusted operating earnings of $33 million in the first quarter, net of AllianzGI noncontrolling interest. Net revenues grew 16.8% and ex notables on a trailing 12-month basis. The benefit from the addition of AllianzGI assets was partly offset by macro impacts on fees.

On a trailing 12-month basis, first quarter adjusted operating margin ex notables was 25.4%. In the quarter, expenses were elevated due to timing and higher seasonal impacts. However, there is no change to our full year expectations on expenses. We continue to expect full year 2023 margins to improve by at least 100 basis points on a market neutral basis. Turning to Slide 16. We have a strong balance sheet that supports our capital-light, high free cash flow business model. It provides us with financial flexibility and facilitates the return of capital to shareholders. Key highlights include a robust excess capital position, which is replenished each quarter by our capital-light, high free cash flow model. A strong liquidity position with healthy leverage and cash coverage ratios and a high-quality, well-diversified investment portfolio that will continue to deliver attractive through-the-cycle, risk-adjusted returns.

Turning to Slide 17. Our well-diversified general account should perform well across market cycles. Our investment team has decades of deep sector-specific expertise and our disciplined investment process is focused on balancing required capital and risk-adjusted returns through the business cycle. Our portfolio skews high quality with 96% of fixed maturities being investment grade. It is diversified across asset classes and industries with over 3,000 issuers. In response to the greater level of interest in commercial real estate, we have provided additional details in the appendix, illustrating the significant diversification across our high-quality book. As we look out, our fundamental credit watch list signals limited credit tail risk, and we remain confident in our current excess capital position, free cash flow generation and capital plan. Turning to Slide 18. We continue to take a disciplined approach to returning capital to our shareholders. Over the last 12 months, we generated capital in line with our 90%-plus free cash flow guidance and deployed $1.1 billion of capital. In May, we will redeem approximately $400 million of hybrid debt. We will utilize our PCAP facility to fund this redemption. As a result, we expect to save nearly $20 million of annualized interest expense. Additionally, we plan to increase our common stock dividend to an annual yield of approximately 2% in the second half of 2023, subject to Board approval and continued constructive macro conditions. We are looking to do so, given our confidence in our free cash flow generation.

Finally, we plan to resume share repurchase activity in the second quarter of 2023. Turning to Slide 19. We have generated $5.7 billion of capital since 2018 including capital released from divesting capital-intensive businesses in both 2018 and 2020. Of the $5.7 billion we generated we've deployed $5.5 billion, including $4.5 billion in the form of share repurchases. Our ability to generate consistent cash flow above 90% has been supported by the diversity of our revenue sources and the transition to more capital-light businesses over time. Turning to Slide 20. In terms of our outlook, the expectations we communicated earlier this year about our full year 2023 growth, adjusted operating earnings, cash generation and capital plan have not changed. In addition, we remain on track to achieve our adjusted operating EPS growth target of 12% to 17% over the 3-year period ending in 2024. Our focus is squarely on continued execution of our plans, driving further commercial momentum across all our businesses and continuing to integrate the businesses that we acquired over the last year. And our confidence in our capital generation enables us to resume share repurchase activity in the second quarter and target a dividend increase in the second half of 2023. With that, I will turn the call back to the operator so that we can take your questions.

Question and Answer

Operator

[Operator Instructions] Suneet Kamath with Jefferies. Please proceed with your question.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Just on capital management, I don't want to get too technical, but you've used this phrase assuming market conditions remain constructive a few times in the deck. And I just wanted to unpack that a little bit. You're looking at resume buybacks in 2Q. So I guess the question is, what would you need to see for that not to happen? Is it on the equity market side? Is it on the credit side? Just want to make sure we're all level setting expectations.

Heather Hamilton Lavallee
President, CEO & Director

Good morning, Suneet. Don will take your question.

Donald C. Templin
Executive VP & CFO

Sure. I guess we would say during the quarter, we generated $150 million of excess capital in an environment where there were some macro headwinds, we feel really, really confident in our -- one, our ability to generate capital, and we feel really, really confident in our statement about resuming share repurchase in the second quarter.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

And any size in terms of the buyback that we should expect? for 2Q?

Donald C. Templin
Executive VP & CFO

So at the beginning of the year, we had guided or provided sort of a forecast for the year, and that included a sort of earnings guidance that also included EPS guidance. Embedded in that EPS guidance was an assumption around share repurchase. Our expectations around share repurchase have not changed since we provided that original guidance. We continue to generate capital. Our capital-light business is performing very well in markets as we expected it would do. That's what really gives us the confidence about resuming share repurchase and also actually targeting a dividend increase in the second half of the year.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Got it. Makes sense. And then just the second one is just on the full service business. I think Don, in your comments, you had mentioned that surrenders were a little bit elevated. Just curious what the driver there was. And are there actions that you're taking? I think you talked about crediting rates going up, but actions that you're taking to limit that going forward?

Heather Hamilton Lavallee
President, CEO & Director

Yes. Thank you, Suneet. Rob, will take your question.

Robert Lawrence Grubka
Chief Executive Officer of Workplace Solutions

Yes. So on the full service side, as you noted, it's we feel good about the story overall. What I'd say in full service from a corporate perspective, as you look in the numbers that we provide really strong flow story there. As you look at tax exempt, which is really the call out to a particular plan that left during the year, that really explains most of the delta between '22 and '23 from a flow perspective. And just as a reminder, within tax exempt, you're going to more often see full service even in the larger end of the marketplace. And so it's just something to keep in mind that there is an element of lumpiness within tax exempt that's a little bit different. But when you do the step back and you think about our flow story in the last 5 years, has been tremendous. Last year, a record year, the last 5 years, call it, $9 billion of flows the long-term momentum that I see, you can look back. But obviously, as I have accountability for running it forward, feel really good about what we're seeing, where we've got activity has been good. And again, the balance and item here is sort of what part of the market Corporate is very much an indicator of -- think about the smaller mid part of the market. Really good story there, as I said. And then as we move forward, tax exempt some of the larger cases, we'll have lumpiness. They're great when they come and they hurt a little bit when they go. But the long-term view and why we continue to talk about trailing 12 months is quarter-to-quarter, there's just going to be noise. That's just the way it's going to be but our momentum, our confidence in where we're going and the activity that we're seeing has us feeling good about the full year.

Operator

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

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Thank you very much. Appreciate it, and good morning. Can you maybe talk about the pipeline for Investment Management? I know you talked about earlier 4 new UCIT products being anticipated to launch in areas where it's better and worse from a distribution perspective.

Heather Hamilton Lavallee
President, CEO & Director

Thanks, John. Christine, we'll very happily take your question.

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Certainly, John, I love to talk about the pipeline. So starting with that strong, diverse and you see despite what I would call a very challenging macro environment right now, we're still affirming our 2% to 4% organic growth rate for 2023. And so where are we seeing notable examples of strength like we're really delivering for clients, I would say, notably, private credit investment grade, strong production. And when you think about the covenant protection, the quality of the underwriting that we do, our clients want when the macro environment gets a little rockier to have the assurance of really being able to manage with borrowers and take advantage of those opportunities as well as, as we do see as negative as some of the things going on in the banking industry right now can be. We do see it as a long run opportunity to provide credit and expand our product offering. So that would just be one example of we're seeing momentum. Also, our retail cash flows this year. You saw we flipped positive in the first quarter. And again, that really is the result of the diversification, our global reach in retail. Asia demand is much stronger than we're seeing currently domestically. Although certainly, we're seeing green shoots in fixed income domestically as an opportunity for the rest of the year. So when you think about really the strength of our product offerings, the diversification now that we have globally. Remember the 500 salespeople we like to talk about in 19 countries from our partners, AllianzGI . We just are really confident that despite a lot of turmoil in the market, client sentiment, we will be impacted as well, and we were in the first quarter. But overall, we just see a lot of opportunity to deliver this year with our organic growth target that we said.

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

And then a question on capital generation. It seems really strong in light of some of the near-term challenging market impacts that we're experiencing. Can you maybe talk about the sustainability of that. And is that enhanced by those interest expense savings you're talking about near term?

Donald C. Templin
Executive VP & CFO

Yes. Sure, John. I think what we wanted to do, we have internally been very, very confident in our capital generation capability we've been talking about the actions the management team has taken over a number of years to position us where we are currently I think what we wanted to do, and hopefully, we provided information in the deck that gave you some real confidence about during different market cycles under various scenarios we have consistently delivered in that 90% plus cash generation. And so that historical perspective with the new capital-light business gives us the really strong confidence in our ability to do that going forward. Now I think you also asked about interest expense. So let me just kind of hit on that point, if I could. You'll recall, so we had some hybrid debt. That hybrid debt, the interest on that hybrid debt was going to reset this month. And that resetting was going to take that interest expense number to over 8.5% or approximately 8.5% interest. So we felt it was really prudent to do something to try to minimize the impact of that very significant increase in interest expense. We had a facility available to us that was put into place in 2015 for -- to really support a business and a different type of scenario, but we use that PCAP facility. We will essentially issue senior debt that will have a 4% interest rate replacing the hybrid debt that was going to be in the 8.5% interest rate ZIP code. So that, we think, was really a prudent move to make sure that we are managing our expenses I might also just observe that it doesn't change our outstanding debt at all. All we're doing is replacing the hybrid debt with this new senior debt. So there's no reduction of debt. There's no deployment of capital to reduce debt this quarter. It's really just the facility of funding the new debt or funding the redemption with the new debt.

Heather Hamilton Lavallee
President, CEO & Director

And maybe if I -- John, if I can just add on. As Don was talking about that, the immediacy of the $20 million save in interest expense is important. But I think to me, the bigger voiceover is our confidence in our 90% to 100% free cash flow conversion, hopefully evidenced by our announcement of our intent to increase the dividend to give investors confidence in our ability to drive both commercial momentum, but really in our cash flow generation and capital deployment.

Operator

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

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

First, a question maybe for Dan or someone else on just if you could give us a little bit more color on the expenses this quarter. What exactly drove the uptick and what gives you the confidence that they'll decline in future periods because I assume there should be some sort of level of consistency and expenses, but you're implying a significant decline in 2Q versus 1Q?

Donald C. Templin
Executive VP & CFO

Yes, Jimmy, thank you for that question. So we always experience seasonal expenses. This quarter was obviously first quarter was no exception. But the magnitude of the increase was impacted by a number of things. So let me just point two things that I think are important. One, we are growing our business, and we're proud of being in a position that we're growing our business. But that increased growth in the business also impacts the increase in the seasonality of the expenses. So a really good example would be AllianzGI . I mean, obviously, that's been a fantastic transaction for us. We're really excited about what it offers, but it did bring some increased seasonality to expenses in the first quarter of 2023 when compared to the first quarter of 2022.

The other thing that happened this quarter is we're being very, very intentional about front-loading our expenses that are focused on customers. Both Christine and Rob were talking about sort of our confidence in building the pipeline, where we get a confidence in building the pipeline by being out in front of customers and really marketing ourselves. So some of our expenses that we incurred this quarter were very intentional so that we could gain confidence about what's going to happen in the remainder of 2023 and in 2024. In the materials that we provided in the earnings deck, there's guidance then for the second quarter around both Wealth Solutions and Investment Management. So we were guiding that expenses would be about $25 million to $30 million less in the second quarter for Wealth Solutions and about $15 million to $20 million less for the second quarter for investment management. you should assume that, that reduction will basically continue on through the remainder of the year. We probably could have said those reductions would be for the first quarter and beyond as opposed to just -- second quarter and beyond as opposed to what we've included in that. So I think you should assume that expenses will be reduced significantly reduced in the second quarter and then relatively flat for the remainder of the year.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Yes, I was just going to ask on the pipeline in Asset Management. So your comments have been positive and I think going forward, they're positive as well. But is there a -- you had negative flows in institutional this quarter, and I'm assuming part of that is just the environment overall. Is there a possibility that given the uncertain environment that some of the sort of mandates do not fund. Just trying to get an idea on your confidence in the 2% to 4% guidance for organic growth.

Heather Hamilton Lavallee
President, CEO & Director

Thank you. Christine will take that.

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Certainly. Thank you. Yes. So let's first talk about what happened in the first quarter because -- so in the first quarter, when you look at institutional flows, they were negative. And in addition to the overall macro environment, we do have a bit of a unique situation that we've talked about, which we call the off-ramp and the on-ramp of international distribution. And let me explain, is that a reasonable portion of our institutional outflows in the first quarter were related to existing clients and relationships that we had that were either in Japan or Europe. So think that we have this natural headwind coming from the evolution away from NNIP, if you will, is our strategic distribution partner to Allianz. And the thing with Allianz is that the on-ramp is more likely going to really manifest itself for new products when you think of the second half of '23 and certainly into 2024. So I would call that sort of unique to Voya, but something that we expect, and it's built into our 2% to 4% organic growth rate. But then beyond that, the confidence -- we have seen some slowdown in commercial real estate demand and production. It would be another headwind to institutional, again, that's factored into our institutional flows. But overall, you've seen we've outperformed competitors. We're seeing increasing demand in our credit strategies, just given the attractiveness of the yield environment and the exceptional quality of what we deliver as well as when you think about our onboarded new strategies that we got from the Allianz GI transaction, a lot of potential there. I mean, just as a reference point, the income and growth franchise is formidable. And it is a 5-star morning rated funds within North America, just to give you a sense of the performance that particular strategy is delivering, which also goes to the strength of some of our retail cash flows as well.

Operator

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

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Good morning. First question is around the nice move in the dividend up to 2%. Curious as to what made you frame it at 2% as opposed to 3 or 1.5. Like what was the thinking there? And then how are you going to think about the dividend going forward?

Heather Hamilton Lavallee
President, CEO & Director

Yes, Andrew. And maybe I'll start and let Don follow on. I mean a part of it was getting it to a level that we believe put us more on equal footing with our peer companies and others in the sector and also to a level that we believe would attract new investors really looking for value and growth. But let me ask Don to elaborate.

Donald C. Templin
Executive VP & CFO

Yes. So I think that the backdrop and what we were trying to accomplish, Heather has articulated that. I think you then asked the question about what are we thinking about going forward. So we want to make sure our bias is to have a competitive dividend, and we think that an increase to that 2% level gets us to that level. Then what we want to do is make sure that we are appropriately increasing that dividend over time. But that -- those increases need to be affordable and not put incremental stress on the organization. So we are going to fund future dividend increases in 2 ways: one, by the natural growth of the firm. And then secondly, we're going to fund it by the capacity that we acquired by reducing the share count through share repurchases. So we want to make sure that we are able to have competitive dividend that grows over time, but the increases in the dividend don't put undue stress on the organization. So we are going to fund it through organic growth, and we're going to fund it through a reduction in the number of shares that are outstanding.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Makes a lot of sense. And then you had some really good slides in the appendix, in particular, looking at the commercial loan portfolio, and you've got an average weighted LTV of 45%. The commercial office looks like it's only 2% of that portfolio. I mean just good numbers, but one question I've been having, and this is even beyond Voya is how accurate are these LTVs? I suspect you marked them at the end of the first quarter. But is there enough discovery in those portfolios to be really comfortable with those LTVs? I get that question a lot from clients. So I'm curious as to what Voya's thinking is around that?

Heather Hamilton Lavallee
President, CEO & Director

Yes. Thanks, Andrew. Great question. And Christine, we'll address it.

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Yes, absolutely. So when you look at the LTVs of our commercial loan portfolio, you see 45%, right? So very high quality, very competitive. Now to your question, as far as NII and external appraisals, we do not go out and get those on a regular basis. And if you take a look at our portfolio, you see it's a lot more diverse in terms of number of loans, we have no loan above $100 million. So I think lots and lots of loans very diversified just isn't practical, it'd be very expensive to go and get external ratings every year. So we do get them at the time of origination. We do get at a minimum annual cash flows and for office quarterly cash flows. And so the team is reunderwriting internally the loans with great vigor. So overall, we feel really great about it.

Another thing to mention, we do not include -- we have a lot of amortizing loans. So when you think about that, relative to LTV, you're not capturing the fact that the properties are naturally delevering. And I would say about commercial real estate. The last thing I want to leave you with, I feel so confident about this. Is that 99% of our portfolio is debt. So think about no matter what your LTV, equity gets hit first. If a property goes stark or something happens, and we are a debt lender. So I think the power of the story of our commercial real estate portfolio goes well beyond the statistics when you think about where we are in the capital stack. And then I'm going to thank you for the questions so much. I'm going to give a final slug for giving me everyone on the call about our clients.

When you manage assets for external clients, and remember, we have over 60 insurance companies that we manage assets for. We can't really disclose to you in a very clean way the performance of our private asset classes. and what we're delivering. But no, we tell them, we eat our own cooking, we invest along beside them. And you really gain client trust and momentum when the world gets rough. And we're a great partner, one more plug, no delinquencies in our commercial real estate loan portfolio today. And so you can see when you look at Voya and how we're delivering for the general account, I think that, that is the relationship we are building with our clients and we are confident that, that's going to pay dividends and market share inflows for years to come.

Operator

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

Erik James Bass
Autonomous Research US LP

First one on your EPS outlook. And the starting point for your '21 to '24 EPS growth outlook moved down from $5.9 to $575 million. given the impact of LDTI, but you're still guiding to 12% to 17% growth CAGR. So is the movement in the starting point does have a material impact on what it implies for 2024 EPS. So should we now think about the higher end of the growth range as being more of your goal given the lower starting point?

Donald C. Templin
Executive VP & CFO

Yes. So Eric, it's unfortunate that we have to deal with LDTI and it's sort of recasting prior periods and then the measurements are from new numbers. So maybe if you just sort of allow. Let's focus sort of from here going forward, and we can give you some real confidence in how we feel about the business. But at the beginning of the year before the LDTI recast, we were guiding to that 12% to 17% -- 12% to 17% EPS increase. And reconfirming it for that 3-year period as well. Nothing in our outlook around the absolute performance has changed. So our view around adjusted operating earnings that we were going to deliver in 2023 has not changed. Our view around the adjusted operating earnings that we were going to deliver in 2024 has not changed. Our view around the capital plan, repurchase of shares that we were going to do in 2023 has not changed. Our view around that in 2024 has not changed. So we feel really, really good about the underlying business, there's been some noise because of LDTI, and there's also a little bit of noise because of the warrants. You know that they expire this month. And one of the things that's happened is there is dilution as a result of sort of the warrant expiration. Those were priced in the mid-40s. And so it's impacted by our stock price. You'll recall that we gave some sensitivities historically, a mid-60s stock price would have had about 7 million shares of dilution, a mid-70s share price has about 10 million shares of dilution. Our share price has improved. We think that's really good. We think that's good for our investors, but it is having an impact because it's increasing the denominator in our EPS calculation. But as it relates to the core business, nothing has changed. We remain very confident in the guidance and forecast that we provided at the beginning of the year.

Erik James Bass
Autonomous Research US LP

That's helpful color. And then maybe just ask about the benefits ratio outlook for the health business. Is that just -- I guess, is your guidance to exceed or come in below the 70% to 73% that just related to the strong 1Q experience? Or do you think margins are going to continue running favorable to expectations near term? And if so, what's driving this?

Heather Hamilton Lavallee
President, CEO & Director

Yes. Thanks for the question, Eric. Rob will take that.

Robert Lawrence Grubka
Chief Executive Officer of Workplace Solutions

Yes. No, the guide below what we would have expected is absolutely driven by what we saw in 1Q I think as you step back and look at the products, just as a reminder, stop loss, we're going to -- every year, we get a practice a lot of underwriting and see what the experiences look like. The market, the competition in the market, all those things will put pressure on where the loss ratio ends up in the future. As we sit here today, obviously, a great first quarter. We'll see how the rest of the year plays itself out. We feel good about the foundation of it. But I -- there's nothing there that says, Oh, okay, now we shouldn't think about for stop loss, in particular, 77% to 80% being our long-term view. That's just where we would continue to think about it at. In the life and disability world, and obviously, as a reminder, again, we don't keep the disability risk, we reinsure the bulk of that. From a life perspective, again, I'd give you a similar answer. 77 to 80 is sort of what we think of as the right long-term answer. First quarter as we've experienced here a bit on the higher end of that or above the 80%, but typical of a more normalized life mortality environment, maybe typical is not exactly the right word. But as we think about the long-term forward view, again, we still think where we play, 77% to 80% makes sense.

A little bit more nuanced on the supplemental health side of things, the voluntary products, again, performed well for us over the last handful of years. We've done a really good job maturing and growing that business. And continue to think that we will put upward momentum to the loss ratio, just as cases come up to renewal, given that good experience, you'd expect there to be competition there. And then things that we're trying to do from a customer value perspective from a claims and claims integration process and trying to improve that and just make the usage of those benefits easier, simpler for the end consumer is a big part of where we want to just continue to improve what we're doing in market and the value that those products provide. But yes, back to where you started. 1Q is going to be a driver as we think about the full year view and then would expect it to revert back into the range that we established.

Operator

Our next questions come from the line of Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Yes. I just wanted to clarify, I'm sorry, I joined the conference late, a lot of calls today. Jimmy was asking about the investment management expenses, and you talked about the AllianzGI front load expense in the quarter going down. what were those expenses? And do we need to think about them in 1Q '24 or are they onetime in nature for the transaction?

Heather Hamilton Lavallee
President, CEO & Director

Thanks, Josh. Don will start and Christine of for some follow-on.

Joshua David Shanker
BofA Securities, Research Division

Yes. So in our adjusted operating earnings, those would be -- those are generally recurring expenses the sort of the onetime expenses related to both AllianzGI and the Benefitfocus acquisition are actually in the nonoperating expenses. So our base is bigger. Our base next year, when you're comparing 2024 to 1Q 2023, that same increase in size will be -- will manifest itself. So the stuff around the integration and the acquisitions are below the line or in nonoperating, the stuff that relates to our normal operations are in adjusted operating earnings.

Robert Lawrence Grubka
Chief Executive Officer of Workplace Solutions

And so we should anticipate the seasonality will be a recurring feature of your investment management results over time.

Donald C. Templin

Executive VP & CFO

Correct.

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Yes. And Josh, this is Christine. And let me just add a little bit more color, if you will, to investment management specifically. And so just as Don covered, certainly seasonal impacts transactions, et cetera. But when we think about expenses, I just want you to know, I mean, we -- it's rather always like to say hands are firmly on the wheel. And what do I mean by this is that we continue to be very vigorous in managing expenses. And there are some expense synergies that have occurred as a result of the Allianz transaction in terms of where is the business scaled, where can we consolidate some of the investment capabilities and therefore, reduce our overall investment staff. So we're working very hard. We continue to really evaluate products, where does it make sense, given we've gone from very domestic to now globally focused to really streamline some of the products that we offer. So I just wanted you to know that. We're affirming our operating margin target expansion. We're affirming our organic growth and of course, a very important part of that story is also being very prudent with our expenses, looking for opportunities there as we continue to also free up capacity to put our money behind our highest growth strategies such as private markets.

Heather Hamilton Lavallee
President, CEO & Director

Josh, maybe I'll just add 1 point and then toss it back to Don for a second. We're right on track with where we expected to be with our integrations, both with AllianzGI as well as Benefitfocus. But I'll also to Don, just to give a little bit of a forward look on the integration costs.

Donald C. Templin
Executive VP & CFO

Yes. So we talked about seasonal expenses in core operations. Those will be there. We had about $56 million. This is nonoperating expenses this quarter primarily attributable to the closing of the Benefitfocus transaction and integration of both Benefitfocus and AllianzGI. We would expect next quarter that, that number would be less than half of the current numbers. So those sort of one-off costs related to the integrations, those are -- and transaction closings. Those will be reducing meaningfully, but the seasonal costs, they will recur annually.

Operator

Our next question comes from the line of Ryan Krueger with KBW.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

I had a question on spread income within wealth. I know you talked about that being flat in the second quarter. I guess in general, from here, should we think about it being pretty flat with additional upside from higher interest rates largely being passed through to your customers?

Robert Lawrence Grubka
Chief Executive Officer of Workplace Solutions

Yes. I think the -- again, to just level set on the 1Q to 2Q, you've got that or heard that right. We'd expect to be in that ZIP code from a dollar of spread income. As we look forward, there's certainly some implied view on what crediting rate movement will be in the future. And those are decisions we get a mate when we have more information. We started the year with a move that we put into place 1-1. We're adding another move that will be effective for 5-1 in we're just as much as we can control what we can control around those decisions but also make them at a point in time we've got better insight and understanding of where the market has tended to go and how our portfolio is behaving and the movement of money in and out of the fixed account obviously plays a role in the decision-making and competitor feedback and those sorts of things all get factored in.

So look, I think we're trying to strike that balance of margin preservation but customer value. the age-old thing to do and feel good about, again, the movement from 1Q to 2Q is clear. We'll continue to share information and thinking as we have further calls in the future.

Operator

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

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Just had a question on the investment side and about capital allocation. If I look at your disclosure, the one thing that Voya stands out a little bit on is your allocation to LP and equities, assuming most of that's private equity is on the high side, it's 6% of your total investment portfolio. I guess my question is this. To me, that probably made a lot of sense when rates were low. But when I consider the much higher capital charge in some cases, north of 20% that you have for that asset class, and I believe your assumed return is 9%. And I compare it to what you can get on certain we'll say, relatively low risk fixed income investments where you can maybe get 6 or 7 today. It's just not that much of a spread, and you can get it with like a 2% to 3% capital charge. So my question -- sorry for the long-winded lead into the question, but when you think about that, does it make sense to pivot down and shrink the allocation to alternatives like right now from a new money perspective, just considering that difference in risk charge relative to return?

Heather Hamilton Lavallee
President, CEO & Director

Tom, we'll have Christine elaborate. But overall, we're actually very comfortable with our private allocation in the general account, Christine?

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Yes. I mean and just taking a step back, when you look at the percentage of investment-grade assets that our overall portfolio has is incredibly strong. When you think about the low investment grade. And so 4% of the book let's talk about that within private equity allocations. Certainly, we have primary allocations as well as secondary, highly diversified book. And you invest in this strategy. Number one, we're underweight relative to the industry. Number two, you invest for the long run in value creation. And so money is drawn down and deployed not at one point in time. But over time, particularly when you think about Pomona that invests money for us on the secondary side. So again, it's diversification. And listen, there's just a pricing and adjustment in terms of where a private asset class is priced relative to public because public, if you think about last year duration sold off so quickly, but private asset classes demand value creation, access to great opportunities as well as over time, handily outperform typically public asset classes. So we don't see that as changing. So we're very comfortable. We have a very clean good portfolio, high investment-grade quality, and as we were saying, and it filters into all the thoughts about capital planning scenario analysis. We just want to reaffirm our confidence that we are very happy with our asset allocation.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. So no change to lower the allocation to alternatives is what I hear, Christine. Is that fair?

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

That's fair. I mean, I would say when you think of the context of the overall portfolio, I would almost put us generally in terms of having dry powder overall. In terms of where we could deploy. And this is a good thing. As an investor, you love going into cycles with a really clean balance sheet as an investor in portfolio opportunities.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

And then just my follow-up. I know you were asked about commercial mortgage loans before, but that's kind of a tiny percent of your portfolio. The much larger exposure to CRE is on CMBS. And the one thing that, I guess, stands out a little bit for Voya is you have more BBB, and I look at where spreads have gone in BBB and they've blown out pretty wide. Just curious what your outlook is there. Is that something we should be watching for? Do you have any expectation of losses on that portfolio? Any help or perspective on that would be appreciated.

Christine Lynn Hurtsellers
Chief Executive Officer of Voya Investment Management

Yes, certainly. So you've got a couple of really good questions embedded in there. So let me start off with the CMBS portfolio. So when you take a look at it, we've got on Slide 33 in the presentation. some detail for you. So you can see what we really -- we have, and you can see very strong investment quality. Now when you think about BBB as a company, and what are our concerns there? I would say the BBB exposure that we have is predominantly in our credit portfolio, and it's very intentional, and it's -- there's a real tilt to private credit in BBBs. And when you think about BBBs, overall, our BBB exposure, only 1/4 of that would be towards BBB-. So think higher quality. Why is this not concerning us when we're looking at our downgrade risk and capital management, we love BBB private credit because you're going to get debt service coverage ratios, all kinds of covenant protection I would tell you with our history, we've had better credit performance when the world gets dark on BBBs due to that covenant protection than A quality corporates because you want to be their first right? When the world gets dark and negotiate and you have a lot of way home.

So overall, when we think about that, we're very confident with our overall level of risk. And within our CMBS portfolio specifically, when you look at that, A lot of that is actually agency backed, and we broke that out for you. So again, we view the portfolio overall as high quality. Certainly, you can have some idiosyncratic things that go bump in the night whether it's in that portfolio or generally. But overall, we're very confident from where we stand.

Operator

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

Heather Hamilton Lavallee
President, CEO & Director

Looking ahead, we will continue to execute on our strategy, integrate our acquisitions and focus on achieving our growth objectives. The focus on the needs of our customers and clients will drive our commercial momentum and our continued prudent capital management, including our plans to increase our dividend yield and resume share repurchases will also support our focus on creating further shareholder value. We look forward to updating you on our progress. Thank you, and good day.

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