

GENERAL ELECTRIC MARKAPOLOS REPORT



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August 19, 2019

We decided to take a look at the Markopolos Report (MR) because we are the only firm that publishes on Long Term Care (LTC) through our extensive coverage of Genworth (GNW). We are also deeply familiar with the Enron and Worldcom bankruptcies.

On August 15th 2019 Harry Markopolos published a [report](#) (MR) that caused General Electric's market value to drop over \$8 billion dollars. GE is called a bigger fraud than Enron and Worldcom combined due to Long Term Care Insurance (LTC) mis-accounting. The report insinuates that GE is about to "blow up" but the company already addressed the problem in a 2018 reserve increase that we believe was accurate. We estimate that in a bad scenario the reserves will need to be increased by \$7 billion over the next 15 years.

Since this report we have observed that 100% of the commentary on this report is also incomplete or inaccurate. LTC fills people with fear and trepidation because it is misunderstood. We have normally referred to it as the LTC boogiemani. We have been monitoring LTC for over 3 years and are happy to report to you that things are getting better! And there's no emergencies anywhere. This is mainly due to the premium increases that are allowed. We also consider ourselves to have a fifth-degree black belt in Enron because we fought one of their Special Purpose Entities in Southern District of New York (SDNY) through the Second Circuit and beyond. Judge Arthur J. Gonzalez oversaw the Enron bankruptcy show every Monday, Wednesday and Friday. Tuesday and Thursday? That was reserved for the Worldcom bankruptcy show. So first we will briefly explain what Enron and Worldcom were and then explain what LTC is, what the GE liability is and then address the Markopolos Report (MR).

Are the GE guys choir boys? No, they retarded the GAAP recognition of statutory accounting liabilities for their LTC products. As a result, the "Trust Buckets", which contain billions, that guarantee the LTC claims payments, are only filled up to the (wrong) GAAP amounts not the Stat amounts. But, before you crawl under your desk and start biting your fingernails, relax, this was already fixed. Kansas Insurance Department (KID) is overseeing an additional \$9 billion in reserve adds to the buckets in the next five years, which GE can easily afford. This will fill the buckets up to the Stat amount. GE may need to add an additional \$2 or 7 billion over the next 15 years. Instead of GE we should be saying GE Capital (GECAP), the subsidiary that is responsible for this LTC stuff.

Right of the bat we will share with you the MR statements: "GE needs \$18.5 Billion immediately [for the pools], [GE is] the biggest [fraud], bigger than Enron and WorldCom combined and GE has almost no cash" are all false statements. Worldcom and Enron combined were revealed to be about \$82 billion, M is alleging that GE has committed a \$38 billion fraud....so not bigger. GE and GECAP have well over \$25 billion in cash, credit lines and proceeds from the GECAP wind-down currently available (well over)....so "almost no cash" is not a true statement.

[GE 201810K](#) pg. 44: *For GE Capital, in addition to \$15.0 billion of liquidity at December 31, 2018, over the next two years we expect to generate additional sources of cash from asset sales, including approximately \$10 billion in 2019 from the completion of its \$25 billion asset reduction plan, as well as cash from repayments of most of the \$13.7 billion of intercompany loans from GE. In addition, in 2019,*

GE Capital expects to receive approximately \$4 billion of capital contributions from GE.

The “trust buckets” have around \$20 billion currently to pay claims. The cash benefits being paid out of the buckets are currently around \$1.2-1.6 billion annually. The buckets also collect policy premiums and interest on their investments of around \$1 billion annually. We expect the buckets to have a claims paying ability to \$40 billion over the next 15 years as premiums, interest and the rest of the 2018 “true up” are received. The buckets are expected to be drained over the next 20 years as the insureds hit average peak age and peak benefits utilization. In a good situation the buckets may leave a few billions and in a bad situation may need an additional \$7 billion. So, does GE need \$18.5 billion immediately? This is not possible.

Enron & Worldcom

What was Enron? A risky and failing business model that was hidden by selling assets without telling investors. As the fraud grew it required more and more cash. Most assets were sold twice through double hypothecation through loan subsidiaries that reported the loans or sales as earnings. Enron also had a secret secondary layer of secured debt that ballooned to \$15 billion or so. Enron filed bankruptcy with around \$40 billion in debt. Worldcom just falsified earnings and showed the cash being used for equipment purchases and other capital expenditures. No one asked any questions when Worldcom borrowed \$12 billion in A rated bonds in 2000 and the money disappeared in two quarters. The real Worldcom was actually starving for cash. Investors were blind sided by Worldcom. GE does not exhibit any of these traits that we can see.

LTC Insurance

LTC insurance pays insureds when they become disabled due to age, disease or accident. The insureds access care with in home hospice or in a residential facility. The average length of time for benefit utilization is around 3.5 years and the average day limit on payments is around \$200.00. So most insureds cannot draw down more than \$75,000 per year. LTC costs more than originally projected because of lower interest rates and the fact that people die differently and need care longer than originally projected. GE is not really a reinsurer here they have individual policy exposure through ownership and responsibility, so it is more accurate to say they are a co-insurer or just insurer. GE has covered 342,000 lives with LTC. 30-40% of these will invoke coverage or go on claim. The average period of benefit utilization will be around 3 or 4 years at a cost of \$75,000 per year. So, total cash benefits projected of \$40 billion for GE’s insureds is a good estimate. We believe that the 2018 true up by GE was accurate. It brought the pools to a current \$30 billion in projected reserves needed. This equals \$87,000 in reserves per insured. The pools will receive another \$8-12 billion in premiums and interest over the next 15 years. This will bring the total available per insured up to about \$117,000 which should be sufficient. M is right about the fact that GE has: “very bad LTC” most of the characteristics of their LTC policies are considered terrible.

GE LTC TRUST BUCKETS HAVE 12/31/2018	\$20 BILLION
GE LTC TRUST BUCKETS WILL PAY	\$40 BILLION
THIS EQUALS A RESERVE PER LIFE	\$116,959.00
KANSAS INSURANCE DEPT TRUE UP ADD	\$9 BILLION
PEMIUMS AND INTEREST ADD	\$11 BILLION
NET REMAINDER	\$0 BILLION

The Markopolos Report

It doesn't seem that M has enough experience in the insurance area. We present the following statements and then the correct fact:

M Report pg 1: "the fast approaching 5-year age group between 76-80 will see a 77% increase in LTC claims filed which will see GE's losses increase several-fold."

Fact: LTC pools expand in size then are utilized as the insureds reach average mortality and peak benefits utilization. Cash benefits paid will increase by 100s of percents through this period. This does not cause losses on a GAAP basis because this is projected to happen.

M Report pg. 2: "Simply accessing and analyzing the SAP filings from the Long-Term Care (LTC) insurers who were reinsuring with GE-ERAC showed us how much GE was losing each year. What we saw were exponentially growing losses that are going to bleed GE of additional cash such that GE is unlikely to become cash-flow positive in 2021 and beyond."

Fact: Same as above, we are approaching peak benefits utilization. The cash flow of GE is not affected here if the 2018 True up is accurate. If not, we project as much as an additional \$7 billion needed over the next 15 years. This will be paid by GECAP most likely. GE has stated that they will not be receiving dividends from GECAP for the "foreseeable future."

M Report pg. 3: "GE's \$15 Billion LTC reserve hit was a nasty market surprise and it's about to get \$29 Billion worse."

Fact: We project a bad possible downside from additional cash needed for the LTC buckets of \$7 billion over the next 15 years.

M Report pg. 6: "GE is on the brink of insolvency."

Fact: GE 2018 10 K Pg 45: GE cash, cash equivalents and restricted cash totaled \$20.5 billion at December 31, 2018. GE Capital cash, cash equivalents and restricted cash totaled \$15.0 billion, of which \$14.5 billion was classified within continuing operations and \$0.5 billion was classified within discontinued operations. Also include: [total available credit facilities as of 12/31/2018: \$40.8 billion. The total liquidity at GE and GECAP is in excess of \$70 billion as of 12/31/2018.

M Report pg. 12: "Due Now: \$18.5 Billion in new cash needed for LTC Reserves"

Fact: \$1.9 billion is due each year 2020 through 2024 from the 2018 "true up". This is already reserved on a GAAP basis and also GE got a \$6 billion tax refund.

Conclusion

We forecast that the reserves for GE's LTC obligations are covered by reserves and the 2018 "true up" M does not mention the future receipt of interest in the pools or reserve buckets as a factor he considered in his analysis of the liabilities. LTC was forecasted wrong and GE has "bad LTC" but we forecast that in a bad situation GE or GECAP will add another \$7 billion over the next 15 years to the reserves. Markopolos does not demonstrate understanding of LTC liabilities or know the fact that the pools receive interest payments. It does not appear that GE is on the verge of catastrophe.

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