REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WTW.OQ - Q4 2021 Willis Towers Watson PLC Earnings Call

EVENT DATE/TIME: FEBRUARY 08, 2022 / 2:00PM GMT

OVERVIEW:

Co. reported 4Q21 reported revenue of $2.7b, income from operations of $687m, adjusted operating income of $868m, diluted EPS from continuing operations of $4.54 and diluted EPS (including discontinued operations) of $19.19.

CORPORATE PARTICIPANTS

Andrew Jay Krasner *Willis Towers Watson Public Limited Company - CFO*

Carl A. Hess *Willis Towers Watson Public Limited Company - CEO & Director*

CONFERENCE CALL PARTICIPANTS

Brian Robert Meredith *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Charles Gregory Peters *Raymond James & Associates, Inc., Research Division - Equity Analyst*

David Kenneth Motemaden *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

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

Mark Douglas Hughes *Truist Securities, Inc., Research Division - MD*

Mark Steven Marcon *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Meyer Shields *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Michael David Zaremski *Wolfe Research, LLC - Research Analyst*

Michael Wayne Phillips *Morgan Stanley, Research Division - Equity Analyst*

Paul Newsome *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Ryan James Tunis *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Yaron Joseph Kinar *Jefferies LLC, Research Division - Equity Analyst*

PRESENTATION

Operator

Good morning. Welcome to the WTW Fourth Quarter 2021 Earnings Conference Call. Please refer to wtwco.com for the press release and supplemental information that was issued earlier today. Today's call is being recorded and will be available for the next 3 months on WTW's website.

Some of the comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those discussed today, and the company undertakes no obligation to update these statements unless required by law. For a more detailed discussion of the other risk factors, investors should review the forward-looking statements section of the earnings press release issued this morning as well as other disclosures in the most recent Form 10-K and in other Willis Towers Watson SEC filings.

During the call, certain non-GAAP financial measures may be discussed. For reconciliations of the non-GAAP measures as well as other information regarding these measures, please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website.

I will now turn the call over to Carl Hess, WTW's Chief Executive Officer. Please go ahead.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Good morning, everyone, and thank you for joining us for WTW's Fourth Quarter 2021 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer.

I'm pleased to be here today for my first earnings call as WTW's CEO. I've officially been on the job for about 6 weeks, and it is truly an honor to lead this company. WTW looks very different than it did over 30 years ago when I first joined the company, and it's been an extraordinary journey, one defined by continuous innovation and change.

As we move forward as an independent company, we recognize the need to grow, simplify and transform. Our recently refreshed brand and new magic stock ticker, WTW, are key signals of this new era. Our new brand evolves our identity to both reflect our rich history and also inspire our future. We may have a new brand, a new ticker and a new leadership team to set us on a bolder path, but certain things will never change: our client focus, teamwork, integrity, respect and excellence. These are our values. They are in our DNA and at the core of everything we do. WTW leadership and colleagues are excited about this bold new approach, and we hope you are, too.

I'm pleased to report that we continue to see progress in our independent path forward. As we mentioned back in October, we executed on our incentive plans, which provide both short-term and long-term retention benefits, and these have been well received. We've also seen significant measurable improvements in colleague engagement.

Meanwhile, the pace at which we've been attracting new talent to fuel our path forward has been truly impressive. We hired more people in the second half of 2021 than we hired during the entire year in 2020, and the elevated attrition levels we saw in '21 are behind us. We also made some early progress in our transformation program, which Andrew will expand upon later in the call. Last but not least, we've been steadfast in applying financial discipline as illustrated by our full year margin to year-over-year margin improvement.

As crude stewards of our financial assets, we plan to continue our emphasis on returning capital to shareholders through share repurchases, which we believe provide the highest return opportunity. We're encouraged by the progress we're making on our strategic initiatives. While we have hard work ahead of us in 2022, we're kicking things off with renewed energy and conviction. Our talented colleagues will strive to meet and exceed the expectations of the clients and individuals we are privileged to serve.

In the current environment, our clients are striving to create continuity and clarity in an environment of ongoing disruption. Future-focused leaders acknowledge that risk has become a mainstream element of business decisions and will remain so. Today, the frequency and complexity of threats continue to increase due to factors including geopolitics, economic volatility, population health, climate change, supply chain, talent and technology.

To combat threats and create opportunity, organizations must connect current and future risks; act on environmental, social and governance and sustainability commitments; and build organizational resilience. The time to act is now. WTW's unique perspective connect solutions, strengthens organizations and helps clients better prepare for and thrive in an uncertain future.

For example, WTW designed the world's first parametric insurance solution for Belize's sovereign debt restructuring. This unique transaction includes targeted insurance protection to cover Belize's loan servicing obligation in the event of certain natural catastrophes such as hurricanes. Hurricanes can create large-scale devastation and disruption to economic activity, thereby halting development. The custom solution allows Belize to focus scarce financial resources on recovery rather than debt servicing and reflects WTW's commitment to using our expertise to shape and fortify resilience in the communities we serve.

Before we discuss our fourth quarter results, I want to take a moment to directly address our talented and valued colleagues. We have an exciting future ahead, filled with opportunity, and I'm delighted you're here to be part of it. Thank you for your hard work and dedication, and most of all, thank you for your commitment. I'm truly appreciative of your efforts to drive our vision to be the best company in the business and achieve our full potential as One WTW. I'm proud of the company we've built, and I'm excited to be leading us through the next phase of our journey.

So now let's turn to our financial results. Please note that all metrics referenced are on a continuing operations basis, except where stated otherwise. As a reminder, we substantially completed the sale of Willis Re on December 1, 2021. We recorded a gain of $2.3 billion in connection with the disposal of Willis Re. That gain is included in many of our GAAP profitability measures, which we'll point out as we move through the commentary.

Overall, our results lined -- aligned with our expectations. But to be crystal clear, they do not reflect the near- and long-term potential of this company to drive organic growth and margin expansion. As mentioned earlier, our hiring levels are among the highest in recent history, and we're confident that the peak of colleague departures is behind us.

For the full year, we posted 6% organic revenue growth, and our adjusted operating margin was 19.9%. While the results reflect the expected delayed impact of disruptions experienced earlier in 2021, the underlying strength of our business and our early progress on executing our strategy gives me confidence that we remain on track to deliver strong shareholder value over the longer term.

Reported revenue for the fourth quarter was $2.7 billion, up 1% as compared to the prior year fourth quarter, up 2% on a constant currency basis and up 4% on an organic basis. Income from operations was $690 million or 25.5% of revenue for the fourth quarter as compared to $579 million or 21.7% of revenue in the prior year fourth quarter. Adjusted operating income was $868 million or 32% -- 32.1% of revenue for the quarter, up 170 basis points from $812 million or 30.4% of revenue in the same period last year.

For the quarter, diluted earnings per share, which include discontinued operations, were $19.19 as compared to $3.66 in the fourth quarter of prior year. Adjusted diluted earnings per share were $5.67 for the fourth quarter, reflecting an increase of 9% when compared to $5.19 in the prior year.

Now let's take a look at each of our segments in more detail. To provide clear comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. Segment margins are calculated using segment revenue and exclude unallocated corporate costs such as amortization of intangibles, certain transaction and integration expenses resulting from mergers and acquisitions as well as other items which we consider noncore to our operating results. The segment results include discretionary compensation.

The Human Capital & Benefits, or HCB, segment revenue was up 3% on an organic basis and constant currency basis compared to the fourth quarter of the prior year. For the full year of 2021, HCB revenue grew 3% organically. Technology and Administration Solutions revenue grew 11% in the fourth quarter primarily due to increased project work in Great Britain and Western Europe.

Our Health and Benefits revenue increased 6% for the quarter. The increase reflects robust demand in H&B consulting and a gain recorded in connection with a one-off book of business settlement, offset by slower growth in brokerage. The settlement relates to an isolated incident of senior staff departures earlier in 2021.

Talent and Rewards revenue increased 3% in the quarter, following growth of 17% in Q3 and 22% in Q2. Throughout the year, this growth has represented a rebound from the 2020 slowdown in discretionary projects, plus increasing market demand, particularly for products like compensation benchmarking surveys. The lower growth in Q4 relative to the prior 2 quarters reflects the typical seasonality of compensation survey sales, which peaked in Q2 and Q3, as well as some capacity constraints for advisory services. With expectations for continued strong demand in product and advisory services and having ramped up hiring in the fourth quarter, we are well positioned.

Retirement revenue was down 1% compared to the prior year fourth quarter, with increased funding and Guaranteed Minimum Pension equalization work in Great Britain offset by declines in North America due to a reduction in work in Canada to implement regulatory changes and lower demand for bulk lump sum projects.

HCB's operating margin was 31.2% for the fourth quarter compared to 31.3% in the prior year fourth quarter. On a full year basis, HCB's operating margin improved to 27.0% from 26.0% in the prior year. Year-over-year, excluding the impact of currency and gains from book of business settlements, HCB's margin declined by 150 basis points for the fourth quarter but increased by 90 basis points for the full year. The fourth quarter margin declined as a result of higher expense growth driven by hiring to meet expected strong market demand as we build capacity for robust revenue growth. The full year margin increase reflects continued sustainable expense reduction efforts.

Historically, HCB has had industry-leading margins, and we believe that trend will continue. HCB's overall market tailwinds should continue to drive organic growth momentum for HCB. Both our near-term and long-term outlook on the segment remain positive, and our expectations for revenue growth are unchanged from what we communicated at Investor Day, mid-single-digit growth.

Now let's look at Corporate Risk & Broking, or CRB, which had a revenue increase of 1% on an organic and constant currency basis as compared to the prior year fourth quarter. For the full year of 2021, CRB revenue grew 5% organically. Our hiring levels are the highest in recent history, and colleague departure levels have decreased. North America's revenue was up by 4% in the fourth quarter, including gains recorded in connection with book of business sales and settlements. The book sales and settlements relate to producer departures occurring earlier in 2021.

International's revenue increased 10% compared to prior year. There was strong performance in M&A in Asia and Australasia and natural resources in Eastern Europe. Latin America also contributed to International's revenue growth with new business wins in Brazil and Central America. Great Britain's revenue declined 5% as a result of lost business and timing. The decline reflects the delayed impact of disruption from earlier in 2021. Revenue for Western Europe was down 5% due to the departure of senior staff prior to the deal termination, which continue to pressure the business in certain geographies. Although earlier departures have hindered our growth for several quarters, we are seeing some positive momentum. New client wins include one of the largest commercial and retail banks in the region.

CRB's operating margin was 31.2% for the fourth quarter compared to 32.3% in the prior year fourth quarter. On a full year basis, CRB's operating margin improved to 23.0% from 21.2% in the prior year. Excluding the impact of currency and the benefit of book and business sales and settlements, the margin declined 240 basis points for the fourth quarter, but increased by 80 basis points for the full year. The fourth quarter decline was mostly due to investments to support future growth.

The full year margin expansion reflects the continuation of effective cost management. CRB's organic growth trailed industry expected averages for the last 3 quarters of '21 primarily as a result of elevated colleague departures and reduced hiring during the period when the business combination was pending, 2 trends that we believe are now behind us.

Currently, we expect to see lower growth in the first half of 2022 compared to the second half of 2022 as the gap versus industry expected averages narrows. While events in previous quarters have challenged us and temporary headwinds from those events remain, our outlook for CRB remains positive with mid-single-digit revenue growth over the longer term.

Turning to Investment, Risk & Reinsurance, or IRR. Revenue for the fourth quarter was $199 million, an increase of 32% on an organic basis and a decrease of 2% on a constant currency basis as compared to the prior year fourth quarter. IRR revenue includes a gain from a book of business settlement, which relates to reinsurance assets that did not transfer in connection with the sale of Willis Re.

IRR excludes all other revenue associated with the Reinsurance line of business, which has been reported as discontinued operations. It also excludes revenue from Max Matthiessen, which was sold in September of 2020; and Miller, WTW's wholesale broking subsidiary sold in March of 2021. These sales account for the wide disparity between organic and constant currency.

The Insurance Consulting and Technology, or ICT, business, where revenue was up 5%, led the segment's growth with increased demand for advisory work alongside technology sales. Our investment businesses grew revenue by 11% from new business, growth in delegated assets under management and, to a lesser extent, increased performance fees.

IRR's operating margin was 25.3% for the fourth quarter compared to 12.5% in the prior year fourth quarter. On a full year basis, IRR's operating margin improved to 19.5% from 14.5% in the prior year. Excluding the impact of currency and the benefit of book of business settlements, the margin declined 240 basis points for the quarter, but increased by 220 basis points for the full year.

The fourth quarter decline was primarily caused by the headwind created from divestitures. The prior year fourth quarter margin includes the contribution of the now divested Miller subsidiary, while the current year fourth quarter margin does not, which distorts comparability. Miller subsidiary was sold in March of 2021. The full year margin expansion was the result of careful cost management efforts, combined with strong top line growth from the 2 businesses that remain in IRR, ICT and investments.

Turning to the Benefits Delivery & Administration segment, or BDA. Revenue increased by 5% on an organic and constant currency basis from the prior year fourth quarter. The growth in revenue was largely driven by Individual Marketplace due to a favorable shift in the revenue timing for our B2B Medicare exchange business, along with continued strength in our direct-to-consumer business. The Benefits Outsourcing business also contributed significantly to BDA's revenue growth with increased project work driven by temporary federal policy changes affecting group health care plans.

BDA's operating margin was 49.2% in the fourth quarter and 22.4% for the full year, having declined year-over-year by 110 basis points and 150 basis points, respectively. The year-over-year margin decline for both the fourth quarter and the full year was the result of increased investing in resources for the 2022 annual enrollment period, coupled with headwinds on lead conversions. The BDA segment has posted 10% organic growth for 2 consecutive years, and we continue to feel positive about the momentum of this segment.

Overall, our financial results for 2021 are in line with our expectations, reflecting the complexity of navigating a significant strategic shift along with some bright spots, highlighting our commitment to profitable growth. I'm pleased we effectively managed our cost and delivered margin expansion and adjusted EPS growth despite top line growth pressures.

In closing, I want to reiterate my gratitude to our colleagues and also thank our clients and shareholders for their support. I believe the company is well positioned to capitalize on the opportunities that lie ahead. I look forward to reinvigorating growth and to successfully executing our transformation plan. I am confident the best is yet to come as we boldly look to lead and shape our industry going forward.

And with that, I'll turn the call over to Andrew.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Thanks, Carl. Good morning, everyone. Thanks to all of you for joining us. As expected, the fourth quarter performance faced headwinds from the delayed impact of disruptions from earlier in the year. They reflect the challenges we've previously identified and are actively working to address. To that end, we continue to push forward with our strategic goals as we finished up the year and made some early progress on our transformation efforts.

In the fourth quarter, we incurred restructuring charges totaling $26 million. From the actions taken in 2021, we expect to have annualized savings of $20 million, primarily from the reduction of real estate costs, the benefits of which will be recognized in 2022. The $20 million gets us 2/3 of the way towards our $30 million annualized run rate savings goal for 2022.

For the full year 2021, we generated profitable growth, increasing adjusted operating margin to 19.9% from 18% in the prior year. The adjusted operating margin expansion was comprised of 150 basis points of underlying growth stemming from financial discipline. This was coupled with around 100 basis points of growth from gains on book of business sales and settlements partially offset by around 60 basis point headwind from prior divestitures and FX.

The expansion of our adjusted operating margin, despite top line growth pressures, highlights our dual commitments to growing profitably and focusing on cost management. As a result, we continue to expect margin improvement each year as we deliver on our 2024 margin goals.

Now I'll turn to the overall detailed financial results. Income from operations for the fourth quarter was $687 million or 25.4% of revenue, up from the prior year fourth quarter income from operations of $579 million or 21.7% of revenue. Adjusted operating income for the fourth quarter was $868 million or 32.1% of revenue, up 170 basis points from $812 million or 30.4% of revenue in the prior year fourth quarter.

For the fourth quarters of 2021 and 2020, our diluted EPS from continuing operations were $4.54 and $3.62, respectively. For the fourth quarter of 2021, our adjusted EPS was up 9% to $5.67 per share as compared to $5.19 per share in the prior year fourth quarter. Further, discontinued operations represented a $14.64 loss on a diluted EPS basis for the fourth quarter of 2021 and a $0.04 on diluted EPS basis for the fourth quarter of 2020. Total diluted EPS, including both continuing and discontinued operations, increased to $19.19 for the fourth quarter of 2021 compared to the prior year fourth quarter of $3.66.

Foreign currency rate changes caused a decrease in our consolidated revenue of $19 million or 1% of revenue for the quarter compared to the prior year fourth quarter with a $0.06 headwind to adjusted diluted earnings per share this quarter.

Our U.S. GAAP tax rate for the fourth quarter was 20.8% versus 19.5% in the prior year. Our adjusted tax rate for the fourth quarter was 21.1%, up from the 17.6% rate in the prior year. The increase was due to the geographic distribution of profits.

Turning to the balance sheet. We ended the fourth quarter with a strong capital and liquidity position with cash and cash equivalents of $4.7 billion and full capacity on our undrawn $1.5 billion revolving credit facility. WTW remains well positioned from a liquidity perspective. We continue to have significant financial flexibility, which allows us to invest in transforming the company's operations to unlock growth potential while simultaneously returning capital to shareholders.

Free cash flow, which includes discontinued operations, was $1.9 billion in the year ended 2021 compared to $1.6 billion in the prior year. The increase in year-over-year free cash flow was due to the receipt of the termination fee, net of increased transaction and integration fees of $948 million. This was partially offset by net legal settlement payments of approximately $185 million for the previously announced Stanford and Willis Towers Watson merger settlements and higher compensation and benefit payments of approximately $250 million and $383 million in tax payments primarily related to the disposal of Willis Re. Absent these items, free cash flow would have been $1.8 billion, up 15% versus the prior year.

I want to point out that we made some changes to our statement of cash flows to reflect new guidance on restricted cash presentation in FASB ASC 230. These changes consisted of revising the classification of WTW's fiduciary fund balances on a consolidated statement of cash flows for the last 3 years. These revisions had no impact to our cash flow from operating activities or free cash flow metrics.

In terms of capital allocation, we paid $374 million in dividends for the year ended December 31, 2021, and repurchased 7.2 million shares for $1.6 billion. We remain committed to deploying excess capital and cash flow into share repurchases. As part of our Investor Day discussion, we communicated approximately $4 billion of near-term share repurchases and a willingness to fund further share repurchases using our free cash flow unless other investment opportunities with superior return potential arise.

At current price levels, we believe that repurchasing WTW stock continues to be our highest return opportunity, and we have significant resources to capitalize upon that. With $1.6 billion completed in 2021 and another $1 billion completed through today, the pace of our share repurchases highlights the conviction we have in the future of WTW and the plans we laid out at Investor Day despite the current headwinds. We expect to conclude the remainder of the roughly $4 billion of repurchases as expeditiously as practical, depending on market conditions and other factors.

At our Investor Day, we also announced our plans to streamline the structure of our organization by changing from 4 segments to 2 segments effective January 1, 2022. We are now operating under that new structure with just 2 segments: Risk and Broking and Health, Wealth and Career. Accordingly, going forward, our financial reports, supplemental disclosures and related commentary will reflect our new structure.

Our 2021 financial results are a reflection of our resilience and our focus on strategic priorities. Although we have had near-term business challenges, we have undeniably strong assets, which gives me confidence in our ability to continue driving value for all our stakeholders. There is a lot of opportunity ahead, and we remain focused on executing our strategy and setting the path for sustainable success.

And now I'll turn the call back to Carl.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Thanks, Andrew. And now we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Greg Peters from Raymond James.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

I want to first focus in on the organic revenue results. And more importantly, I'm looking at your slide deck, Slide 11, where you talk about the expectation of delivering mid-single-digit organic revenue growth for '22, if I were to read the tea leaves, getting the most pushback on the results for last year, driven by the unusual book sales and other anomalies going through it. So Carl and Andrew, maybe you could give us a little bit more color on why you think you're going to be able to produce a mid-single-digit organic revenue result for the full year. And it certainly seems like the Risk and Broking will have some headwinds at least in the first half of the year. So some additional color there would be helpful.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Sure, Greg. And thank you. So a couple of points. I guess we're expecting, as we said, right, mid-single-digit organic revenue growth for the company. And though we're not giving segment level guidance on that, we are -- there are a few clarifying points I think we can make. We do think CRB is going to continue to gain traction throughout the year, right? I mean the events in prior quarters have challenged us, and there are definitely temporary headwinds from those events that remain.

We're highly confident in our hiring strategy. We've indicated before that hiring precedes revenue when it comes to people. And with that in mind, when we look at what's required, we think the broking business during the next 2 quarters will be building acceleration, and we'll be seeing the gap narrow with CRB peers in the second half of the year.

And for the remaining 2/3 of the company, we think they'll perform at peer levels or better, right? The comments about CRB, which it is a major part of our business, does leave out the 2/3 or so of the rest of the company. And though we're not providing detail by segment, overall market tailwinds should continue to drive organic growth momentum in the HCB, soon to be former as we'll talk about, right, HCB and BDA businesses, where we have a terrific portfolio of related businesses, helping organizations and individuals in the most important areas of health, wealth and career. So yes, I think our strategy remains very much in line with the -- financial perspective that we outlined at our Investor Day in the fall.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Carl, in that answer, you highlighted hires. Maybe you could just give us some additional color on the hires versus what had transpired last year, which was a lot of departures.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. So I'll focus in on CRB, and I think that's where a lot of the focus on the questions were from the prior quarter on that. So we are keeping a very close eye on those areas, and we acknowledge that we have a lot of work before us, but here are some things we can say about our view that things are going in the right direction. Our incentive plan activity regarding retention completed in Q4 was very well received, and we are very encouraged by what we can say.

We've seen colleague departures trend downwards since Q3 in CRB. We do see that colleague departures, and we are closely monitoring this data, right, have been slowing down since Q3 for CRB. And that trend makes us optimistic we are heading in the right direction. And joiners are positive. As I mentioned in our prepared remarks, we've been hiring -- we've built an investment headroom to continue to execute on our hiring strategy into '22.

In CRB, specifically in Q4, we had the highest net positive rate in terms of joiners, outnumbering levers amongst all of our segments. And then looking at the data that's just come out, January is our biggest hiring month in CRB over the last 2 years at all levels, including senior hires.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

I guess the final question would be just as you're hiring -- bringing in new people, there's a lag between the time they hit the books and hit the P&L statement from an expense standpoint to the time they're actually producing and generating revenue. And depending on the situation, that lag can be up to over a year. So I guess what I'm ultimately getting at is you're making these investments and yet you're also forecasting adjusted margin expansion for the full year '22. So I'm just trying to reconcile the investment piece, which seems to be necessary, versus your expectation for adjusted margin improvement.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

And we agree with the fact revenue trails hiring. And we've allowed for that in what we think of the timing of how this is going to work out, right? I mean we think that if we're successful, it's going to show in the financial results that's the path we're on, and that's one of the reasons we expect to see lower growth in CRB in the first half compared to the second half as the gap to industry narrows.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. And Greg, it's Andrew. And on the margin point, right, the margin expansion is for the entire company, right? And the revenue, I think, that you've been asking about and the investment hiring is particular to -- or more focused on one segment.

Operator

Our next question will come from the line of Mike Zaremski from Wolfe Research.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Question on the HCB segment. Last quarter, I think this quarter, too, you talked about continued momentum expected there. I think revenue growth is a little bit light. Maybe you can talk through, maybe unpack. I know you called out some capacity constraints. And I see that you also called out Retirement being slightly negative. Are there any kind of onetime-ish items or anything we should be thinking about?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. So let me start with Retirement, then we'll back up to the capacity issues and the other businesses. So our outlook for Retirement, which is a large business for us, right, is positive. I mean healthy pension funding positions as the result of interest and equity market movements during 2021 provide good opportunities for derisking and bulk lump sum work in North America. With respect to GB, right, which is a big business for us as well, right, the trend for risk transfer from company-sponsored pension schemes to the insurance sector is expected to continue. And our view is that 2022 is going to be a good year for derisking because of the healthy funding position I've already alluded to.

It also depends on pricing. There's more activity when bulk annuity or longevity pricing is particularly good. And availability of assets that offer a decent yield and that insurers [deal can back] annuity, we'll also sort of get all that. 2021 saw about GBP 43 billion of bulk annuity and longevity swap transactions completed. We think that number is going to increase to exceed GBP 55 billion for 2022. That would be the biggest year ever. And we are well positioned to capture a significant share of this market increased activity.

On the other hand, when you have an environment like this, we give less advice on funding issues because there's fewer funding issues to be had when pension schemes are well funded. And then we have some initiatives going. So our need to -- or work to address Guaranteed Minimum Pensions continued as does momentum for our LifeSight product we discussed in September at our OneDB offering.

In North America, bulk lump sum activity has been more muted the last several years. And as a result of the activity we've had, there's probably less potential volume going forward. We do expect an increase in [BOS] activity over 2021. But this is really dependent on what happens with interest rates over the next few months. And so we will see. But there are definitely opportunities in the derisking marketplace where we have a very good position.

With respect to some of the capacity constraints I was alluding to before, these are most pronounced in our Talent and Rewards business, which has a large share of project-oriented revenue, although we have a nice mix of revenue when it comes to things like comp surveys as well. We have, just as we have been for hiring in CRB, addressing the T&R hiring issue as well, and we think that will give us the opportunity to capture market as we go forward.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

That's helpful. And maybe as my follow-up, switching gears to free cash flow levels. You broke out $250 million of incentives and benefit-related items negatively impacted free cash flow for the year. That kind of grew quarter-over-quarter. Are those items going to fall off in '22? And have you broken out the free cash flow impact of maybe onetime items related to the cost-cutting measures you're taking?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. We do expect those numbers to abate going forward. And I think your -- the second part of your question was around the transformation spend. Is that correct?

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Correct. If [that will impact] cash.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. Yes, it will impact cash, and that's something that will be broken out as we continue to report on that program separately.

Operator

Our next question will come from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Carl, I want to go back to, I guess, the first couple of questions on recruiting, if I could. On CRB, can you say how close you are today with kind of where you want to be, which is the absolute level of producers in that segment?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

We've made good progress, but we continue to search for good talent around the world we think can be great fits for the organization and can help us grow. So to the extent we can find those, whether it's in one-offs or in bigger chunks, we're definitely on the look. So as I said, happy with the progress, but it is a journey. And part of this is getting us back to where we were, and part of this is sort of looking toward our growth ambitions for our company over the next several years. So we're definitely continuing to remain in the market, Mike.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. I mean kind of follow-up on that then, I guess, is recruiting efforts are difficult across the board in the industry. So you're not alone there. But it seems like it might be more difficult for a company that's going through some turmoil. So anything you can share on any premium you might have to pay? Are you paying 20%, 30%, 40% premium to get people in the door versus what you normally would have to pay?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

I don't think that we pay any premium compared to what anybody else does. If anything, I think our new strategy is resonating with people in the market. They're actually excited about the fact that WTW is independent company with a very -- some very determined ambitions in the marketplace going forward. So the conversations we've been having with talent we're tempting have been very positive in nature. And we're delighted our clients and our carrier partners and the talent out there seems to be voting for the strength and viability of us as an employer of choice.

Operator

Our next question will come from the line of Elyse Greenspan from Wells Fargo.

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

My first question goes back to some of your opening comments. You said the results aligned with your expectations. And it does seem -- I want to focus first on CRB. It does seem like the slowdown in revenue, right, got worse this quarter. So just realizing that, I guess, that was in line with your expectations. Could you help us think through your expectations from here? How do we think about the growth trending in the first half of the year relative to the 1% that I imagine was lower, right, when we ex out the book of business gains? Can you just help us think about extracting the growth within that segment?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. So I mean the flip side of revenue increases lagging hiring, as we discussed a couple of questions ago, is that revenue decreases from people leaving, right, don't occur immediately either, right, due to the renewal cycle, et cetera. So it wasn't -- the numbers for the fourth quarter weren't a surprise to Andrew and me. In fact, I think we discussed where we thought they were going to be for the company. And I think we definitely had our fingers on the pulse, and we think we've got our figures on the pulse going forward as well in terms of the fact that the people we've been bringing in over the past few months will indeed take some time to ramp up.

We've built that into how we view our financial model going forward. And we think we can continue to grow this business while maintaining our path on margins to get to our 2024 targets, right? We are trying to balance a set of competing objectives, and we very much have all those objectives in mind as we look how to build the business.

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

And then in terms of the book of business gains, I calculated that was probably around 2.5% on revenue in the quarter. If you can confirm that, assuming that it's all 100% margin. And then my second question would be, when you guys say mid-single digit or greater organic for 2022, does that assume any further gains on book of business?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. Sure. So your math on the revenue calculation is about right. And in terms of expectations around book of business sales, I think, was your second question?

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

Yes.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Is that right, Elyse? Sorry, yes. Yes. So we expect to be, over time, reverting to more normalized levels. And if you look back over the last couple of years, you can what that looks like. We don't anticipate or expect anything near the level from 2021.

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

And then just on pension income for 2022, I know you gave us a year-over-year decline. But what's the overall [pension income] that you guys expect [for] '22?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. I don't think we're going to get into that level of granularity on the direction -- on the quantum of changes in the pension income. (inaudible) $20 million -- sorry?

Operator

Go ahead.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Sorry, I was just referring, Elyse, to Slide 11, which talks about the $20 million year-over-year decline in pension and noncash pension income for 2022.

Operator

(Operator Instructions) Our next question will be from the line of Paul Newsome from Piper Sandler.

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Just want to go one very quick and maybe a real question. The follow-up to Elyse, the book of business settlements, is that pure profit? Is there any related expenses? And I just want to see if you had any updated view on the debt structure perspective, given how much stock you're probably going to be repurchasing.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. So I think the first part of your question was around the book of business margin. Essentially, yes. There are some expenses that do get put against that, but it is relatively high margin. And your second question was on debt structure and share repurchases?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

In the line of the share...

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. Yes. So in terms of leverage, right, I think we're very comfortable with where we are. It's in line with the discussions we've had with the rating agencies, and we think it allows us to maintain appropriate financial flexibility to be advantaged -- to be able to take advantage of anything that may come our way, whether it's share repurchases or something strategic.

Operator

Our next question will come from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Carl, I had a follow-up just on headcount. I think in the last quarter, you talked about the core CRB headcount was down 100 people, 3Q '21 versus 3Q '20. What was that in the fourth quarter? And I guess, how has that been trending in the first half -- or first part of the first quarter this year?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. So for the fourth quarter, joiners exceeded levers by a decent margin. So headcount is now up. And as I alluded to in January, right, it's our best hiring in quite a while, a couple of years, right? So we're making back for lost time and opportunity, I think, in terms of the overall headcount.

Operator

Our next question will come from the line of Ryan Tunis from Autonomous Research.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

One on BDA. Growth was a little slower than expected there. This quarter, TRANZACT was only up about 2%, 3%. Is -- do you think that the structural growth rate of that business has changed at all as we approach 2022? And just curious if you could talk to some of the trends you're seeing.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. I mean this -- the overall market TRANZACT operates in is big and keeps increasing as people keep turning 65. So we're very happy about the overall market and TRANZACT's ability to expand within it. If you look at our performance during 2021, there are -- it's lower than we're used to seeing, but we're still really just excited about TRANZACT's prospects. I mean if you take a step back and look at TRANZACT on a full year basis, $661 million of revenue and 17% organic growth. And if you look at our original projections we've supplied when TRANZACT first joined WTW, their current revenue figures are a full year ahead of what we anticipated. And by no means does a growth with light performance in Q4 change that.

To speak to Q4 specifically, it is true that it was a lower quarter than we anticipated, and this was largely due to some advertising and programs generating lower leads and diversions than planned. Obviously, these are investments that were made and since we didn't realize the results that we're expecting, it did impact the bottom line and the margin.

As we head into 2022, the team has conducted a review, and we're implementing strategies across all our carrier partners to improve member experience, which will help maintain membership. And therefore, we continue to remain confident in TRANZACT and do have high expectations for this business.

Operator

Our next question will come from the line of Mark Hughes from Truist.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Sticking with the TRANZACT, anything that you saw in terms of lapse rates, just turnover in terms of your customer base?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

I think everything that we saw in that business -- yes. It's Andrew. Sorry. I think everything that we saw in that business was consistent with our expectations and nothing there that was a real outlier. But of course, it's something that we always keep an eye on as we watch the book develop.

Operator

Our next question will come from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar - *Jefferies LLC, Research Division - Equity Analyst*

My first question is around the comp and benefit ratio, which improved about 400 basis points year-over-year. Can you maybe talk about the main drivers for that improvement and how you see that ratio develop into '22 as the hires come in?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. I think part of the trend that you're seeing there in comp and ben might be related to the impact of some attrition, right, and colleague retention over time. And I think the other thing we point out is just the mix of pay that we have with regard to discretionary compensation, right, provides us with the appropriate tools to make sure that employees and everybody else are compensated along with the firm performance.

Operator

Your next question will come from the line of Meyer Shields from KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Two quick ones, if I can. First, Carl, I appreciate all of the disclosure you've given us on the book sales and settlements. If I take Andrew's comments about 100 basis point impact for the full year, that implies about $113 million. What's the normal run rate? In other words, what do you budget for that for a typical year?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. I won't get into the specifics around budgeting, but if you go back and take a look over recent history and go back a couple of years or quarters, you can see some of that in the disaggregation of revenue footnotes that are provided. More normalized levels are significantly less than what we experienced in 2021.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

We think that the retention measures we've put in should be effective in getting us to those normalized levels.

Operator

And our next question will come from the line of Brian Meredith from UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Carl, just quickly here. I'm just curious, how are you balancing the cost saves that are going through versus the need for you guys to really invest in your business, particularly CRB, not only hiring but investing its organic growth going? And then also what impact is wage inflation potentially going to have on kind of offsetting maybe some of those cost savings?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

All right. So with respect to wage inflation, right, I mean, we have built a compensation program that is a bit more weighted towards variable than others. And I think that does help us with being able to manage this effectively as a business. I'd also point to -- one of the pillars of our program is capitalizing our scale to move back-office work to centers of excellence that we think will improve client and colleague experience and outcomes, but should also allow for relief on the cost pressures that we might have in an inflationary market. So there's a good deal of alignment, I think, between the transformation strategy and our ability to respond flexibility of business to inflationary pressures.

Operator

Our next question will come from the line of Mark Marcon from Baird.

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

With regards to just the comp and benefits, can you just discuss how we should think about that on a more normalized basis? Obviously, the last half of 2021 was impacted by the departures. If you're implementing the plan and assuming that variable compensation is roughly in line with your revenue expectations for the year, how should we think about that comp and benefits number trending over the year and what sort of leverage or deleverage we would end up getting on that particular line? And then my follow-up is basically just a general commentary with regards to engagement scores as they progress through the year and how you think they're -- they'll end up 6 months to a year from now.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. It's Andrew. I'll start with the compensation question. I think what we expect is compensation percentages to return towards more historical levels. So I think if you go back and look at that, right, sort of pre the last 2 years, you'll get a good picture. And of course, as hiring continues, right, from an absolute dollar perspective, there would be some impact there. But from a percentage perspective, would expect that to remain relatively consistent.

And the other thing to just think about here is the prior year was on an as-reported basis and inclusive of some divestitures like Miller and Innovisk and some other things. And also the current year has lower FX rates and some timing on accrual and certain discretionary compensation and benefit expenses in there as well.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. With respect to engagement, we actually ran a all-colleague survey at the -- during the fourth quarter. And the results we got actually show engagement is up over the last couple of times we measured it with 2 years and 4 years ago, which is, I think, a great result to the dedication of our colleagues to the success of WTW going forward. We do this for a living with our clients, and so we try to apply the lessons of what we learn to ourselves as well. And so we'll continue to monitor this across the organization. But we think we understand what creates sustainable engagement with our colleagues and makes this a great place to work. And we'll be looking to demonstrate that not just to the people we have today, but the people we're looking to bring on board as well.

Operator

Follow-up from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

I guess if I sort of back into it, it looks like the book of business settlements for the full year were about $90 million to $100 million for full year of '21. Is that a good level to think about the future lost revenue? I guess some of that might have been -- is already reflected in results. But is that sort of a good baseline as I think about the drag that, that may result in as we head throughout 2022?

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

No. It's Andrew. I think the book of business settlements, right, are typically a multiple, right, of the revenue amount, right? So I think if you were...

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Multiple exceeds 1, by margins.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Right. Right. Right. So I think you'd have to temper that back a bit by thinking about what industry transaction multiples look like on a revenue basis.

Operator

And we have another follow-up from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar - *Jefferies LLC, Research Division - Equity Analyst*

I was cut off earlier. My second question was going to be around the commentary around timing of the revenue gap being closed to peers. I just want to better understand how 2022 is a year where you can close that gap when some of your peers -- large peers have also been engaged in prolific hiring over the last several quarters and to your earlier point, you still see a bit of a lag from revenue perspective from earlier departures. So can you maybe explain how even with those issues, you can still close that gap?

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

Well, we said narrow. I mean, to be clear, I said we'll narrow that gap. We see -- we will continue to see that gap narrow as well, right. We think we remain an attractive destination for talent, and we think we can hire along with the industry as we continue to get ourselves back to where we need to be. So that should, in a steady-state environment, get us to be approaching where we think the industry can be.

Operator

And our next follow-up will be from the line of Meyer Shields from KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

I was just hoping to get the impact of foreign exchange on fourth quarter EPS and margins.

Andrew Jay Krasner - *Willis Towers Watson Public Limited Company - CFO*

Yes. Give me one sec. So in fourth quarter, FX was a headwind of about $19 million on revenue. So about $0.06 on adjusted EPS. The main component of that was the weakness of the dollar against the euro.

Carl A. Hess - *Willis Towers Watson Public Limited Company - CEO & Director*

So I would like to thank everyone for joining us this morning. We look forward to updating you on our first quarter earnings call in the spring.

Operator

And this will conclude today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.
