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ATTORNEYS AT LAW

December 1, 2014

To the Policyholders of Penn Treaty Network America Insurance Company and American Network Insurance Company:

The Policyholders Committee was appointed in 2013 to represent the interests of policyholders generally in connection with proceedings for the rehabilitation of Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("ANIC").

The Policyholders Committee has reviewed the Second Amended Plan for the Rehabilitation of ANIC and Penn Treaty (the "Plan"), which the Rehabilitator filed on October 8, 2014. The Committee believes the Plan represents a significant improvement and treats policyholders far better than the Plan the Rehabilitator filed on April 30, 2013. Policyholders will be given choices and will be able to continue to receive coverage.

Although the Plan appears technical and its details are complicated, the essence of it for policyholders is this:

a) The Plan does not change the terms and conditions of your policy.

b) However, ANIC and PTNA are both insolvent and are going to run out of funds to pay claims in the next several years.

c) The great majority of policies are not charged enough premium to cover the benefits and expenses that ANIC and PTNA must pay in the future. The Plan provides that these policies will be turned over to the respective state life and health guaranty associations (unless they are voluntarily modified by policyholders).

d) Under the Plan, the Rehabilitator will divide the business of ANIC and PTNA into a so-called "self-sustaining" block of policies to be housed in ANIC, and a "non-self-sustaining" block of policies to be housed in PTNA. "Self-sustaining" means the policy's current premium rate is adequate compared to the expected future claims on the policy (taking into account the assets allocated with respect to the policy under the Plan). "Non-self-sustaining" means the policy's current premium rate is not adequate (even after taking into account assets allocated with respect to the policy under the Plan).

e) The Rehabilitator estimates that the "self-sustaining" block will start with approximately 20% of all policyholders.

f) The "self-sustaining" block will also be open to "non-self-sustaining" policyholders who voluntarily elect to pay more premium in the future and/or downsize their benefits.

g) By the same token, the "non-self-sustaining" block will be open to "self-sustaining" policyholders who prefer guaranty association coverage over ANIC coverage.

h) You do not have to make a decision about your policy at this time. So long as you continue to pay your premium when it's due, you will continue to receive coverage.

i) You will not have to make a decision about your policy until after the Court confirms the Plan.

j) If the Plan is confirmed, all policyholders will have the chance to choose whether to be in ANIC or in PTNA. However, moving a "non-self-sustaining" policy from PTNA to ANIC will mean agreeing to higher premiums and/or lower benefits.

k) When the time comes, the Rehabilitator will provide you with an individualized election form showing you information about your policy and showing you your choices.

l) The allocation of assets between ANIC and PTNA after their business is divided will make ANIC solvent, in the sense that the Rehabilitator reasonably expects that ANIC will be able to pay claims as they come due over the life of the policies.

m) PTNA and its block of policies will be liquidated, and the policies will be turned over to the respective guaranty associations. Policyholders can expect to have their coverage continue without interruption through their guaranty association.

n) If you are a policyholder who chooses to be in PTNA, you will continue to receive coverage and benefits up to the statutory limit of your state guaranty association, or the maximum benefit allowed under your policy, whichever is less. Based on assets and liabilities as of the end of 2013, approximately half the policyholders in PTNA will receive full policy benefits, and half will have claims that exceed the applicable guaranty association limit by some amount. However, the proportion of policyholders whose claims exceed the applicable guaranty association limit is expected to go up as PTNA's assets go down in the future.

o) The Plan provides for a small amount of additional coverage for claims that go over the guaranty association limits. The assets available for such additional coverage are projected to be limited (from 10 to 20 cents for each dollar of claims over the guaranty association limit).

p) The few policyholders who are not eligible for guaranty association coverage will receive a pro rata share of the assets available for additional coverage. Because they are not eligible for guaranty association coverage, their entire claim will be treated as above any guaranty association limits.

q) For accounting and tax purposes, your policy will be restructured to distinguish between the benefits the Company can afford to pay out of its assets and the benefits it cannot afford to pay. But this restructuring will not affect your coverage.

The Rehabilitator's proposed method for allocating assets between ANIC and PTNA winds up taking some assets from PTNA to make ANIC solvent. As a result, there will be fewer assets available in PTNA for uncovered claims, meaning just that part of a claim which is above the guaranty association coverage limit. Based on assets and liabilities as of December 31, 2013, the difference would be: (a) roughly 11% less assets for uncovered claims of policyholders in PTNA whose policies were issued by PTNA; and (b) roughly 34% less assets for over-the-limit claims of policyholders in PTNA whose policies were issued by ANIC.

The Rehabilitator believes that dividing the business of ANIC and PTNA into "self-sustaining" and "non-self-sustaining" blocks and making the "self-sustaining" block solvent is the best way to comply with the Court's orders, protect policyholders from drastic benefit cuts or premium increases without consent or regulatory approval of the kind proposed in the Plan filed on April 30, 2013, and preserve the basic features of the policies the policyholders chose. Among other things, the Court's orders directed the Rehabilitator: (1) to file a plan of rehabilitation (as opposed to liquidating both Companies); (2) to address inadequate premium rates; and (3) to address "discriminatory" premium rates, whereby policyholders in some states paid less than policyholders in other states paid for the same policies. The Plan rehabilitates the "self-sustaining" block of policies. It addresses inadequate premium rates by liquidating "non-self-sustaining" policies. It addresses historical premium rate discrepancies by making the "self-sustaining block" solvent at the expense of the "non-self-sustaining" block. Finally, the Plan protects policyholders from drastic benefit cuts and premium increases by making rate increases and benefit cuts voluntary.

The Committee may decide to file objections concerning one or more aspects of the Plan. If so, it will only be with the intent of obtaining modifications for the benefit of policyholders and not with the intent of defeating the Plan. Likewise, the Committee may respond to proposals by other parties to modify the Plan, if the proposed modifications are not in policyholders' interests.

The Committee urges you to read the notice package carefully, including the ten page summary of the Plan included in the notice package, and also to review the entire Second Amended Plan and send written comments to the Rehabilitator and the Court by February 13, 2015. This letter and the notice package only provide partial information concerning the Plan. To understand the Second Amended Plan fully, you must read the Plan in its entirety.

The views, conclusions and recommendations expressed in this letter are those of the Committee and not necessarily those of the Rehabilitator or other parties.

Sincerely,

Thomas A. Leonard
Richard P. Limburg

Thomas A. Leonard
Richard Limburg
Counsel for the Policyholders Committee

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