



Do you own a Genworth policy?

At Burke Financial Strategies, your financial team's goal is to ensure that your financial goals are met. We do this by managing the tradeoff between risks and reward. We spend more time discussing risk and reward as it applies to your investment portfolio because the investment environment is more fluid and changes somewhat frequently. Insurance is another important tool used to address and minimize the risks to your financial well-being. As insurance companies are relied upon during our most difficult times, we need to ensure that they will be there when they are needed.

Genworth Financial ("Genworth") is an insurance company that provides products in life insurance, annuities, and long-term care insurance, among others. This message is directed to Genworth policy holders, without regard to whether the policy or annuity was provided by Burke Financial Strategies. We have become concerned about Genworth, having observed the stock, often a leading indicator, falling from over \$14 per share last November to just over \$5 per share currently (10/15/15).

It is important that you understand that Genworth continues to maintain a cash balance of just over \$1 billion and has repeatedly stressed that they have a goal of maintaining a cash cushion of 1 ½ times the annual debt service, plus restricted cash. Based on that, it appears that Genworth will maintain the ability to meet claims on their existing life, annuity, and long-term care policies for the near future.

In November of 2014, Genworth reported an unexpectedly large quarterly loss that resulted from a need to increase its reserves on its block of long-term care policies that were on claim. This quickly resulted in downgrades by ratings agencies Fitch and Standard & Poors. During that same month, Raymond James Insurance Group made the decision to suspend the sales of Genworth long-term care, life insurance, and annuity policies. This loss was followed by another large loss the subsequent quarter due to a review of the long-term care policies that are not on claim. This resulted in a downgrade by Moody's. Quarterly results have been normalized since taking these charges.

In early August 2015, Genworth reported respectable results for their second quarter net operating income, however, the announcement of the sale of their lifestyle protection insurance business (credit and mortgage protection insurance) to AXA led to a one-time, after-tax loss of \$306 million in relation to the sale of this business line. This resulted in a net, after-tax loss of \$193 million for the second quarter. While the loss due to the sale was expected, it does

demonstrate that Genworth is still a company in transition. More importantly, Genworth also announced that they no longer plan to sell the life insurance and annuity division, and instead will explore the sale of specific blocks. This led to another decrease in Genworth's stock price. They have, however, entered into an agreement to sell certain blocks of term life insurance policies to another insurance company via reinsurance.

Genworth is in a period of uncertainty. Not surprisingly, recent results have significantly impacted Genworth's ability to sell new life, annuity, and long-term care policies. The stock is down almost 60% over the last year (as of 10/15/15). One of our clients received a notice of a 60% increase in his long-term care insurance premiums.

These factors call into question the long-term future of these lines of business for Genworth. It is beginning to appear likely that Genworth will eventually emerge as primarily a mortgage insurance company that also manages and services old insurance blocks.

It is important to note that the issues that exist at Genworth are solely theirs. While the pricing of long-term care insurance policies has proven difficult for insurers, Genworth's issues are not characteristic of the insurance industry. These concerns do not extend to any company other than Genworth.

If you own an annuity, long-term care insurance policy, or life insurance policy through Genworth and are interested in discussing how these developments might affect you or your contract, please give us a call.

Sincerely,

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