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General Electric Co Insurance Update Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Insurance Update. (Operator Instructions). My name is Ellen, and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Matt Cribbins, Vice President of Investor Relations. Please proceed.

Matthew G. Cribbins ***General Electric Company - VP of Investor Communications***

Good morning, and welcome to today's webcast. I'm joined by our Chairman and CEO, John Flannery; CFO, Jamie Miller; and Chief Risk Officer of GE Capital, Ryan Zanin.

Before we start, I would like to remind you that the press release, presentation and supplemental have been available since earlier today on our investor website at www.ge.com/investor.

Please note that some of the statements we are making today are forward-looking and are based on our best view of the world in our businesses as we see them today. As described in our SEC filings and on our website, those elements can change as the world changes.

And now I will turn the call over to John Flannery.

John L. Flannery ***General Electric Company - Chairman & CEO***

Thanks, Matt. Good morning. As we discussed with you last year, we've been performing a comprehensive review of our insurance portfolio. We finished that work late last week and reviewed it with our regulator, and we're going to share those results of that review with you today.

We've taken an after-tax GAAP charge of $6.2 billion, which is $7.5 billion at a 21% tax rate. And you will see that reflected in our fourth quarter financials. GE Capital will make a $3 billion statutory cash contribution to its insurance subsidiary in the first quarter of 2018 and approximately $2 billion annually from 2019 to 2024, for a total of approximately $15 billion.

Needless to say, at a time when we are moving forward as a company, I'm deeply disappointed at the magnitude of the charge in this legacy portfolio. It's especially frustrating to have this type of development when we've been making progress on many of our key objectives. These include cost-out in corporate and our power business, improving our cash flow and continued strength in Aviation and Healthcare. We will continue to build on these improvements in 2018 and beyond.

I'll start with some background. GE entered into insurance through a series of acquisitions in the 1980s and 1990s. GE North America Life & Health is comprised of the legacy reinsurance businesses that remained at GE following the 2004 and 2006 Genworth and ERC exits.

The decision to exit the majority of our insurance business in the 2004 to 2006 timeframe was the right one. We reduced our exposure by

$130 billion of assets and in return got $13 billion of cash that we reinvested back into the company. We did this in advance of the financial crisis, and it significantly derisked GE Capital. The decision to retain the current books of insurance-related business was based on a view at that time that a gradual runoff would yield a better economic result.

Clearly, in hindsight, we underappreciated the risk in this book. Similar to the rest of the industry, the assumptions we made at that time have played out differently. In 2015, as part of the GE Capital exit process, we again reviewed our insurance exposure and determined that we'd looked at exit options when the interest rate environment was more favorable.

In 2017, as a result of the trends we saw, specifically in our long-term care book, we initiated a comprehensive review in mid-2017 that included a rebuild of all of the cost curves associated with our book. This was a detailed process that included a review by 2 independent actuarial firms and a KPMG audit review.

We will fund the $3 billion contribution with cash on the GE Capital balance sheet. GE Capital ended the year with approximately $31 billion in cash. As you saw this morning, the rating agencies announced that there is no change to GE's ratings and outlook. I want to be clear that we do not expect any impact to the industrial businesses and the capital allocation framework I discussed with you in November. Jamie will walk you through the specific actions we're taking in more detail.

As we outlined in November, GE Capital will be smaller and more focused going forward. We will be shrinking EFS and Industrial Finance, while retaining key capabilities to support the industrial businesses.

And now I'll hand it over to Ryan Zanin to give you an overview of our insurance portfolio and walk through the review in more detail. Ryan?

Ryan Zanin

Thanks, John. Good morning. I want to start by providing a little context before diving into the specific details of our run-off insurance business. North American Life & Health operates as a reinsurer. As laid out in the slide, you'll see our role as reinsurer and how reinsurers such as North America Life & Health connect with others in the insurance industry.

Consumers, by policy, is from primary insurers who are responsible for underwriting policy administration, claims adjudication and general interaction with policyholders. Reinsurers, such as North America Life & Health, have a relationship with primary insurers and typically assume part or all of the risks associated with various sets of policies or blocks of business written by the primary insurer. In some instances, reinsurers may transfer a portion of their risk to others known as retrocessionaires.

North America Life & Health's book of reinsurance falls into 3 broad categories: first, long-term care, representing approximately 60% of the underlying insurance exposure. Long-term care insurance provides individuals with benefits to cover costs associated with nursing home, assisted living and home health care. Key risks associated with long-term care include assumptions related to how long people pay required premiums, how long people will live and how well they will live.

The book is subject to risks of the likelihood that policyholders will, in fact, need eligible care as they age and the duration of any claims made. In addition, the book is sensitive to interest rates, which, over time, impacts the returns available from the investment portfolio, which is used to fund claims in future years. The reevaluation of these risks are the primary drivers of charges we'll be announcing today.

The next component of the portfolio is structured settlement annuities. This book of business accounts for approximately 35% of the total portfolio. These policies generally provide for the payout over time of various third-party litigation settlements to injured plaintiffs. Key risks here include interest rate risk as well as longevity, or how long people live, as these policies often spread payments over the life of the insurer. About 5% of the book relates to the reinsurance of traditional life and other policies. The life policy is paid out upon the death of the insured.

Risks here include interest rate risk and mortality. If people die sooner than expected, claims are paid earlier, shortening the time during which premiums are collected and during which the investment portfolio can earn income. North American Life & Health legal entities are domiciled in Kansas, and the Kansas Insurance Department is our primary regulator. GE provides a capital maintenance agreement to the North America Life & Health legal entities, ensuring that statutory capital is maintained at agreed-upon levels. We have an approximate $30 billion investment portfolio, which supports the ultimate payment of claims. It's conservatively managed primarily in high-quality, fixed-income securities with an average A rating.

Turning to long-term care portfolio. This business was primarily underwritten in the late '80s to early 2000s. Our book has been in run-off since 2006 with no new business written in over a decade. Across our books, we reinsure approximately 300,000 policies. To put that in perspective, there are approximately 7 million long-term care policies enforced across the industry, so our share is about 4%.

In general, long-term care policies have proven challenging for the industry. Decades can pass between when policies are underwritten and when policyholders begin to claim benefits. As the insured population ages and actual claims arise, those claims are compared with the projected claims, and the adequacy of reserves is assessed. Virtually, the entire industry has experienced greater claims than originally anticipated where more people go on claim and for longer than expected.

Data used to assess these risks continues to emerge as the population who may have bought policies in their mid-50s 2 decades ago now are entering the age where we might expect to begin to see higher claims. A significant driver of our overall increase in reserves relates to one of our younger books of business where a large percentage of policyholders are only now reaching the prime claim paying period, ages 80 and plus. In this book of business, approximately 40% of inception-to-date claims in this prime claim paying period have occurred in the last 2 years.

Trends observed with this limited data set must be evaluated, and small changes in assumptions based on recent observations will have a large impact as those new assumptions are extrapolated over many years. The sustained low interest rate environment also stresses the portfolio as original expected investment returns are more difficult to achieve in a world of low rates.

Each year, we perform an annual premium deficiency test, which, under GAAP, test to ensure the sufficiency of our current reserves plus future premiums to pay future claims across all insurance books. In all prior years, these test resulted in a positive margin, which, under GAAP, requires that original assumptions above the book remain locked.

In 2017, based on new claims experience studies, we undertook a deeper dive to better understand developing trends in claims. This led to a comprehensive actuarial review of all policy assumptions and a bottoms-up rebuilding of claims cost curves. We engaged 2 independent third-parties with actuarial experts to help us with that work in addition to KPMG's audit review.

The actuarial analysis included a fundamental shift in estimating future claims costs, from one that involved making incremental adjustments to existing projections in response to observed levels of claims experienced, to one that rebuilds the projections utilizing the additional credible data for older retained ages that has become available. The revised and reconstructed long-term care claims cost projections, combined with the fact that claims costs stand out over 40 years, results in a very significant premium deficiency and is a primary driver of today's aggregate after-tax GAAP reserve charge of $6.2 billion.

On a statutory basis, reserves are calculated assuming moderately adverse conditions rather than our best estimate under GAAP. On a statutory basis, we estimate today that we may contribute approximately $15 billion over 7 years to build reserves at North America Life & Health.

With that, I will turn it over to Jamie Miller to discuss the financial impact and actions we plan to take. Jamie?

Jamie S. Miller ***General Electric Company - CFO & Senior VP***

Thanks, Ryan. Now I'll take you through the insurance financial impact and related implications and actions. In the quarter, we recorded a pretax charge of $9.5 billion and an after-tax charge of $6.2 billion at a 35% tax rate. At a 21% tax rate, post-U. S. tax reform, the charge will be $7.5 billion.

The components of the pretax charge are the following: an $8.9 billion increase in policy benefit reserves; and a $600 million write-down of the remaining deferred acquisition cost. This GAAP charge represents our best estimate of the future cost based on what we know today.

The related statutory capital contributions will be approximately $15 billion, which will be funded over the next 7 years. We estimate that our 2018 funding requirement will be approximately $3 billion, and we'll make that contribution in late February using GE Capital's excess cash. At this point, we estimate the annual contributions from 2019 to 2024 to be approximately $2 billion. We will not use GE parent cash to fund this, and we do not expect this to impact our 2018 capital allocation plan.

GE Capital ended the year with $31 billion of cash and short-term investments on its balance sheet and has strong liquidity metrics. We have reviewed these results in detail with the rating agencies. And as you saw from their announcement early this morning, there was no impact to GE ratings or outlook.

In addition, we added incremental bank operating lines, which give us even greater security and flexibility as we continue to transform the company. We are taking actions which will make GE Capital smaller and more focused. And as you remember, we did not pay a dividend from GE Capital to the GE parent in the second half of 2017, and no dividend was planned for 2018.

We've laid out for you some financial metrics on the GE Capital businesses, and I'll walk you through how to think about the businesses post these actions. GE Capital Aviation Services, GECAS, is a strong business and has performed well through many cycles, and it will remain as it is today. We'll take actions to substantially reduce the size and scope of Energy Financial Services. We will retain origination capabilities to support our industrial businesses, but we'll leverage our deep capital markets expertise and our ECA relationships and mostly originate into the capital markets going forward.

We will also reduce the size of our Industrial Finance business, including a transition of some of our volume to external banks. Our Industrial Finance business will continue with a strong health care and additive finance capability. These actions will result in a reduction of approximately $15 billion of assets over the next 24 months. They will bring sharper focus to supporting targeted industrial growth with an interface to the capital markets.

We expect that the GE Capital actions, including reducing the size and scope of GE Capital and suspending dividends from GE Capital to GE, will be sufficient to restore GE Capital's capital adequacy to appropriate levels by the end of 2019. We expect the impact of these actions will also result in capital adequacy ratios that meet rating agency expectations.

GE Capital's debt-to-equity ratio in the third quarter of '17 was 4.6x. The charges we booked in the fourth quarter increased it to 7.1x. And the forecast for the end of 2019 is to be back down to approximately 4.5x as excess debt matures. Prior to the insurance reserve adjustment, we had an economic capital surplus. The suspension of dividends drives incremental capital through 2019, and reducing the size of EFS and Industrial Finance lowers the amount of capital required, bringing economic capital levels back in line over time.

Also, previously, the GE Capital preferred stock carried back-to-back terms with the GE parent. We are modifying the GE Capital internal preferred stock to be mandatorily convertible to effectively strengthen GE Capital's common equity. We expect GE Capital continuing earnings in 2018 and 2019 to be about breakeven. That could be higher or lower depending on the timing of asset sales. And post the actions in 2020, we expect GE Capital earnings to be about $500 million as excess debt matures in 2018 and 2019.

Also, as a result of these decisions, we will record noncash charges in the fourth quarter of $1.8 billion for the impairment of goodwill at Energy Financial Services as well as asset impairments due to shortened hold period assumptions. We do not expect dividends for the foreseeable future from GE Capital.

We believe these actions continue to derisk GE Capital's balance sheet. We continue to closely monitor other GE Capital exposures, including WMC and other trailing liabilities, and those liabilities include a handful of litigation and legislative matters for which we carry reserves. We recognize that the insurance issue is a difficult one, but we believe that a smaller, more focused GE Capital is the right long-term strategy for the company and for our shareholders and will help simplify GE.

Now I'd like to give you an update on other fourth quarter items, which we'll cover in more depth on our January 24th earnings call. First, on tax reform. We like the new business tax framework in the bill for a couple of reasons. First and foremost, these are good changes. It puts the U.S. tax system on par with the rest of the developed world by adopting territorial taxation. Second, the new law allows us to access future foreign earnings without paying incremental U.S. tax upon repatriation. And lastly, it reduces the U.S. corporate tax rate to 21%, in line with our OECD counterparts.

The impact from tax reform for the company is approximately a $3.4 billion charge. This will be recorded in the fourth quarter and will be driven by the transition tax on overseas earnings, net of taxes already accrued, as well as the revaluation of our deferred tax assets and liabilities. We expect the cash impact to be small over the next several years as existing tax attributes, both credits and losses, will offset the payments required under the incremental transition tax. Longer term, we expect our industrial tax rate to be in the low- to mid- 20s.

Turning to company results. While we have not finalized our fourth quarter results, we expect that EPS will be at the low end of the total year guidance that we provided of $1.05 to $1.10. As we outlined at the November investor meeting, this excludes insurance-related actions and approximately $1.6 billion after-tax industrial portfolio charges related to assets held for sale. Also, tax reform was obviously outside the guide we provided. Power continues to be challenging, and Industrial CFOA will exceed the $7 billion full year guidance. We will provide a complete update on the 24th.

John L. Flannery ***General Electric Company - Chairman & CEO***

Thanks, Jamie. As Jamie just said, we've taken a deep evaluation of the situation, and that's resulted in the reserves and statutory capital contributions we discussed today. In addition, we have the ongoing earnings stream and equity value of GE Capital as additional support, including the very valuable GECAS franchise. We are taking these actions to solve this within GE Capital.

Before we get to Q&A, I wanted to wrap with a few thoughts. 6 months ago, I told you that I came into the role cognizant of the fact that GE is a special company. It has always been a leader in transformational technologies that drive productivity and quality of life around the world. That is in our DNA and that will never change.

As I shared with you on November 13th, we have been performing an ongoing comprehensive review and looking at all aspects of the company and each of our businesses. I shared many of the results of this review with you at that time. During that update, we announced that we would be a smaller, more focused company. Our focus would be on 3 core segments: Power, including our renewables business; Aviation; and Healthcare. In 2018, we will continue our intense focus on improving operational rigor, capital allocation and deep cost-reduction efforts in those businesses.

At the same time, we also said that we would continue to focus on how we could create the most value with the portfolio with a very critical, analytical and dispassionate eye. Our guiding principle is to ensure that our core business units have the operating rigor and the organic and inorganic investment flexibility to make them the best performers they can possibly be in the decades ahead.

Today, I am more convinced than ever that we have substantial underlying strengths and value that have been suppressed in the current context. As a result, we are looking aggressively at the best structure or structures for our portfolio to maximize the potential of our businesses, continue to deliver outstanding products and services to our customers, enhance our ability to provide attractive opportunities for our employees, while maximizing value for our shareholders.

Our results over the past several years, including 2017 in the insurance charge, only further my belief that we need to continue to move with purpose to reshape GE. We will continue to rigorously review our alternatives to deliver shareholder value and report out to you as we make progress this spring.

And now let's go to Q&A.

Matthew G. Cribbins ***General Electric Company - VP of Investor Communications***

Thanks, John. With that, let's open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Andrew Obin with Bank of America Merrill Lynch.

Andrew Burris Obin ***BofA Merrill Lynch, Research Division - MD***

Just a broader question in terms of the read on GE Capital and Power. What does it say about lines of communications inside GE? Because that's the question we've been getting from investors. And what are you doing to improve those, not to have sort of events like power and insurance in 2018 and beyond?

John L. Flannery ***General Electric Company - Chairman & CEO***

Andrew, this is John. I think I'd just look back to my style, in terms of operating the business, is really driven around operating rigor, execution, accountability. That's been the way I run all of the businesses I've been in. I think we can improve in those areas, as we've laid out before. And I'd say we're having ongoing and very robust discussions with every part of our portfolio about what's going on in those segments and where we can improve operations. So I'm highly confident that we can operate in that environment. That's been my track record, and I expect that going forward with the teams, and they're clear on that.

Jamie S. Miller ***General Electric Company - CFO & Senior VP***

And there may be...

Andrew Burris Obin ***BofA Merrill Lynch, Research Division - MD***

And do you know that...

Jamie S. Miller ***General Electric Company - CFO & Senior VP***

Sorry. I'll talk for a minute if it's about the maybe the size of this charge relative to some of the earlier discussions that we have had with investors. The $3 billion number we had talked about before is a GAAP number, and that correlates to the $6.2 billion charge that we announced today. Back in second and third quarter, we had told you that we had deferred the 2017 GE Capital dividend of about $3 billion and that we were not planning on a dividend for 2018. And in November, I had said I expected this charge to be more than that. Now we were in the middle of a process. We did not have a number. And this process, as you can imagine, is very complex. It involves multiple assumptions, multiple models and the long-term care space is a more judgmental space. We completed our work late last week with the Kansas Insurance Department. And we had said that we would share the charge when we knew it, that's why we're having the call today.

Operator

The next question is from Steve Tusa with JPMorgan.

Charles Stephen Tusa ***JP Morgan Chase & Co, Research Division - MD***

Can you just talk about, I guess, the Industrial Finance, the move from $26 billion to $15 billion? I would assume that a decent part of that is on the internal factoring program. And then is there any impact, if that is the case, on industrial free cash flow in the intermediate term or leverage there at industrial?

Jamie S. Miller ***General Electric Company - CFO & Senior VP***

Yes. So the Industrial Finance reduction, $26 billion to $15 billion, a large portion of that is factoring. Now our programs are arm's length at market rates. I mean, it's always been something where if we wanted to move them to external banks, we could. And so as we move through the next 24 months and really look to shrink the GE Capital balance sheet, we do expect to move some of those programs. We are not planning significant changes to the industrial profile out of monetization at this point. And we don't expect this shrinkage to really impact our ability there.

Charles Stephen Tusa ***JP Morgan Chase & Co, Research Division - MD***

Do you still -- do they still have recourse to you guys on those, like GE Capital did? When you're moving to the third-parties, are you still guaranteeing a significant portion of those?

Jamie S. Miller *General Electric Company - CFO & Senior VP*

Look, a large portion of these receivables are nonrecourse factoring, just like anything else. And so, look, the terms would be very similar to what we have.

Charles Stephen Tusa *JP Morgan Chase & Co, Research Division - MD*

Okay, great. And then one last question, just on the language. You said you used KPMG audit procedures. Does this mean that this is kind of a certified audited process? And how confident are you that this is kind of the last time you're going to look at this stuff?

Jamie S. Miller *General Electric Company - CFO & Senior VP*

We went through a very thorough process. As we went through it, we involved 2 outside actuarial firms. KPMG, as our auditor, did extensive testing. The GAAP number, as we've concluded, is the $6.2 billion charge we talked about today. This has been reviewed annually over the years, and KPMG tests it thoroughly every year. And this is our best estimate. Look, the statutory process concludes over the next month, but we worked very closely with the Kansas Insurance Department. And we don't expect significant movement there, but that's the other numbers we disclosed this morning.

John L. Flannery *General Electric Company - Chairman & CEO*

Steve, the other thing I'd just add to that, as we discussed earlier, this is a really substantial revaluation of this risk. We open up the model back to its core fundamental assumptions, and there's just been a lot of eyes on this in addition to our own work. Obviously, as Jamie said, 2 different independent actuary firms, KPMG, discussions with the regulators. So I'd say it's a complete overhaul of the model and the risk assessment and involving many third parties as well.

Charles Stephen Tusa *JP Morgan Chase & Co, Research Division - MD*

Have you guys thought of maybe evaluating other auditors, given what's happened here in the last couple of years? I mean, you're changing out the board. If these guys reviewed this stuff every year for the last several years, and this is kind of the result of that, doesn't that kind of raise questions around

(technical difficulty)

Jamie S. Miller *General Electric Company - CFO & Senior VP*

I think you may have cut out there, Steve. But I'll go ahead and answer that question. Our board assesses KPMG every year, and that's a discussion we have every year. There's no change planned at this time, but obviously, that's something we look at every year annually.

John L. Flannery *General Electric Company - Chairman & CEO*

The only other thing I'd add to that is just, as we mentioned earlier, this has gone through a standard evaluation process and testing every year as the standard in the industry. And then every year, through 2016, we had a positive margin. So that process has been -- the fidelity of that has been to the industry practices and accounting practices. And it's really the evolution of the claims experience that we've seen in 2017 that has created the revaluation exercise.

Operator

The next question is from Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner*

Just a couple of things. First, just on liquidity. Jamie, I think you mentioned, using some of the existing cash here in the near term, just give us an update on how much of that cash is earmarked to retire the stranded debt, so to speak, for lack of a better term, and what the cushion is currently against that number?

Jamie S. Miller *General Electric Company - CFO & Senior VP*

Yes. So we have $31 billion of cash and short-term investments on the balance sheet at GE Capital at end of the year. We expect debt maturities in 2018 at GE Capital of $13 billion and $8 billion in 2019. So that gives you a rough sense for that.

Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner*

I think there's some in 2020 also, no?

Jamie S. Miller *General Electric Company - CFO & Senior VP*

There's a small amount in 2020 as well, it's actually $16 billion. So really, though, by the end of 2020, you really get to where the excess debt has really rolled off the books. We expect (inaudible).

Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner*

And then, John, obviously, you've jumped into a difficult situation here. I'm trying to sort through a lot of things. Kind of picking up a little bit, though, on Steve's point. It is hard to imagine a $15 billion problem materialized in the course of a year, like there was not enough rigor behind this process. I just wonder how comfortable you are if you've been able to complete a thorough analysis across the company, whether it's a goodwill accounting, a contract asset, all those sorts of things that are still hot buttons on investors' minds?

John L. Flannery *General Electric Company - Chairman & CEO*

Yes. So let me just walk through that and start with how we began the call. This is deeply disappointing. Again, at a time when we are trying to move forward as a company, we have a lot of progress, green shoots, if you will, in many aspects of the company. I share the surprise and deep disappointment of really this charge coming out of the legacy business. I think we've walked you through the process of how this is handled from 2004 and '06 forward through 2016 and 2017. So there's a lot of specifics related to how these insurance books are accounted for. If you go to the broader picture, I'd say what else is there as a company or what's out there? So one, I'd just say, on the insurance thing again, a robust process that we've gone through. GAAP is the best estimate right now of what we see as the risk after having opened up all the assumptions. We had statutory reserves on top of the GAAP estimates. And we've got the ongoing GE Capital earnings stream and equity value of GE Capital, buttressed largely by the GECAS franchise, which is just a Tier 1 quality asset. So that, we strongly believe this is contained inside of the GE Capital framework. With respect to other liabilities, I'd break them in a few categories. One is other GE Capital exposures, the most significant of that would be the WMC. Jamie touched on this earlier. We got ref and warranty lawsuits outstanding that we have reserved for, and we feel those are appropriate reserves. And then there's a discussion that were just very early days with the DOJ. So that's the WMC look. And then there are other residual assets post the exit of GE Capital. We've got about $700 million of reserves there. And again, we think those reserves are appropriate. At a GE level, I'd say there's 2 big things that have -- that come up. One is with respect to the lawsuits and the signing of the Tyco $3 billion in that, the whole category. We do not believe that our issues rise to the level of security law violations. So we just think we don't have that situation here. And with respect to the CSAs, again, this is an area that's been examined in depth for many years. So we've got a deep controllership function. We've got 300-plus auditors looking at this. And Jamie and I, I'd say, continue to do a comprehensive review of the whole contract asset situation, and we've not seen anything to date that concerns us. But that continues to be an area of focus for me. And then the last thing I'd just say is maybe back to an earlier question. What I can say overall to all of you is I'm committed to running teams with deep rigor, a focus on execution, a focus on accountability. And if I see issues, I'm going to deal with them, but we've been scrubbing deeply all the things you just referenced.

Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder and Managing Partner*

And just one quick one, if I could. CFOA, above the full year guide. What is -- I'm assuming there's a working capital bump in there, but maybe you could give us a little color of what drove that?

Jamie S. Miller *General Electric Company - CFO & Senior VP*

Yes. We had said that CFOA would be above the $7 billion full year guide. We'll talk about that in more detail next week.

Operator

The next question is from Deane Dray with RBC Capital Markets.

Deane Michael Dray *RBC Capital Markets, LLC, Research Division - Analyst*

John, I would like you to, if you could, expand on the comments that you made regarding the ongoing portfolio review. We've had some time since the November 13 meeting, you discussed the ideas that there were other structures that you were looking at. Maybe you can bring us up to date on the thinking there. And can you provide any more specifics at this stage?

John L. Flannery *General Electric Company - Chairman & CEO*

Sure, Dean. I'd say just a couple of thoughts with respect to this topic. It's an important topic. I'd say it's part of really an ongoing review and communication with all of you that goes really back to my initial announcement as CEO of the company, that we'd be taking a comprehensive look at every aspect of the company and that everything was on the table. So that's been, I'd say, a hallmark of our approach from day 1. On November 13th, we really -- let me just put this kind of in a continuum from day 1 through November until now. We walked through 3 basic themes. One was just focus, that we're going to focus the bandwidth of the company around our Power business, which includes our Renewables and Aviation and Healthcare. Two was the bodywork just around the operating rigor and how we're going to run the company, run it for cost, run it for cash, affect capital allocation at all levels, so an operational branch, if you will, about the focused portfolio. And then third was obviously referenced, an ongoing portfolio review about maximizing value, all options on the table, no sacred cows. So I'd say very consistent with the initial comments we had in June and July but with a focus on the 3 businesses. Today, I'd just say, it's again important, I want to continue to communicate my broad thinking about the company with everyone in an ongoing, very transparent dialogue. We've been doing a substantial amount of work on examining the portfolio and the structures post November 13th. That's an ongoing body of work. And I would just say, when I look at this whole issue, Dean, the guiding principle really is just making sure that the businesses themselves can flourish and that they have, obviously, the operating rigor and things that I would expect day-to-day, but that they also have the organic and inorganic and strategic flexibility to maximize the business potential to make sure we keep, obviously, delivering great products and services for customers, to make sure the employees in each one of our business units have the best opportunities and the best reward linkage for their performances and then, obviously, maximizing shareholder value. So as I look at the company and continue to evolve along this continuum, I believe there could be different structures that can achieve all of those objectives and that we need to examine those. So I don't -- I would categorize it as an examination of options. And it's a kind of thing that could result in many, many different permutations, including separately traded assets really in any one of our units, if that's what made sense. So you've already seen that with Synchrony and Baker Hughes. Those are 2, I'd say, examples of how that might work. And that's something we'd consider for other parts of the company. Whether that's Power, Aviation or Healthcare, we're going to have to go through all of those exercises. But the real core approach here is to make sure that these businesses can flourish in the decades ahead and that they have the right capital structures and investment resources to do that. So we'll update you as we go, but I'd say it's consistent with the general communication we've had really back to day 1.

Deane Michael Dray *RBC Capital Markets, LLC, Research Division - Analyst*

And just a quick follow-up. Is there any update you could provide us on the board changes you discussed back in November?

John L. Flannery *General Electric Company - Chairman & CEO*

We have no change from what we gave you in November, that we will reduce to 12 and have 3 new board members. We're in the process of doing that.

Operator

And we'll take one more question. The final question comes from Christopher Glynn with Oppenheimer.

Christopher D. Glynn *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

I just wanted to get a little elementary here, go back to the difference in the charge versus the contributions and some language around modification of certain assumptions. Does that imply that the cash contributions might ultimately be less and gravitate to the level of the pretax charge?

Jamie S. Miller *General Electric Company - CFO & Senior VP*

The capital contribution is not based on GAAP numbers. It's actually based on regulatory or statutory accounting. And there is very prescribed rules not only around the accounting, but also around the required capital of insurance entities. So for statutory, you use more adverse assumptions. There is -- examples of that might be for morbidity. You use more adverse morbidity improvement assumptions. The discount rates tend to be prescribed as opposed to something where you estimate. And then a lot of these assumptions are set as of the end of the year as well. So it's just a different process than GAAP. And then when you get to actually looking at required capital, the insurance regulators have a regulatory calculation around risk-based capital. So that's really what determined the $15 billion contribution. This funding will be spread over 7 years, as we talked about before, so $3 billion next year, roughly $2 billion thereafter each year. And really, the statutory process, we've worked very closely with the Kansas Insurance Department. However, that process really runs for another month or so. The $15 billion is what we think it will be.

Christopher D. Glynn ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Okay. And then just on the tax rate. So for 2018, we can move immediately from a mid- to high-teens outlook to lower 20s, is that correct?

Jamie S. Miller ***General Electric Company - CFO & Senior VP***

Look, the low- to mid-20s, we view that as a long-term rate. For 2018, we are not changing our earlier guide of mid- to high-teens. We'll talk about that in more depth next week, but that's how I think about it.

Matthew G. Cribbins ***General Electric Company - VP of Investor Communications***

All right, thank you. The replay of today's call will be available this afternoon on our investor website. And next Wednesday, January 24th, we'll be holding our 4Q earnings call. We look forward to talking to everyone then. Have a good morning. Thanks.

Operator

Thank you for your participation in today's webcast. This concludes the presentation. You may now disconnect.