GE to Take $6.2 Billion Charge After Being Burned by Insurance

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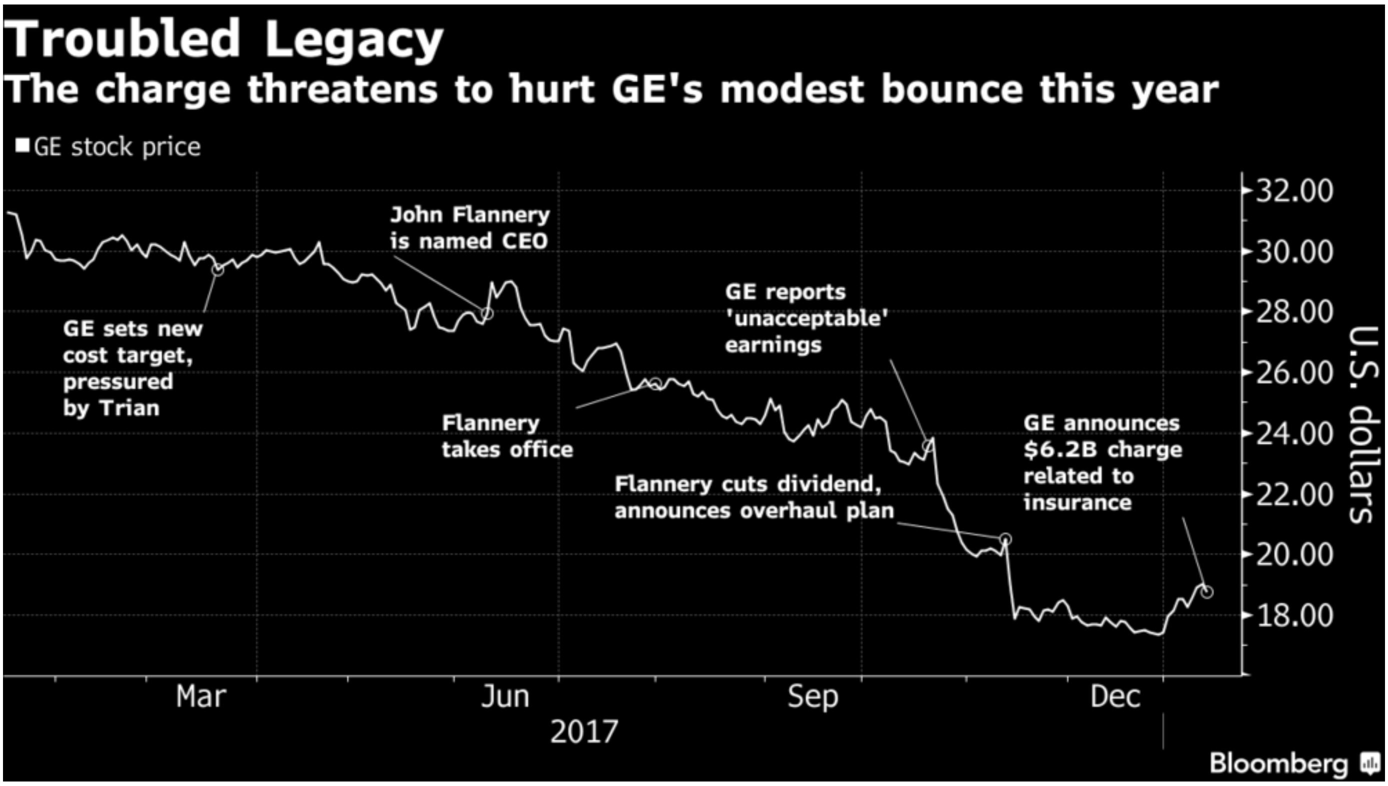
- CEO, pushing turnaround, calls the move 'deeply disappointing'
- Faulty assumptions have undermined policies for long-term care

General Electric Co. will take a charge of $6.2 billion tied to a legacy insurance portfolio, another setback for a company already struggling with weak sales in some of its industrial markets.

The company's finance unit will pay $15 billion over seven years to fill a shortfall in reserves in the North American Life & Health portfolio, GE said Tuesday in a statement. The actions follow a multimonth review of GE Capital's obligations in long-term care insurance and other areas.

"The $15 billion of additional capital ultimately being required was far in excess of our adverse case expectations," Tom Gallagher, an analyst at Evercore, said in a note to clients.



The lingering problems -- from a business GE long ago left behind -- underscore the high hurdles facing Chief Executive Officer John Flannery as he seeks to overcome flagging demand for the company's gas turbines, oilfield equipment and locomotives. Flannery, who took over for Jeffrey Immelt in August, is cutting costs and selling assets after GE posted last year's biggest drop on the Dow Jones Industrial Average.

"At a time when we are moving forward as a company, a charge of this magnitude from a legacy insurance portfolio in runoff for more than a decade is deeply disappointing," Flannery said in the statement.

GE fell 3 percent to $18.20 ahead of regular trading in New York. The dip threatened to undermine a modest rebound in early 2018 after GE had gained 7.5 percent this year through Friday.

Portfolio Review

GE said dividends from GE Capital to the parent company would remain suspended for the “foreseeable future” after the payment was halted during the portfolio review.

Investors have been bracing since GE warned last year about potential problems in its long-term care portfolio. At a shareholder meeting in November, Chief Financial Officer Jamie Miller said the company was likely to take a charge in excess of $3 billion, which is the amount GE Capital would have paid in a second-half dividend.

The review will result in a $9.5 billion pretax charge, Boston-based GE said. The after-tax impact of $6.2 billion will be $7.5 billion when adjusted to the rate following the recent U.S. tax overhaul.

Long-term care insurance has become a headache for many of the companies active in that market in recent decades.

The policies, which emerged in their modern form in the 1980s, cover health-related costs not paid by Medicare or standard health insurance. But the products were undermined by faulty assumptions such as how long people would live and how expensive their care would be. Low interest rates also hurt insurers’ ability to offset certain costs.

Largest Issuer

“Things really started to fall apart” for the long-term care market in the early 2000s, said Joseph Belth, professor emeritus of insurance at Indiana University. “Companies found that they had to raise rates frequently and substantially, and everybody was unhappy.”

Once the largest issuer of long-term care policies, GE has been working for years to limit the volatility tied to financial industries such as insurance. The company spun off Genworth Financial Inc., which has also faced problems with long-term care.

GE hasn’t done any new business in the long-term care market since 2006. Still, it was saddled with obligations on contracts written years ago. The liabilities can swell when claims costs are higher than expected or when investment income fails to meet projections -- a problem exacerbated by low interest rates.

The company announced a plan in 2015 to sell the bulk of GE Capital’s operations. The company said Tuesday that there will be “ongoing actions” over the next two years to further shrink the finance business.

Cutting Back

Many insurers have cut back or left the long-term care market in recent years, including MetLife Inc. and Prudential Financial Inc. Genworth, which was spun out of GE in 2004, incurred billions of dollars in losses on the policies, and has agreed to be bought by China Oceanwide Group Holdings Co.

Long-term care was also at the heart of the challenges for Penn Treaty, which was liquidated last year in a rare failure for the insurance industry.

“The problem that these insurers face is very real,” said Peter Goldstein, CEO of LTCG, a business-process outsourcing company that manages policies on behalf of insurers in the long-term care market. “People are working hard to figure out what to do here.”

— With assistance by Katherine Chiglinsky