



**IMPORTANT NOTICE TO POLICYHOLDERS, AGENTS, CREDITORS, AND PERSONS  
INTERESTED IN THE AFFAIRS OF PENN TREATY NETWORK AMERICA  
INSURANCE COMPANY AND AMERICAN NETWORK INSURANCE COMPANY**

The enclosed materials are being provided  
to update you on the ongoing rehabilitation process.

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Penn Treaty Network America Insurance Company (In Rehabilitation)  
(Penn Treaty Network America Life Insurance Company in California)  
American Network Insurance Company (In Rehabilitation)

PO Box 7066 :: Allentown, PA 18105-7066

NP\_12-1-14

December 1, 2014

Dear Sir or Madam:

You are being provided this notice because you have been identified as an individual or organization that may have an interest in the receivership of Penn Treaty Network America Insurance Company (“PTNA”) and/or its subsidiary, American Network Insurance Company (“ANIC”) (the “Companies”).

This material was prepared to notify you that an updated proposed Rehabilitation Plan for PTNA and ANIC has been filed in the Commonwealth Court of Pennsylvania. The Rehabilitator filed the Second Amended Plan of Rehabilitation (the “Plan”) with the Commonwealth Court of Pennsylvania (the “Court”) on October 8, 2014. This is a proposed Plan that is subject to approval, disapproval or modification by the Court after a hearing. The Plan is designed to address the condition of PTNA and ANIC (a wholly owned subsidiary of PTNA) in one coordinated effort. We encourage you to read all of the material presented in this booklet.

### **Financial Condition of the Companies**

PTNA and ANIC face serious financial challenges. Both Companies are insolvent. Based on actuarial analyses as updated before filing of the Plan, the Companies are projected to have future policy and expense obligations that will exceed their assets, including future premium collections at current rates, by more than \$3 billion, so that they have less than \$1 in assets for every \$4 that they should hold as reserves for their policies and other liabilities. If no remedial measures are taken, actuarial calculations indicate that the Companies can be expected to have insufficient assets some time in 2014 for PTNA and in 2019 for ANIC to fund fully the benefits for policyholders who are then expected to be on claim and to run out of cash and liquid assets altogether by 2018 in PTNA’s case and in 2024 in ANIC’s case. The long term care (“LTC”) premium rate increases required to remedy this situation, if implemented for all of the Companies’ LTC policies, would average at least 300% with a wide range of variation. These conclusions are based on actuarial analysis and assumptions that entail the exercise of informed professional judgment and informed projections. Given these circumstances, the Court has directed the Pennsylvania Insurance Commissioner (the “Commissioner”) as Rehabilitator to file a plan for the rehabilitation of the Companies. The Plan to which this notice refers is that rehabilitation plan.

### **What Action Do Policyholders Need to Take?**

At this time, no action or decision regarding your policy is required unless you would like to submit comments about or objections to the Plan, according to the instructions below. In addition, at this time, your policy provisions, coverage, and premiums remain the same, but they may be affected upon implementation of a rehabilitation plan. In addition, the Companies retain the right to seek rate increases on their LTC policies outside of the Plan pursuant to the terms of their policies.

## How Are Other Parties Affected by the Plan?

In addition to affecting policyholders, the Plan will affect the interests of agents and creditors. See page 28 for more detail regarding these aspects of the Plan.

## What is Included in the Plan?

A general overview of the provisions of the proposed Plan is available beginning on page 9, and a more detailed summary is provided as Appendix A, beginning on page 16. You are encouraged to read the full Plan, including legal and financial documents, which is available on Penn Treaty's website at [www.PennTreaty.com/RehabPlan](http://www.PennTreaty.com/RehabPlan). **Although this notice package is provided as a summary of the Plan and issues related to the Plan, it is important to review the Plan in its entirety in order to understand its provisions and how they may affect you. Nothing in this document or in the Plan constitutes legal, financial or tax advice. Interested parties should consult their own advisors regarding the effects of the Plan.** If you do not have access to the internet, you may request a printed copy of the Plan. Please note that the Plan is a lengthy document that exceeds 300 pages. Please see page 15 of this mailing for directions to request a printed copy of the Plan and supporting documents.

**The Court may make material modifications to the plan and approve the plan as modified without providing you with prior notification of those modifications and further opportunity to comment. The Plan described below, if approved by the Court, will substantially affect the rights and benefits of the companies' policyholders, creditors and others.**

## How to Submit Comments Regarding the Plan

You have the right to submit formal or informal comments in support of or in objection to the proposed Plan.

**Formal comments and objections** must be filed directly with the Commonwealth Court on or before, February 13, 2015, and state the facts on which the comments are based and offer any suggested modifications to the proposed Rehabilitation Plans.

Formal comments will be public documents, and should be filed directly with the Court at the following address:

Office of Chief Clerk  
Commonwealth Court of Pennsylvania  
Pennsylvania Judicial Center  
601 Commonwealth Avenue, Suite 2100  
Harrisburg PA 17106

*(Instructions continued on next page)*

The formal comments must also be provided to the Statutory Rehabilitator's Counsel and Special Deputy Rehabilitator by email at the following email addresses:

planservice@cozen.com and service@cb-firm.com

If you cannot send an email, you must file a statement with the Court indicating your inability to send an email, and then provide copies of your comments to the Statutory Rehabilitator's Counsel and the Special Deputy Rehabilitator by first-class mail or overnight delivery service at the following addresses:

James R. Potts, Esquire  
Cozen O'Connor  
1900 Market Street  
Philadelphia, PA 19103

and

Patrick H. Cantilo  
Cantilo & Bennett L.L.P.  
11401 Century Oaks Terrace, Suite 300  
Austin, TX 78758

**Informal comments** may be mailed to the Rehabilitator at the following address: Penn Treaty/American Network Rehabilitation Comments, 3440 Lehigh Street, Allentown PA 18103 or emailed to PlanComments@penn treaty.com. Informal comments must be received by the Companies on or before February 13, 2015.

The Rehabilitator will review all informal comments and take them into account in his recommendations and decisions regarding implementation of the Plan as approved by the Court. *Informal* comments will be made available to the Actively Participating Parties, but may or may not be provided to and considered by the Court. If you want to assure that the Court will consider your comments, please follow the procedures for submitting *formal* comments to the Court. The Actively Participating Parties in this proceeding are the Intervenors which includes PTNA's parent company – Penn Treaty American Corporation ("PTAC") and its Chairman, certain PTAC investors, certain agents and brokers, the policyholders committee, the guaranty associations, and certain health insurers.

***Because copies of the informal comments received by the Rehabilitator will be made available to Actively Participating Parties, you should tell the Rehabilitator in your comments whether any of the personal (financial and health) information contained in your comments should NOT be provided to these other parties and identify the information that should NOT be disclosed to them. The entirety of informal comments will be made available to the Actively Participating Parties unless you clearly identify the information that you wish to be withheld.***

### Next Steps

A hearing has been scheduled by the Court regarding the Plan commencing on Monday, July 13, 2015 at 10:00 a.m. in Courtroom 3002 of the Pennsylvania Judicial Center, 601 Commonwealth Avenue, Harrisburg, Pennsylvania. Please check Penn Treaty's website, www.PennTreaty.com, regularly for any changes to this schedule or developments regarding the Plan. The Court will then evaluate information

presented during the hearing and issue a decision to approve, modify, or disapprove the Plan. You will be notified of the results of this court process. If the results require a decision or other action by you, you will be notified at that time.

### Glossary of Terms

A glossary is enclosed, beginning on page 6, to provide explanations of terms that are used in this booklet.

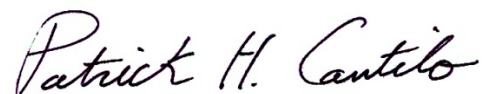
### Questions

Please read the Question and Answer section beginning on page 12 where many frequently asked questions are answered.

If you need clarification on rehabilitation-related information, please call Policyholder Services at 1-800-362-0700. Penn Treaty call center hours are 8 a.m. until 6:30 p.m. (Eastern Time) Monday to Thursday and 8 a.m. until 5:30 p.m. (Eastern Time) on Friday. While Penn Treaty's Call Center representatives have the same packet of information that has been provided to you, and do not have additional information, they are available to help you understand the information in this packet.

The financial condition of the Companies is very serious, and the development of this Plan was a difficult undertaking. The Rehabilitator, the Actively Participating Parties and the Court are aware that the effect of this Plan may be adverse for some policyholders and creditors. Every reasonable effort has been made to design a plan that is consistent with the best interests of policyholders consistent with applicable law and in compliance with the orders of the Court. I urge you to read these materials and the Plan carefully. We stand ready to assist you in making the best decision possible given your particular circumstances if and when the proposed Plan or any modified plan is approved by the Court.

Sincerely,



Patrick H. Cantilo  
Special Deputy Rehabilitator

## Glossary of Terms

**Actively Participating Parties:** The Actively Participating Parties in this proceeding are the Intervenors which includes PTNA's parent company – Penn Treaty American Corporation (“PTAC”) and its Chairman, certain PTAC investors, certain agents and brokers, the policyholders committee, the guaranty associations, and certain health insurers.

**Actuarial Analysis:** A study completed by professional actuaries, who evaluate a variety of factors in determining insurance risk and projecting future company expenses, policyholder claims and terminations, and premiums.

**ANIC:** American Network Insurance Company.

**Companies:** The collective term for Penn Treaty Network America Insurance Company and American Network Insurance Company.

**Company A:** Under the Plan, one of the two companies in which PTNA and ANIC LTC policies will be placed. Company A will remain in rehabilitation for now and could potentially be sold to an acquirer at a later date. LTC policyholders who are initially placed in Company B by the Rehabilitator will be allowed to elect policy modifications to be placed in Company A instead. Under the terms of the Plan, ANIC will be Company A.

**Company B:** Under the Plan, the other of the two companies in which PTNA and ANIC policies will be placed. Company B will be liquidated if the Plan is approved. Upon liquidation, policies in Company B will be provided coverage from state guaranty associations subject to applicable limits and conditions. LTC policyholders who are initially placed in Company A by the Rehabilitator will be allowed to elect to place their policies in Company B to receive coverage provided by their guaranty association instead. All non-LTC policies will be placed in Company B. Under the terms of the Plan, PTNA will be Company B.

**Formal Comments:** Statements in support of or in objection to the Plan. Formal comments must be filed with the Court according to the process described on page 3 and will be public documents. Formal comments must state with specificity the facts on which the comments are based and any suggested modifications to the Plan.

**Guaranty Associations:** State life and health insurance guaranty associations are organizations created under the laws of all 50 states, Puerto Rico, and the District of Columbia to provide certain protections to policyholders of an insolvent insurance company.

**Guaranty Association Coverage:** The benefits which a policyholder is entitled to receive from his or her state guaranty association following an order of liquidation with a finding of insolvency pursuant to, and subject to the limits and conditions provided by, the policy and applicable state law.

**Informal Comments:** Statements in support of or in objection to the Plan or other comments or inquiries regarding the Plan. Informal comments or inquiries may be mailed or emailed to the Rehabilitator according to the process described on page 3. To ensure that comments are considered by the Court, they must be submitted as Formal Comments. Informal Comments will be made available to the Actively Participating Parties and policyholders and persons submitting them should therefore identify personal information they do not wish to be disclosed.

**Liquidation:** When a company is declared insolvent and liquidation is ordered, its assets are liquidated, its liabilities are determined, and its assets are applied to its liabilities under provisions of applicable law. Upon liquidation, state guaranty association coverage is activated to provide continuing coverage and benefits to policyholders subject to statutory limits and conditions.

**LTC:** Long-term care.

**Non-Self-Sustaining Policies:** Policies for which current premium rates are inadequate compared to the amount that is projected to be paid in future claims and related expenses for these policies taking into account assets allocated to the policies pursuant to provisions of the Plan.

**Premium:** The amount charged for insurance coverage.

**PTNA:** Penn Treaty Network America Insurance Company.

**Rehabilitator:** Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania, and his successors in office, the court-appointed statutory rehabilitator of PTNA and ANIC.

**Reinstatement Provisions:** A policy provision permitting the reinstatement of a policy that has been cancelled as a result of non-payment of premium if certain conditions are satisfied. After a policy is cancelled due to non-payment of premium, the policy may only be reinstated if a completed reinstatement application and all premiums due are received by the insurer within six months of the date of cancellation. The policyholder must also qualify for reinstatement through the underwriting process.

**Second Amended Plan of Rehabilitation (the "Plan"):** The proposed Rehabilitation Plan that was filed by the Rehabilitator with the Commonwealth Court of Pennsylvania on October 8, 2014.

**Self-Sustaining Policies:** Policies for which current premium rates are adequate compared to the amount that is projected to be paid in future claims and related expenses for these policies taking into account assets allocated to the policies pursuant to provisions of the Plan.

## Chronology of Rehabilitation Events

**January 6, 2009:** Upon request of the Commissioner with the consent of PTNA and ANIC, the Commonwealth Court of Pennsylvania ordered PTNA and ANIC into rehabilitation. These rehabilitation orders placed the Companies under control of the Commissioner subject to the orders of the Court.

**October 2, 2009:** The Rehabilitator requested that the Court place PTNA and ANIC in liquidation after he was advised that actuarial analysis indicated that PTNA's and ANIC's financial condition was far worse than previously understood. The Rehabilitator had concluded that the Companies' insolvency could not be remedied and that other methods of rehabilitation would be more harmful to policyholders than liquidation.

**May 3, 2012:** The Court denied the liquidation petitions and ordered that the Rehabilitator develop a plan of rehabilitation for the Companies.

**October 26, 2012:** The Rehabilitator filed an appeal of the Court's decision not to authorize liquidation of the Companies. (As of the mailing of this notice, this appeal is still pending before the Supreme Court of Pennsylvania.)

**April 30, 2013:** The Rehabilitator filed proposed Rehabilitation Plans for PTNA and ANIC (the "2013 Plans"). Notice of the 2013 Plans was sent to all policyholders and other interested parties as ordered by the Court. Hundreds of comments were received in response to those plans.

**September 24, 2013:** The Court instructed the various interested parties to attempt to negotiate a resolution to the objections to the 2013 Plans. These parties included the Rehabilitator, a newly formed Policyholders Committee, representatives of Penn Treaty American Corporation (the parent company), agents, investors, guaranty associations, and several health insurers. As a result of these meetings, the Rehabilitator developed this Plan as an alternative to the 2013 Plans.

**August 8, 2014:** The Rehabilitator completed an Amended Plan of Rehabilitation for the Companies and filed the Amended Plan with the Court.

**October 8, 2014:** The Rehabilitator filed the Second Amended Plan of Rehabilitation (the "Plan"). The Plan documents a different approach than the approach proposed in the 2013 Plans. The provisions of the 2013 Plans as then filed are no longer being considered.



## Overview of the Plan

The summary below is provided to give you a broad overview of the components of the Plan. A more detailed Plan summary is provided in Appendix A beginning on page 16. **YOU SHOULD NOT RELY SOLELY ON THE INFORMATION CONTAINED IN THIS NOTICE PACKET.** It is recommended that you read the full Plan, which is available on Penn Treaty's website at [www.PennTreaty.com](http://www.PennTreaty.com).

PTNA and ANIC are in rehabilitation because the Companies face serious financial challenges and lack sufficient assets. The majority of the Companies' policies have premium rates that are inadequate in relation to the claims and expenses that are expected to be paid on those policies.

### Policies Will Be Divided into Two Companies

The Plan calls for dividing the Companies' policies into two groups, as described below.

All long-term care policies from PTNA and ANIC will be divided into ANIC as Company A and PTNA as Company B. A policyholder who currently has an ANIC policy may be assigned to either ANIC as Company A or PTNA as Company B. A policyholder who currently has a PTNA policy may be assigned to ANIC as Company A or PTNA as Company B. Each LTC policy will be assigned to either ANIC as Company A or PTNA as Company B, based on an actuarial analysis that will consider the projected premiums, expenses and benefits of each policy taking into account assets allocated to that policy pursuant to provisions of the Plan. All non-LTC policies will be placed in Company B.

After the Rehabilitator assigns the policies to either ANIC as Company A or PTNA as Company B, every policyholder will have the option to elect to have his/her policy moved to the other company. The Plan allows a policyholder to stay with the assigned company (A or B) or to move to the other company.

If and when the Plan is approved by the Court, policyholders will be mailed information explaining to which company their policies will be assigned and explaining any action that will be required. Policyholders will have certain options to change these assignments. (See the "Policyholder Choice" section on page 11.)

### Policies Assigned to ANIC

The policies that would be assigned to ANIC as Company A under the Plan will be those LTC policies that have been actuarially determined to be self-sustaining. In other words, the current premium charged for these policies is adequate compared to the amount that is projected to be paid in future claims and associated expenses for these policies, taking into account assets allocated to the policies pursuant to provisions of the Plan.

The Plan proposes that ANIC as Company A will remain in rehabilitation for now and could potentially be sold to an acquirer at a later date.

The Plan is designed so that policyholders assigned to ANIC as Company A will continue to pay the same premium for the same benefits as they do currently. However, it is possible in the future that ANIC as Company A could find it necessary to seek state approval of premium rate increases. In addition, policies placed in ANIC as a result of policyholder elections may have changes in benefits, premiums, or both, based on elections made by policyholders.

### **Policies Assigned to PTNA**

The policies that would be assigned to PTNA as Company B under the Plan will be those LTC policies that are not self-sustaining, according to actuarial projections. In other words, the current premium charged for these policies is not adequate compared to the amount that is projected to be paid in future claims and associated expenses for these policies, taking into account assets allocated to the policies pursuant to provisions of the Plan. Policies that are not LTC insurance policies will also be placed in PTNA as Company B.

The Plan proposes that PTNA as Company B will be liquidated. Upon liquidation, policies placed in PTNA as Company B will be provided coverage from state guaranty associations of the policyholder's state of residence, subject to individual state limits and coverage conditions. Please see pages 13, 17 and 30 for information about guaranty association coverage.

The Plan contemplates that policyholders assigned to PTNA as Company B will continue to pay the same premium as they do currently. However, it is possible that guaranty associations will seek to raise PTNA premium rates in the future. There will be no change in the coverage provided under many policies in PTNA as Company B. However, the coverage provided by many other policies in PTNA could exceed state guaranty association coverage limits and may have to be changed or reduced for that reason. The Plan provides that PTNA policyholders in this category may receive some additional insurance coverage or other benefits in excess of guaranty association limits. The nature and amount of this additional insurance coverage or other benefits have not been determined. For policies that provide coverage in excess of applicable guaranty association limits, the guaranty association's coverage plus any additional coverage will be less, and in many cases substantially less, than the stated policy benefits. However, the coverage provided by the New Jersey guaranty association is unlimited and this reduction will not apply to policies covered by that guaranty association.

### **Policyholder Choice**

After the Rehabilitator assigns the policies to either ANIC as Company A or PTNA as Company B, every policyholder will have the option to elect to have his/her policy moved to the other company. The Plan allows a policyholder to stay with the assigned company (A or B) or to move to the other company.

Policyholders assigned to ANIC as Company A will have the opportunity to choose PTNA as Company B. Policyholders electing to move to PTNA will receive the same treatment as policyholders originally assigned to PTNA by the Rehabilitator (see "Policies Assigned to PTNA" on page 10).

Policyholders assigned to PTNA as Company B (who are not on claim) will have the opportunity to choose ANIC as Company A, if they voluntarily pay more premium or reduce their benefits, or a combination of both. Policyholders assigned to PTNA as Company B (who are on claim) may only modify their policies through benefit reductions in order to have them placed in ANIC as Company A. The amount of additional premium and/or reduction in benefits to make non-self-sustaining policies self-sustaining will be significant in most cases. The maximum allowable premium rate increase will be 100% (doubling the premium). Any additional modifications needed to make a policy self-sustaining must take the form of reduced benefits. POLICYHOLDERS WILL NOT BE ABLE TO REVERSE ANY POLICY MODIFICATIONS THEY ELECT UNDER THE PLAN.

### **No Election Required at This Time**

You do not need to make any choice regarding your policy at this time. Information is not currently available to determine whether your policy will be assigned to Company A or B. You will be notified if and when a decision is required, which will only be after the Court approves (or modifies and approves) the Plan. At that time, the Rehabilitator will provide each policyholder with a personalized statement containing relevant facts about each policy and the choices that will be available to each policyholder.

### **Action Required To Submit Comments**

If you would like to submit formal or informal comments in support of or in objection to the proposed Plan, please see the instructions for doing so on page 3.

## Questions & Answers about Rehabilitation

### **1. Is my coverage changing? Is my premium rate increasing?**

At this time, your policy provisions, coverage, and premiums remain the same. As explained in the Plan and in this notice, premiums and coverage may change once the Plan (as proposed or modified) is implemented. If and when a rehabilitation plan is approved, you will be fully informed about how your policy will be affected.

### **2. How does the Plan affect my current pending or open claim?**

Claims for policy benefits will continue to be processed and paid in the normal course of business while the Plan is being considered by the Court. No policy changes will be implemented prior to the Court's approval or modification and approval of the Plan. If and when a rehabilitation plan is approved, you will be fully informed about how your policy will be affected.

### **3. What happens if I decide to stop paying my premiums?**

You must continue to pay your policy premium to the Companies, when due, to continue the coverage provided by your policy. If you stop paying premium, your policy will lapse. If your policy lapses, you will lose your insurance protection (and any possible guaranty association coverage). After your policy lapses, it will be subject to the reinstatement provisions in your policy.

### **4. When will a Rehabilitation Plan be implemented?**

The Rehabilitation Plan will not be implemented unless and until it is approved by the Court. The Rehabilitator expects that hearing and decision on the Plan will occur no earlier than seven or more months from now. At that time, the Court may approve, modify, or disapprove the Plan that is currently being considered. If and when the Plan is approved, you will be fully informed about how the plan will affect your policy and the options available to you.

### **5. To which company will my policy be assigned?**

At this time we cannot say which policies will be assigned to each company. This determination involves complex actuarial projections and calculations that will not be completed until after the Plan is approved, based on information available at that time.

If and when the Plan is approved (or modified and approved) by the Court, policyholders will be mailed detailed information explaining to which company their policies will be assigned and the specific options available for any particular policy.

**6. If the Plan is approved by the Court, when would PTNA as Company B be liquidated and Guaranty Association coverage be triggered?**

Although the exact timing of the liquidation of PTNA as Company B is unknown at this time, PTNA will be liquidated when the policies have been assigned and the Rehabilitator is satisfied that the assignment of policies and any necessary relicensing of the Companies meets with regulatory approval. The timeline for implementation of the Plan is dependent upon the timing of Plan approval by the Court and other steps. It is anticipated by the Rehabilitator that PTNA will be liquidated many months after the Plan is approved by the Court.

**7. What will happen if and when PTNA as Company B is liquidated?**

In the event that PTNA as Company B is ordered into liquidation, the state insurance guaranty associations would continue to provide insurance coverage and benefits for policyholders subject to applicable policy and statutory coverage limits and conditions. Appendix B in this booklet (page 30-31) is a table showing the maximum benefit amount (“GA Coverage Limit”) in each state for long-term care insurance. In most states that limit is \$300,000, though it is unlimited in New Jersey, and certain other states have limits that are higher or lower than \$300,000. Please see the next question (#8) and page 17 for additional information about state guaranty association coverage.

**8. What is a guaranty association and how does it work?**

State life and health insurance guaranty associations are organizations created by the laws of all 50 states, Puerto Rico, and the District of Columbia to provide certain protections to policyholders of an insolvent insurance company. Insurance companies licensed to sell life or health insurance in a state must be members of that state’s guaranty association.

When a company is liquidated, generally state life and health insurance guaranty associations are required to provide continuing coverage and benefits to eligible policyholders of the liquidated company living in their state, subject to state coverage, limits and other conditions. Coverage is coordinated on a state-by-state basis, and is generally determined by a policyholder’s state of residence on the date of liquidation. Additional guaranty association information will be provided if and when the Plan is approved.

Once liquidation is ordered, the state guaranty association provides coverage to the company’s policyholders who reside in that state, up to the limits and subject to the conditions specified by state laws. As discussed above, the maximum benefit amount (“GA Coverage Limit”) for long-term care insurance in most states is \$300,000, although some states have limits that are higher or lower and in New Jersey there is unlimited coverage, subject to policy provisions and state law.

Each state’s guaranty association makes its own coverage determinations in accordance with applicable law. Neither the Rehabilitator nor PTNA as Company B is responsible for the coverage decisions of the

guaranty associations. It is possible that at least some of the guaranty associations will seek premium rate increases in the future for the coverages they assume from PTNA and ANIC.

More information about guaranty association protection is available at [www.nolhga.com](http://www.nolhga.com).

**9. Will policyholders be able to “opt out” of the Rehabilitation Plan and get a refund of premiums paid?**

No, the Plan does not allow policyholders to cancel their policies and receive premium refunds (other than limited unearned premium refunds that may be provided by the policy). If you choose to cancel your policy, you will lose your insurance coverage and all premiums paid for the policy (except any unearned premium for the balance of the policy year).

**10. Who do I contact with my comments about the Plan?**

If you would like to submit formal or informal comments in support of or in objection to the proposed Plan, please see the instructions for doing so on page 3.

**11. Have any other rehabilitation alternatives been considered?**

A number of other alternatives have been explored and it has been determined by the Rehabilitator that they are either not feasible or that the Plan is preferable under the current circumstances.

**12. Who can I call for more information?**

If you need clarification on any rehabilitation-related information, please visit the rehabilitation section of our website, [www.PennTreaty.com](http://www.PennTreaty.com), or call 1-800-362-0700.

### **13. What do I do if I don't have access to a computer or the internet?**

If you do not have access to a computer where you can view the documents, you can request to be placed on a mailing list to receive hard copies of all Court orders and filings. If you currently receive hard copies of all Court orders and filings, you do not need to make another request.

This request must meet the following requirements:

- 1) The request must be submitted in writing and sent to Penn Treaty by mail, fax, or email as follows:
  - a. **First-class mail** to Penn Treaty Network America Insurance Company (In Rehabilitation), 3440 Lehigh Street, Allentown PA 18103, Attention: Jane Bagley, Esquire, **or**
  - b. **Fax** to the attention of Jane Bagley, Esquire, at the following number: 610-967-1098, **or**
  - c. **Email** to [mssl@penn treaty.com](mailto:mssl@penn treaty.com).
- 2) The written request must be signed and contain the following statement:

*In making this request, I hereby affirm to the Commonwealth Court of Pennsylvania that I do not have regular access to a computer or other device providing me internet access to the Site or I am otherwise unable to view, download or print documents from the Site related to this matter.*

### **14. Will agent commissions continued to be paid in both companies?**

As stated in the Plan, ANIC as Company A will pay agents' commissions arising from premium it collects after the Effective Date. PTNA as Company B will not pay agents' commissions after the Effective Date. Additional information is located on page 28 in Appendix A – Summary of the Plan – Agents and Creditors.

### **15. How will the Plan impact creditor payments?**

The rehabilitation debts of both companies are costs and expenses of administration within the purview of 40 P.S. § 221.44 and will continue to be paid currently. Debts to creditors incurred prior to the rehabilitation proceedings on January 6, 2009, will generally not be paid until all policyholder debts are satisfied. Additional information is located on page 28 in Appendix A – Summary of the Plan – Agents and Creditors.

## APPENDIX A

### SUMMARY OF THE PLAN

THE FOLLOWING SUMMARY (WHICH IS ALSO CONTAINED IN THE PLAN) IS OFFERED ONLY FOR THE CONVENIENCE OF THE READER. TO UNDERSTAND THE PLAN FULLY, THE READER IS ADVISED TO REVIEW THE PLAN DOCUMENTS IN THEIR ENTIRETY. IF ANY DESCRIPTIONS OF PLAN PROVISIONS IN THIS SUMMARY ARE INCONSISTENT WITH THE CORRESPONDING DESCRIPTIONS IN SECTION IV OF THE PLAN, SECTION IV OF THE PLAN CONTROLS. TERMS USED IN THIS SUMMARY ARE DEFINED IN THE PLAN.

The Second Amended Plan for the rehabilitation of the Companies filed on October 8, 2014, (the "Plan") is a consolidated plan for PTNA and ANIC that proposes to divide the viable Long Term Care (LTC) insurance business of PTNA and ANIC from the non-viable business. The viable LTC business will be collected in "Company A" and will consist of Self-Sustaining LTC Policies as defined in the Plan. The non-viable business will be collected in "Company B" and will consist initially of Non-Self-Sustaining LTC policies and non-LTC policies. For reasons discussed in the Plan, the Rehabilitator has concluded that ANIC should be Company A and PTNA should be Company B.

#### Business Division Plan

The central element of the Plan is the division of the Companies' LTC insurance business into Self-Sustaining and Non-Self-Sustaining blocks of business. PTNA and ANIC both have a mix of Self-Sustaining and Non-Self-Sustaining policies. Therefore, it will be necessary to move Self-Sustaining LTC policies from PTNA over to ANIC as Company A, and Non-Self-Sustaining LTC policies from ANIC over to PTNA as Company B, so that ANIC will have only Self-Sustaining LTC policies, and PTNA will have all the Non-Self-Sustaining LTC policies. Non-LTC policies in ANIC will also be transferred to PTNA. The Plan will provide every LTC policyholder the option of having his or her LTC policy placed or held either in ANIC or PTNA, though many policyholders would have to modify their policies voluntarily (through increased premium rates or reduced benefits) in order to make them Self-Sustaining so that they can be placed or remain in ANIC.

Following the business division, ANIC is designed to have the contractual obligation and the ability to pay projected claims in full on the Self-Sustaining LTC policies it will have. The Plan contemplates that ANIC will be financially viable in the sense that it will be projected to have sufficient assets and revenues to meet its liabilities as they come due, though it will not have sufficient statutory surplus to be permitted to operate independently and write new insurance business. Subject to regulatory requirements, ANIC as Company A could eventually be sold and resume independent insurance business with an infusion of additional capital, or ANIC could sell its block of business to another insurer.



## Guaranty Association Coverage

PTNA as Company B will be placed in liquidation, and its remaining policyholders (after the transfer of policies to and from ANIC) will be entitled to receive benefits from their state life and health insurance guaranty associations. Guaranty association benefits will be triggered in all states other than New York (where neither Company was licensed) by the entry of an order for liquidation and a finding that PTNA is insolvent. Guaranty associations generally pay according to policy terms, but are subject to statutory limits and conditions. A GUARANTY ASSOCIATION GENERALLY WILL PAY UP TO THE POLICY LIMIT OR THE STATUTORY LIMIT, WHICHEVER IS LESS. NOTE THAT THE GUARANTY ASSOCIATION LIMIT IS PER POLICYHOLDER (WITHIN EACH COMPANY), NOT PER POLICY. As discussed below, the Plan provides for some additional coverage in cases where a policyholder's claim is within policy limits but exceeds the applicable guaranty association limits (the "Uncovered Benefits"). The Plan provides for the formation of a liquidating trust (the "Trust") to administer the Uncovered Benefits. The Trust will be governed by a board of Trustees appointed by the Rehabilitator. The Plan also provides for the possibility that another insurer or ANIC will provide Uncovered Benefits Coverage, in which case formation of the Trust may not be necessary.

Each policyholder will only be entitled to receive benefits from one guaranty association, determined by the laws of each state. Generally, if a policyholder is entitled to receive benefits from the guaranty association of his or her state of residence no further inquiry is necessary. However, when that is not the case, the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) may be required to provide such benefits because the Companies are domiciled in this state. Each guaranty association makes its own coverage determinations in accordance with applicable law. Neither the Rehabilitator nor PTNA is responsible for the coverage decisions of the guaranty associations. The guaranty associations may establish a special insurer (the "GA Captive") to coordinate the administration and payment of benefits by all the guaranty associations.

## Self-Sustaining Policies

The Rehabilitator will determine which LTC policies are Self-Sustaining with the assistance of PWC, the firm retained by the Rehabilitator to conduct the actuarial analysis, and the Companies' actuaries. A policy will be considered Self-Sustaining if the present value of expected future premiums, plus an allocation of the issuing Company's assets, equals or exceeds the present value of expected future claims for benefits and an allocated portion of future company expenses. Put another way, the Allocated Assets for the policy must equal or exceed the policy's Gross Premium Reserve (i.e., the present value of expected future claims and expenses minus the present value of expected future premiums).

Solely for purposes of determining which policies are Self-Sustaining, the Rehabilitator and the actuaries will allocate each Company's assets using the Net Accumulated Premium Method (NAPM) described in Exhibit A of the Plan. ANIC assets will be allocated among ANIC policies, and PTNA assets will be allocated among PTNA policies. If a policy's NAPM allocation equals or exceeds the policy's GPR, the policy will be identified as Self-Sustaining. NOTE THAT THE NAPM ALLOCATION WILL NOT GIVE A

POLICYHOLDER THE RIGHT TO ANY SPECIFIC SHARE OF COMPANY ASSETS. Policyholders will have only the contract rights specified in their policies, the right to make choices permitted by the Plan, and the rights granted by applicable law.

### Policyholder Elections

A hallmark of the Plan is that every LTC policyholder has the opportunity to choose whether his or her policy will be placed in ANIC as Company A or PTNA as Company B. A policyholder who has a Self-Sustaining LTC policy may elect to have his or her policy remain or be placed in either ANIC for rehabilitation or PTNA for liquidation. Likewise, a policyholder who has a Non-Self-Sustaining LTC policy will have the option to have his or her policy placed either in ANIC (subject to voluntary modification) or in PTNA. Due to the very small number of non-LTC policies and the resulting volatility of that business, the non-LTC policyholders will not be offered a choice between ANIC and PTNA. Their policies will be placed in PTNA and receive guaranty association benefits.

For Non-Self-Sustaining LTC policyholders, the election to have their policies remain or be placed in ANIC will require that they voluntarily modify their policies to make them Self-Sustaining. IF A POLICYHOLDER ELECTS VOLUNTARILY TO MODIFY HIS OR HER POLICY, ONCE THE MODIFICATION IS MADE IT WILL BE PERMANENT AND IRREVERSIBLE. In most cases, voluntary policy modifications can take the form of increased premium rates, reduced benefits, or a combination of the two. The maximum allowable voluntary premium rate increase will be 100%. Any additional modification needed to make a policy Self-Sustaining will have to take the form of reduced benefits. (The Plan does not allow policyholders to convert their policies to Reduced Paid Up policies, except as required by policy provisions or by applicable law, e.g., upon the imposition of involuntary rate increases.) It is likely that the Rehabilitator will seek from the Internal Revenue Service of the Department of the Treasury (the "IRS") a favorable private letter ruling ("PLR") to the effect that policy modifications under the Plan would not produce taxable deemed exchanges or other adverse tax consequences for policyholders.

For purposes of electing voluntary policy modifications under the Plan, reducing benefits will take the form of reducing the policy's Maximum Benefit Amount. For a policy that has a stated maximum benefit period, the policy's Maximum Benefit Amount is the maximum daily benefit times the number of days in the maximum benefit period. Thus, a policy having a maximum daily benefit of \$200 and a maximum benefit period of three years would have a Maximum Benefit Amount of \$200 x 3 years x 365 days = \$219,000. A policy that has unlimited or lifetime benefits does not have a defined Maximum Benefit Amount. Under the Plan, an unlimited policy's actuarially calculated GPR will be used as a proxy for a Maximum Benefit Amount.

By way of example, suppose the present value of a policy's expected future claims and allocated expenses exceeds the present value of expected future premiums by \$100,000 and the NAPM Asset Allocation only reduces the difference to \$50,000. To make the policy Self-Sustaining, the policyholder could agree to pay enough extra annual premium to increase by \$50,000 the present value of expected future premium payments. Alternatively, the policyholder could agree to reduce the Maximum Benefit

Amount just enough to reduce the present value of expected future claims and expenses by \$50,000, or the policyholder could agree to combine a premium increase with a reduced Maximum Benefit Amount. In the case of an unlimited policy, the policyholder would have to agree to a definite Maximum Benefit Amount, and the policy would cease to be unlimited.

The Companies' actuaries will calculate the voluntary premium rate increases and the benefit period reductions for each Non-Self-Sustaining LTC policy to become Self-Sustaining and be placed or remain in ANIC. Each Active Policyholder who has a Non-Self-Sustaining LTC policy will receive a personalized statement showing a range of premium increases and the corresponding Maximum Benefit Amounts that would make his or her policy Self-Sustaining if the premium were increased by 0%, 25%, 50%, 75% and 100%, or if less than 100%, the actual percentage necessary to make the policy Self-Sustaining. Beyond a 100% premium increase, only Maximum Benefit Amount reductions will be shown. The statement will also show the Maximum Benefit Amount, the Uncovered Benefits amount (if any), and the annual premium for the same policy, if placed in PTNA. See Section IV.D. of the Plan for illustrative examples.

In cases where a policy's current Maximum Benefit Amount (or GPR) is at or below the applicable guaranty association limit, modifying a Non-Self-Sustaining policy to qualify to remain or be placed in ANIC will not result in additional coverage or be necessary to avoid a reduction in coverage. **Policyholders should evaluate carefully the desirability of electing modifications under these circumstances.**

Non-Self-Sustaining policyholders who are on claim or RPU status at the time of policyholder elections will not have the option to increase their premiums and will only be able to make their policies Self-Sustaining by reducing their Maximum Benefit Amount. Other policyholders who will not have the option to increase their premiums are the Non-Self-Sustaining policyholders who are not on claim at the time of policyholder elections, but who later go on claim before the Effective Date. Even if they have previously elected a premium increase, they will only be allowed to reduce their Maximum Benefit Amount, or to change their election to have their policies remain or be placed in PTNA. By contrast, Self-Sustaining LTC policyholders will be able to choose between ANIC and PTNA, but will not have the option to modify their policies.

The following flow chart illustrates policyholder elections envisioned by the Plan and their consequences. For purposes of this chart, the following definitions (also contained in the Plan's Glossary) may be helpful:

**"Gross Premium Reserve" or "GPR"** means the present value as of the valuation date of expected benefits unpaid, expected expenses unpaid, and unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect and including provision for moderately adverse developments. GPR is the reserve amount that results from performing a Gross Premium Valuation (GPV). Expected expenses include commissions and

premium taxes in the case of ANIC (which will be in rehabilitation), but not in the case of PTNA (which will be in liquidation and unable to pay them).

**“Net Accumulated Premium”** means the total gross premiums paid under a policy from inception until the valuation date, less the Expected Losses for that policy.

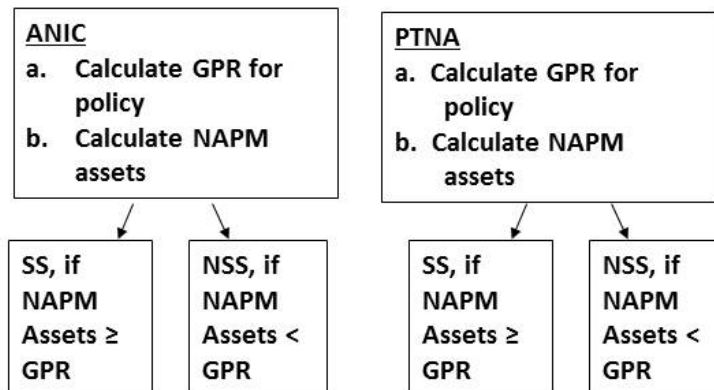
**“Net Accumulated Premium Method”** or **“NAPM”** means allocation of assets in proportion to the Net Accumulated Premium of the relevant policies.

**“Non-Self-Sustaining Policy”** means a policy the Gross Premium Reserve (GPR) of which exceeds the assets allocated to it using the Net Accumulated Premium Method (NAPM).

**“Self-Sustaining Policy”** means a policy for which the assets allocated using the Net Accumulated Premium Method (NAPM) equal or exceed its Gross Premium Reserve (GPR).

## POLICYHOLDER ELECTION FLOW CHART

- Non-Long Term Care Policies (accident, disability, cancer, hospital surgical indemnity, and post-acute recovery policies) default to PTNA and cannot elect ANIC, whether or not self-sustaining.
- Determination of Self-Sustaining Long Term Care Policies



- If no election, Self-Sustaining LTC Policies default to ANIC
  - a. No change to policies
  - b. No immediate premium increase\*
  - c. No coverage limit, except as stated in policy
  - d. Right to elect PTNA
- If no election, Non-Self-Sustaining LTC Policies default to PTNA and receive Guaranty Association coverage
  - a. No change to policies
  - b. No premium increase\*\*
  - c. Guaranty Association coverage, subject to state statutory limits and conditions
  - d. Potential for some excess coverage
  - e. Right to elect ANIC, with policy modifications

\* ANIC may seek involuntary premium increases in the future subject to policy terms and state by state regulatory approval based on loss experience.

\*\* Although Guaranty Associations have rarely sought rate increases in the past, they have the statutory authority to do so, subject to applicable law, policy terms and state by state regulatory approval.

The following two charts provide more detail about elections available to policyholders in specific circumstances:

- **SS policyholders who are on claim or not on claim can elect either:**

**ANIC**

- a. No change to policy
- b. No immediate premium increase\*
- c. No coverage limit, except as stated in policy

**OR**

**PTNA**

- a.No change to policy
- b.No immediate premium increase\*\*
- c. Guaranty Association coverage, subject to statutory limits and conditions
- d. Potential for some excess coverage

- **NSS policyholders who are not on claim can elect either:**

**PTNA**

- a. No policy modification
- b. No immediate premium increase\*\*
- c. Guaranty Association coverage, subject to statutory limits and conditions
- d. Potential for some excess coverage

**OR**

**ANIC**

- a.Choice of options to make policy self-sustaining through permanent policy modifications:
  1. increase premium voluntarily (but no more than 100%)
  2. decrease benefit amount voluntarily (i.e., limit benefits)
  3. combination of 1 and 2

- **NSS policyholders who are on Claim and policyholders who are on Reduced Paid Up status at the time of policyholder elections can elect either:**

**PTNA**

- a. **No policy modification**
- b. **No immediate premium increase\*\***
- c. **GA coverage, subject to statutory limits and conditions**
- d. **Potential for some excess coverage**

**OR**

**ANIC**

- a. **Choice of options to make policy self-sustaining through permanent policy modifications:**
  - 1. **decrease benefit amount voluntarily (i.e., limit benefits)**
  - 2. **no premium increase allowed**

- **NSS policyholders who elect ANIC but then go on claim before the Effective Date may not increase premiums, and can elect either:**

**PTNA**

- a. **No policy modification**
- b. **No immediate premium increase\*\***
- c. **GA coverage, subject to statutory limits and conditions**
- d. **Potential for some excess coverage**

**OR**

**ANIC**

- a. **Choice of options to make policy self-sustaining through permanent policy modifications:**
  - 1. **decrease benefit amount voluntarily (i.e., limit benefits)**
  - 2. **no premium increase allowed**

## Asset Allocations

An important element of the Plan is how the Companies' assets as of the Effective Date will be allocated. Provision will first be made for the costs and expenses of administering the rehabilitation proceedings and implementing the Plan, including incurred but unpaid administrative expense claims. The remaining assets will then be allocated between ANIC, PTNA, the guaranty associations, and the Trust (or the insurer providing Uncovered Benefits Coverage), as described below.

In the first instance, each Company's assets will be allocated with respect to each Company's policies in proportion to each policy's Net Accumulated Premium. This approach, referred to as the *Net Accumulated Premium Method*, is intended to comply with the requirement in the Court's Order of May 3, 2012, that the "*plan of rehabilitation must address and eliminate the inadequate and unfairly discriminatory premium rates for the OldCo business.*" The Plan seeks to do so by allocating assets in proportion to the total Net Premium actually paid by each policyholder. For purposes of this exercise, the Net Premium is the sum of the premiums a policyholder has paid, multiplied by a percentage equal to 100% minus the loss ratio set when the policy was issued (typically around 60%). Thus, policyholders who paid more premiums or whose policies were better priced will tend to have higher NAPM allocated assets. As a result, their policies will require less modification to become Self-Sustaining, if they are not already Self-Sustaining. The NAPM asset allocation is solely for purposes of determining whether a policy is or is not Self-Sustaining. A technical explanation of the Net Accumulated Premium Method can be found in Exhibit A. The NAPM Asset Allocation will only be performed as of the Determination Date and will not be changed thereafter. NOTE THAT ASSET ALLOCATIONS WITH RESPECT TO INDIVIDUAL POLICIES OR GROUPS OF POLICIES DO NOT ACTUALLY REFLECT OWNERSHIP BY A POLICYHOLDER OF ANY PARTICULAR SUM OR PORTION OF THE COMPANIES' ASSETS AND ARE SOLELY FOR PURPOSES OF IMPLEMENTING THE PLAN.

After all policyholders who choose to do so have made the elections contemplated by the Plan, the Rehabilitator will determine which policies will be held by ANIC on the Effective Date and which by PTNA. In cases where the policyholders have not made an election, Self-Sustaining policies will be placed or remain in ANIC by default, and those which are not Self-Sustaining will be placed or remain in PTNA by default.

Once the Rehabilitator has identified the policies to be held in ANIC as of the Effective Date, the Rehabilitator will allocate assets to ANIC as follows. The policies to be held in ANIC will be grouped into 96 Risk Classes according to their risk characteristics. For each Risk Class the Rehabilitator will determine the aggregate Statutory Reserve (the reserve required by Pennsylvania insurance laws) and the aggregate GPR of its component policies. ANIC will then retain or receive assets equal to the higher of the aggregate Statutory Reserve or aggregate GPR in each Risk Class (the ANIC Assets). Although this amount is in many cases less than the aggregate NAPM assets for the same Risk Class, the Rehabilitator believes the capitalization of ANIC as of the Effective Date will be reasonably adequate for ANIC to pay claims and expenses as they come due over the life of the policies, because:



1. ANIC's projected liabilities (aggregate GPR) as of the Effective Date will be based on conservative actuarial projections that assume moderately worse experience in the future than the actuaries believe is likely to occur.
2. As a result, the aggregate GPR or liability for a Risk Class will in many cases be greater than the aggregate Statutory Reserve for the same Risk Class based on assumptions set at the time of issue or updated under the Plan.
3. Matching assets to a conservative estimate of liabilities means that ANIC's assets will effectively contain a cushion in case ANIC's experience deviates adversely from the actuarial projections.

ANIC will retain or receive the sum of all ANIC Assets as of the Effective Date. All remaining assets will be transferred to or retained by PTNA.

The assets retained or received by PTNA will be further allocated between the guaranty associations and the Trust (or the insurer providing Uncovered Benefits Coverage), as follows. The policies in PTNA will be treated as having claims equal to their actuarially determined GPR. For each policy in PTNA as of the Effective Date, the Rehabilitator will determine whether the GPR is fully covered by the available guaranty association coverage (i.e., whether the existing GPR is less than or equal to the GPR taking into account the applicable statutory coverage limit as determined by the relevant guaranty association in accordance with applicable law). If a policy's GPR exceeds the GPR determined when taking into account the statutory coverage limit, the claim will be divided into a covered portion (the policy's Covered Benefits) and an uncovered portion (the policy's Uncovered Benefits). The Rehabilitator will determine the total of the Covered Benefits and the Uncovered Benefits for all the PTNA policies and will use the ratio of each to the aggregate amount of Covered and Uncovered Benefits to allocate the PTNA assets proportionately between Uncovered Benefits and Covered Benefits.

The Covered Benefits Assets will be turned over to the guaranty associations (or to the GA Captive on their behalf) to pay part of the cost of guaranty association coverage for the PTNA policies, and will be allocated among the Guaranty Associations using a method developed by the guaranty associations called the Re-Priced Premium Method. The allocation of assets among guaranty associations has no effect on the Guaranty Associations' statutory obligations to PTNA policyholders. Moreover, the Covered Benefits Assets are far less than the amount of those obligations. For these reasons, the allocation of the Covered Benefits Assets among guaranty associations has no practical effect on policyholders or other creditors of PTNA. Nevertheless, a technical description of the Re-Priced Premium Method is attached for information purposes as Exhibit A.

The benefits provided to PTNA policyholders by the guaranty associations will exceed the benefits that can be funded by the assets transferred to the guaranty associations for that purpose. To that extent,

the additional benefits provided by the guaranty associations over what can be funded by the assets transferred to the guaranty associations constitute enhancements of the PTNA policies under the Plan.

The Uncovered Benefits Assets will be turned over to the Trust for the funding of Uncovered Benefits Coverage in accordance with the Plan. The Uncovered Benefits Assets will be used to procure coverage actuarially determined to maximize the funding of Uncovered Benefits for each policyholder (the Uncovered Benefits Coverage). It is possible that no such coverage may be available in the market. In that case, or if it proves more advantageous, such coverage may be provided by ANIC. If that does not prove feasible, the Trust will simply fund benefits to the extent of available assets. TO PRESERVE FAIRNESS AND EQUITY, A POLICYHOLDER'S UNCOVERED BENEFITS WILL BE LIMITED TO THE AMOUNT OF COVERAGE THAT CAN BE PURCHASED OR THE AMOUNT OF BENEFITS THAT CAN BE FUNDED BY THAT POLICYHOLDER'S PROPORTIONATE SHARE OF THE UNCOVERED BENEFITS FUND. The Uncovered Benefits Coverage for any policyholder will not be guaranteed and may be recalculated periodically after the Effective Date in light of emerging experience, such as lapses and variations in asset values, and fluctuations in loss experience, claims costs, and expenses.

### Continuation of Premium Payments

Except as provided by their policies, policyholders in ANIC and PTNA must continue paying premiums to avoid cancellation of their policies. From the Effective Date forward, policyholders in ANIC who modified their premium rates will be required to continue paying premiums at the modified rate they selected. For policies in PTNA, the premiums will be collected by the guaranty associations. Once the guaranty association benefits are exhausted as to a policyholder, that policyholder's obligation to continue paying premiums on that policy will cease. The only benefits that the policyholder may receive thereafter are the Uncovered Benefits provided by the Plan.

### TPACO

If the Plan is approved, the Rehabilitator intends to form a third party administration company as a subsidiary of PTNA (TPACO) and transfer to it all of the infrastructure and resources necessary to administer LTC and other insurance for the Companies, including staff, information management hardware and software, service and support contracts, leases, real estate, and other facilities and equipment. TPACO will contract with the Trust, ANIC, and PTNA to administer their respective blocks of the Companies' insurance business (including the Uncovered Benefits) and the wind-down of PTNA's affairs at cost, from and after the Effective Date. It is expected that TPACO will also contract with the GA Captive to provide insurance administration services at cost, but it is possible that the guaranty associations may select a different third party administrator.

## Other Plan Matters

If conditions are favorable, the Rehabilitator may solicit offers to purchase ANIC or ANIC's block of business. While the Rehabilitator is hopeful that ANIC will exit rehabilitation successfully, if it becomes incapable of fulfilling its contractual obligations to policyholders and is placed into liquidation, its policies will also have guaranty association protection. Thus, the Plan does not require a policyholder to give up the guaranty association safety net when electing to have his or her policy placed in ANIC. However, voluntary policy modifications made as part of that election will be binding and will carry over for purposes of guaranty association coverage in the event that ANIC is ever declared insolvent and liquidated.

Both ANIC and PTNA have certain licensing issues that need to be addressed for the Plan to work. ANIC's license has been suspended in twenty-two states. In the absence of special agreements or dispensation, the restoration of ANIC's suspended licenses will require remediation of the deficits that resulted in the suspension, including restoration of capital and surplus levels to the statutory minimum required in the particular state. ANIC's license has expired or been revoked in another seven states. If there are no special agreements, ANIC must submit applications for new licenses in those states in which its license has expired or been revoked.

ANIC has been licensed in five states in which PTNA has not been licensed: Kansas, Maine, Massachusetts, New Jersey and West Virginia. Non-Self-Sustaining policies held by residents of these five states will be placed in PTNA for liquidation. The Plan contemplates that the guaranty associations of Kansas, Maine, Massachusetts, New Jersey and West Virginia will provide Covered Benefits to the policyholders with Non-Self-Sustaining policies (issued originally by ANIC but transferred to PTNA under the Plan) who reside in these five states, even though PTNA has not been licensed and has not been a guaranty association member in those states. It will be necessary for the state insurance regulators and guaranty associations in these five states to determine that PTNA can be treated as a member insurer or otherwise determine that guaranty association coverage can be provided to residents of those states.

PTNA has been licensed in four states in which ANIC has not been licensed: Alaska, Iowa, Michigan, and Wisconsin. Self-Sustaining policies held by residents of those four states would be transferred to ANIC unless the policyholders elect otherwise. Furthermore, Non-Self-Sustaining policyholders in those four states may elect to modify their policies so as to make them Self-Sustaining and have them placed in ANIC. It will be necessary for insurance officials in Alaska, Iowa, Michigan, and Wisconsin to authorize ANIC to assume policies from PTNA that are held by residents of those four states. That authorization could come in the form of admitting and licensing ANIC to do the relevant line of insurance business in those states or in the form of a more limited authorization. To the extent that ANIC will later seek to sell new business in those states a broader license will be preferable.

The Companies have accrued debts to various creditors, including commissioned agents, guaranty associations, and taxing authorities. Those debts fall into two categories, those that were incurred before the inception of rehabilitation proceedings on January 6, 2009, ("Pre-Rehabilitation Debts"), and

those that have been incurred since as part of the rehabilitation (“Rehabilitation Debts”). Because the Companies have been found to be insolvent, were they to be liquidated their assets would have to be distributed in accordance with the provisions of 40 P.S. § 221.44. The Pre-Rehabilitation Debts and debts inferior in statutory priority to those owed to policyholders could not be paid until all policyholder liabilities were paid in full. However, as a result of the Companies’ insolvency, policyholders could not be paid in full in liquidation and no payments could therefore be made on the Pre-Rehabilitation Debts and those of priority lower than policyholder liabilities. Under the Plan, all of ANIC’s Pre-Rehabilitation Debts and debt inferior to policyholder claims incurred before the Effective Date will be transferred to PTNA and managed in the course of PTNA’s liquidation unless the Rehabilitator determines that such transfer is not necessary for the success of the Plan. In the absence of unexpected and material improvement in the financial condition of PTNA, it is unlikely that any payment could be made on these debts. The Rehabilitation Debts of both Companies are costs and expenses of administration within the purview of 40 P.S. § 221.44 and will continue to be paid currently. In addition, ANIC will pay agents’ commissions arising from premium it collects after the Effective Date. PTNA will not pay agents’ commissions.

The implementation of the Plan comprises four phases. The first was the Plan Design phase, during which the structure of the plan was devised and the views of the “MPRG Parties” were sought and incorporated as the Rehabilitator deemed appropriate. The second phase is the Plan Presentation phase, during which the Plan is filed with the Court, after which the Rehabilitator will solicit formal comments and objections, and in due course a hearing will be held as to whether the Plan should be approved, modified or rejected. Assuming that the Court approves the Plan (with or without modifications), the third phase will be the Plan Preparation Period, during which all the steps necessary to carry out the Plan will be taken, to the extent that they have not already been accomplished. This phase should last no more than six months, but may be extended by the Court. The last phase will be the Plan Implementation phase, during which all the steps necessary to make the Plan operational as approved will be taken.

### Agents and Creditors

The payment of commissions owed to agents under agreements made prior to the inception of rehabilitation proceedings will depend on whether they relate to policies that will be held or placed in ANIC or to those held or placed in PTNA regardless of which company originally issued the policies to which they relate. Under the Plan, commissions due with respect to policies held in PTNA (even if originally issued by ANIC) cannot be paid until amounts due to policyholders have been paid in full. As a practical matter, the Rehabilitator does not believe that payment in full of PTNA’s policyholder liabilities is probable. Therefore the Rehabilitator believes that it is unlikely that these commissions will be paid. The Plan contemplates that commissions due with respect to policies placed in ANIC will be made by ANIC as a normal cost of its business.

Because PTNA will be liquidated, in accordance with 40 P.S. § 221.44, the Plan provides for the deferral of payments to Agents for the policies held in PTNA, of amounts due to other general creditors on

account of debts that arose prior to the rehabilitation proceeding, and of certain ongoing debts such as agents' commissions, guaranty association assessments, and certain premium and other taxes until all claims of higher priority, including costs and expenses of administration and claims arising under the Companies' insurance policies, have been paid in full or provision has been made for their payment in full. Such deferral would not be applied to payment for goods and services provided during the rehabilitation proceeding at the request of the Rehabilitator. In any case, payments to creditors and agents of ANIC and PTNA would always remain subject to contractual requirements and limitations, including provisions requiring payments only when the amounts owed exceed stated contractual minima.

The Companies have accrued debts to other creditors, including guaranty associations and taxing authorities. Those debts fall into two categories, those that were incurred before the inception of rehabilitation proceedings on January 6, 2009, ("Pre-Rehabilitation Debts"), and those that have been incurred since as part of the rehabilitation ("Rehabilitation Debts"). If the Companies were liquidated their assets would have to be distributed in accordance with the provisions of 40 P.S. § 221.44. The Pre-Rehabilitation Debts and debts inferior in statutory priority to those owed to policyholders could not be paid until all policyholder liabilities were paid in full. However, as a result of the Companies' insolvency, policyholders could not be paid in full in liquidation and no payments could therefore be made on the Pre-Rehabilitation Debts and those of priority lower than policyholder liabilities. Under the Plan all of ANIC's Pre-Rehabilitation Debts and debt inferior to policyholder priority incurred before the Effective Date may be transferred to PTNA and managed in the course of PTNA's liquidation. In the absence of unexpected and material improvement in the financial condition of PTNA, it is unlikely that any payment could be made on these debts. The Rehabilitation Debts of both Companies are costs and expenses of administration within the purview of 40 P.S. § 221.44 and will continue to be paid currently.

The Plan contemplates that the Court will establish a Bar Date by which all claimants must file their claims against PTNA with the liquidator together with the proof required by 40 P.S. § 221.38. Notice of this Bar Date and claim filing instructions will be provided to all known creditors. Policyholders will not be required to follow the proof of claim process to seek payment for benefits due under policies placed or held in ANIC and PTNA under the Plan.

The Plan has many other important elements and conditions. The foregoing is only a brief summary of certain key elements of the Plan, and the more complete description that is in the Plan must be read in its entirety to more fully understand the proposed business division and the conditions and limitations of the Plan.

## APPENDIX B

### GUARANTY ASSOCIATION INFORMATION

State Association & Contact Information	LIMIT FOR LONG-TERM CARE
NAIC Model Current	\$300,000
NAIC Model 2008 Draft	\$300,000
<b>Pennsylvania Life &amp; Health Insurance Guaranty Association</b> 610.975.0572 <a href="http://www.palifega.org">www.palifega.org</a>	\$300,000
<b>Alabama Life &amp; Disability Insurance Guaranty Association</b> 205.879.2202 <a href="http://www.allifega.org">www.allifega.org</a>	\$300,000
<b>Alaska Life &amp; Health Insurance Guaranty Association</b> 907.243.2311 <a href="http://www.aklifega.org">www.aklifega.org</a>	\$300,000
<b>Arizona Life &amp; Disability Insurance Guaranty Fund</b> 602.364.3863	\$300,000
<b>Arkansas Life and Health Insurance Guaranty Association</b> 501.375.9151 <a href="http://www.arlifega.org">www.arlifega.org</a>	\$300,000
<b>California Life &amp; Health Insurance Guarantee Association</b> 323.782.0182 <a href="http://www.califega.org">www.califega.org</a>	\$514,600
<b>Colorado Life &amp; Health Insurance Protection Association</b> 303.292.5022 <a href="http://www.lhipa.org">www.lhipa.org</a>	\$300,000
<b>Connecticut Life and Health Insurance Guaranty Association</b> 860.647.1054 <a href="http://www.ctlifega.org">www.ctlifega.org</a>	\$500,000
<b>Delaware Life &amp; Health Insurance Guaranty Association</b> 302.456.3656 <a href="http://www.delifega.org">www.delifega.org</a>	\$300,000
<b>District of Columbia Life &amp; Health Insurance Guaranty Association</b> 202.434.8771 <a href="http://www.dclifega.org">www.dclifega.org</a>	\$300,000
<b>Florida Life &amp; Health Insurance Guaranty Association</b> 904.398.3644 <a href="http://www.flahiga.org">www.flahiga.org</a>	\$300,000
<b>Georgia Life &amp; Health Insurance Guaranty Association</b> 770.621.9835 <a href="http://www.gaiga.org">www.gaiga.org</a>	\$300,000
<b>Hawaii Life &amp; Disability Insurance Guaranty Association</b> 808.528.5400 <a href="http://www.hilifega.org">www.hilifega.org</a>	\$300,000
<b>Idaho Life &amp; Health Insurance Guaranty Association</b> 208.378.9510 <a href="http://www.idlifega.org">www.idlifega.org</a>	\$300,000
<b>Illinois Life &amp; Health Insurance Guaranty Association</b> 773.714.8050 <a href="http://www.ilhiga.org">www.ilhiga.org</a>	\$300,000
<b>Indiana Life and Health Insurance Guaranty Association</b> 317.636.8204 <a href="http://www.inlifega.org">www.inlifega.org</a>	\$300,000
<b>Iowa Life &amp; Health Insurance Guaranty Association</b> 515.248.5712 <a href="http://www.ialifega.org">www.ialifega.org</a>	\$300,000
<b>Kansas Life &amp; Health Insurance Guaranty Association</b> 785.271.1199 <a href="http://www.kslifega.org">www.kslifega.org</a>	\$300,000
<b>Kentucky Life &amp; Health Insurance Guaranty Association</b> 502.895.5915 <a href="http://www.klhiga.org">www.klhiga.org</a>	\$300,000
<b>Louisiana Life &amp; Health Insurance Guaranty Association</b> 225.381.0656 <a href="http://www.lalifega.org">www.lalifega.org</a>	\$500,000
<b>Maine Life &amp; Health Insurance Guaranty Association</b> 207.633.1090 <a href="http://www.melifega.org">www.melifega.org</a>	\$300,000
<b>Maryland Life &amp; Health Insurance Guaranty Corporation</b> 410.998.3907 <a href="http://www.mdlifega.org">www.mdlifega.org</a>	\$300,000
<b>Massachusetts Life &amp; Health Insurance Guaranty Association</b> 413.744.8483 <a href="http://www.malifega.org">www.malifega.org</a>	\$100,000
<b>Michigan Life &amp; Health Insurance Guaranty Association</b> 517.339.1755 <a href="http://www.milifega.org">www.milifega.org</a>	\$300,000

<b>State Association &amp; Contact Information</b>	<b>LIMIT FOR LONG-TERM CARE</b>
<b>Minnesota Life &amp; Health Insurance Guaranty Association</b> 651.407.3149 <a href="http://www.mnlifega.org">www.mnlifega.org</a>	Limits adjusted for inflation (currently \$410,000)
<b>Mississippi Life &amp; Health Insurance Guaranty Association</b> 601.981.0755 <a href="http://www.ms lifega.org">www.ms lifega.org</a>	\$300,000
<b>Missouri Life &amp; Health Insurance Guaranty Association</b> 573.634.8455 <a href="http://www.mo-iga.org">www.mo-iga.org</a>	\$100,000
<b>Montana Life &amp; Health Insurance Guaranty Association</b> 262.965.5761 <a href="http://www.mtlifega.org">www.mtlifega.org</a>	\$300,000
<b>Nebraska Life &amp; Health Insurance Guaranty Association</b> 402.474.6900 <a href="http://www.nelifega.org">www.nelifega.org</a>	\$300,000
<b>Nevada Life &amp; Health Insurance Guaranty Association</b> 775.329.8387 <a href="http://www.nvlifega.org">www.nvlifega.org</a>	\$300,000
<b>New Hampshire Life &amp; Health Insurance Guaranty Association</b> 603.226.9114 <a href="http://www.nhlifega.org">www.nhlifega.org</a>	\$300,000
<b>New Jersey Life &amp; Health Insurance Guaranty Association</b> 732.345.5200 <a href="http://www.njlifega.org">www.njlifega.org</a>	Unlimited, subject to policy and statutory provisions and exclusions
<b>New Mexico Life Insurance Guaranty Association</b> 505.820.7355 <a href="http://www.nmlifega.org">www.nmlifega.org</a>	\$300,000
<b>Life Insurance Company Guaranty Corporation of New York</b> 212.909.6813 <a href="http://www.nylifega.org">www.nylifega.org</a>	\$500,000
<b>North Carolina Life &amp; Health Insurance Guaranty Association</b> 919.833.6838 <a href="http://www.nclifega.org">www.nclifega.org</a>	\$300,000
<b>North Dakota Life &amp; Health Insurance Guaranty Association</b> 701.235.4108 <a href="http://www.ndlifega.org">www.ndlifega.org</a>	\$300,000
<b>Ohio Life &amp; Health Insurance Guaranty Association</b> 614.442.6601 <a href="http://www.olhiga.org">www.olhiga.org</a>	\$100,000
<b>Oklahoma Life &amp; Health Insurance Guaranty Association</b> 405.272.9221 <a href="http://www.oklifega.org">www.oklifega.org</a>	\$300,000
<b>Oregon Life &amp; Health Insurance Guaranty Association</b> 503.588.1974 <a href="http://www.orlifega.org">www.orlifega.org</a>	\$100,000
<b>Puerto Rico Life and Disability Insurance Guaranty Association</b> 787.765.2095	\$100,000
<b>Rhode Island Life &amp; Health Insurance Guaranty Association</b> 401.273.2921 <a href="http://www.rilifega.org">www.rilifega.org</a>	\$300,000
<b>South Carolina Life, Accident &amp; Health Insurance Guaranty Association</b> 803.276.0271 <a href="http://www.sclifega.org">www.sclifega.org</a>	\$300,000
<b>South Dakota Life &amp; Health Insurance Guaranty Association</b> 605.336.0177 <a href="http://www.sdlifega.org">www.sdlifega.org</a>	\$300,000
<b>Tennessee Life &amp; Health Insurance Guaranty Association</b> 615.242.8758 <a href="http://www.tnlifega.org">www.tnlifega.org</a>	\$300,000
<b>Texas Life, Accident, Health &amp; Hospital Service Insurance Guaranty Association</b> 512.476.5101 <a href="http://www.txlifega.org">www.txlifega.org</a>	\$300,000
<b>Utah Life &amp; Health Insurance Guaranty Association</b> 801.572.1218 <a href="http://www.utlifega.org">www.utlifega.org</a>	\$500,000
<b>Vermont Life &amp; Health Insurance Guaranty Association</b> 802.229.3553 <a href="http://www.vtlifega.org">www.vtlifega.org</a>	\$300,000
<b>Virginia Life, Accident, &amp; Sickness Insurance Guaranty Association</b> 804.282.2240 <a href="http://www.valifega.org">www.valifega.org</a>	\$300,000
<b>Washington Life &amp; Disability Insurance Guaranty Association</b> 360.426.6744 <a href="http://www.walifega.org">www.walifega.org</a>	\$500,000
<b>West Virginia Life &amp; Health Insurance Guaranty Association</b> 304.733.6904 <a href="http://www.wvlifega.org">www.wvlifega.org</a>	\$300,000
<b>Wisconsin Insurance Security Fund</b> 608.242.9473 <a href="http://www.wilifega.org">www.wilifega.org</a>	\$300,000
<b>Wyoming Life &amp; Health Insurance Guaranty Association</b> 303.292.5022 <a href="http://www.wlhiga.org">www.wlhiga.org</a>	\$300,000