

**PENN TREATY NETWORK AMERICA INSURANCE COMPANY  
AMERICAN NETWORK INSURANCE COMPANY  
FREQUENTLY ASKED QUESTIONS**

**STATUS OF PTNA AND ANIC**

**1. Are Penn Treaty Network America Insurance Company (PTNA) and American Network Insurance Company (ANIC) in liquidation?**

No, the companies are not in liquidation at this time. The companies are still in rehabilitation. On January 6, 2009, the Commonwealth Court of Pennsylvania issued orders of rehabilitation for both companies and appointed the Pennsylvania Insurance Commissioner as rehabilitator. On October 2, 2009, the Rehabilitator filed petitions for liquidation of the companies with the Commonwealth Court of Pennsylvania. The Rehabilitator filed amended petitions for liquidation on October 23, 2009. A hearing on the liquidation petitions is scheduled to begin on January 31, 2011. The companies will remain in rehabilitation until the court orders otherwise.

**2. Why did the Rehabilitator recommend liquidation of PTNA and ANIC?**

According to the Rehabilitator's court filings, the Rehabilitator, the companies' management and their consultants have determined that future claims will exceed future revenues and current reserves. They concluded that PTNA and ANIC will be unable to fully fund long-term future obligations.

**3. Why did the Rehabilitator determine that PTNA and ANIC could not be rehabilitated?**

According to the Rehabilitator's court filings, the Rehabilitator worked for several months during 2009 with two actuarial consulting firms to review the companies' financial condition and future financial projections. The analysis by the Rehabilitator's actuaries that was presented to the court in October 2009 was based on higher projected claims costs and lower projected investment returns than their initial analysis. The updated analysis indicated that PTNA would have a capital and surplus of negative \$1.3 billion and ANIC would have capital and surplus of negative \$45 million if appropriate reserves for future claims were held. In addition, the Rehabilitator determined that there are no available transactional alternatives (such as capital infusion, reinsurance or sale) that would be fair to and in the best interests of the companies, their policyholders and other affected parties.

**4. What is the timeline for the court process regarding the petitions for liquidation?**

The Rehabilitator filed petitions for liquidation in October 2009. The board of directors of PTNA, through its Chairman, and PTNA's sole shareholder, Penn Treaty American Corporation, have objected to the liquidation of PTNA and ANIC. A hearing on the liquidation petitions is scheduled to begin on January 31, 2011. The hearing could run for several weeks. After the hearing, the judge may request additional information from the Rehabilitator, the companies and other interested parties before a ruling is made. This process could take several months or longer.

**5. If I need to use my policy benefits now, will my claim be paid?**

Until an order of liquidation (or another order that would stop the companies from paying claims in full) is entered by the court, it is NOLHGA's understanding that the companies intend to continue to pay all

claims in accordance with the terms of your policy. You must continue to pay your policy premium when due to continue the coverage afforded by your policy. If the court enters an order of liquidation, future claims will be subject to the guaranty association coverage limits set by the guaranty association laws in your state of residence.

**6. I received a letter from PTNA/ANIC notifying me of an increase in my premium and giving me the option to reduce my Maximum Daily Benefit, reduce my Maximum Lifetime Benefit or increase my Elimination Period to offset the increase in premiums. Is this letter related to PTNA's/ANIC's rehabilitation or liquidation?**

No, this letter is not related to PTNA's/ANIC's rehabilitation or liquidation. Prior to and during their rehabilitation, various states have approved premium rate increases. The companies continue to implement rate increases that have already been approved, and the letter you received was notice of such an increase. The companies are also offering certain benefit reduction options in order to offset the increase in premiums. These letters are being sent out by the companies in the ordinary course of business and are not related to the rehabilitation or liquidation proceedings.

**LIQUIDATION**

**7. How is liquidation different from rehabilitation?**

When an insurance company enters a period of financial difficulty and is unable to meet its obligations, the insurance commissioner in the company's home state initiates a process – dictated by the laws of the states – generally whereby attempts are first made to help the company regain its financial footing. This period is known as rehabilitation. If it is determined that the company cannot be rehabilitated, the company is declared insolvent, and the laws of the state require the commissioner to ask the state court to order the liquidation of the company.

**8. How will I know if the court approves liquidation of PTNA and ANIC?**

You will receive notification from the court appointed Liquidator and/or your state life and health insurance guaranty association if and when the court issues a liquidation order. After that, your guaranty association, working with the liquidator, will continue to communicate with you about guaranty association coverage and the implementation of any plans that will impact the administration of your policy.

**9. What will happen to PTNA and ANIC policies if a liquidation order is entered?**

The Pennsylvania liquidation statute states that policies will continue in force for thirty days after the entry of a liquidation order, with some exceptions. NOLHGA expects that if an order of liquidation is entered against PTNA or ANIC, the affected state guaranty associations would continue coverage of PTNA and ANIC policies past that date, to the extent of statutory coverage limits.

**10. What will happen to my insurance coverage if my state guaranty association becomes liable for my policy?**

Protection can be provided in one of several different ways. The guaranty association may provide coverage directly by continuing the existing policies or by issuing replacement policies. In some situations, the association may work with other state guaranty associations to develop an overall plan to provide protection for the failed insurer's policyholders. It may be possible for a financially sound insurer

with support from the state guaranty associations to take over the policies and assume the responsibility for continuing coverage and paying covered claims to the extent supported by the guaranty associations.

**11. Will NOLHGA/the guaranty associations attempt to sell PTNA's or ANIC's book of business or have it assumptively reinsured?**

The guaranty associations are permitted by statute to sell the book of business of an insurer in liquidation or have it reinsured by a solvent carrier with the guaranty associations supporting the assumption of obligation represented by the policies. The guaranty associations thru NOLHGA, work together to consider that option if an order of liquidation is entered. If such a transaction is pursued, policyholders will be given notice.

**LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATIONS**

**12. What is a life & health insurance guaranty association?**

Life and health insurance guaranty associations were created by state legislatures to protect their state's residents who are policyholders and beneficiaries of policies issued by a life or health insurance company licensed in that state that has gone out of business. All 50 states, the District of Columbia and Puerto Rico have life and health insurance guaranty associations. All insurance companies (with limited exceptions) licensed to write life and health insurance or annuities in a state are required to be members of the state's life and health insurance guaranty association. If a member company is liquidated (goes out of business) by order of court in the state of domicile, the state guaranty association where it was licensed obtain money from member insurance companies writing the same line or lines of insurance as the insolvent company to continue coverage and pay claims.

**13. What is NOLHGA?**

The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) is a voluntary association made up of the life and health insurance guaranty associations of all 50 states, the District of Columbia and Puerto Rico. When an insurer, like PTNA and ANIC, licensed in multiple states is declared insolvent, NOLHGA, on behalf of affected member state guaranty associations, assembles a task force of guaranty association officials. This task force analyzes the company's commitments to policyholders; recommends a procedure by which covered claims are paid; and may propose a plan under which covered policies may be transferred to a healthy insurer. Since its creation in 1983, NOLHGA has assisted its member guaranty associations in guaranteeing more than \$21 billion in coverage benefits for policyholders and annuitants of insolvent companies. In that time, NOLHGA's member associations have provided protection for more than two million policyholders and have worked on more than 100 multi-state insolvencies.

**14. Who do the guaranty associations protect?**

Life and health insurance guaranty associations typically cover individual policyholders and their beneficiaries and insureds under group policies.

**15. Which guaranty association will protect me? Does it matter where I live?**

Assuming the liquidated insurer was licensed in that state, you will be covered by the state guaranty association of the state of which you were a resident on the date the order of liquidation was entered. Guaranty associations' coverage is subject to statutory exceptions and exclusions.

**16. At what point do guaranty associations take over?**

Generally speaking, guaranty associations are “triggered” to provide coverage when an order of liquidation with a finding of insolvency has been issued against an insurance company by a court in its state of domicile. The coverage obligations of every state guaranty association of every state where the liquidated company was licensed begin at that point. When and how the guaranty associations will take over the administration of policies and payment of claims will depend on the structure of the court ordered liquidation plan for a company.

**17. Are guaranty association laws uniform across all states?**

Most guaranty association statutes are based on a Model Act drafted by the National Association of Insurance Commissioners; however, the state guaranty association statutes are not completely uniform. Some differences across states include coverage limits and certain exclusions from coverage.

**18. Is long-term care insurance covered by the guaranty associations?**

Yes, long-term-care insurance is typically considered health insurance for guaranty association coverage purposes. The most recent NAIC Model Act makes this very clear.

**19. Will guaranty associations pay my long-term care benefits in full?**

Not necessarily. Like the FDIC, state guaranty associations have maximum benefit limits. These limits are established by state law and can vary from state to state, but all states provide at least \$100,000 in long-term care insurance policy benefits. The benefit "cap" in most states for an individual is \$300,000, although some states have maximums that are higher.

**20. Will my non-forfeiture or return of premium benefits be honored?**

As a general rule, guaranty associations cover the benefits that would have been covered by the insurance company, subject to statutory coverage limits. However, certain exclusions from coverage are included in each guaranty association statute. Whether non-forfeiture or return of premium benefits will be honored will ultimately be determined by your state guaranty association law.

**21. If my long-term care claim under my policy is higher than my state guaranty association's coverage limit, do I lose my "over-limit" claim?**

Any claims in excess of guaranty association limits are not within the scope of your guaranty association's responsibility. If an order of liquidation is entered against PTNA or ANIC, the order of liquidation (or a liquidation plan approved by the court pursuant to the order) will govern how claims, including claims in excess of guaranty association limits, will be handled. Generally, claims for benefit amounts in excess of such limits receive their proportionate share of assets available at the priority level. Policyholder claims are a very high level of priority. Higher priority claims receive 100 cents on the dollar of claim. Lower priority claims receive zero.

**22. Will policyholders be given any options to change the terms of their policies (e.g., reduced benefits, reduced premium, non-forfeiture benefit)?**

If an order of liquidation is entered, each guaranty association will consider whether to offer any benefit changes. No decisions have yet been made. Prior to any order of liquidation, you would need to contact the company about any benefit change requests.

**23. Should I keep paying my premiums?**

If you are paying premiums to the company and you wish to continue to keep the coverage in force, you must continue to do so even after the company has been placed into rehabilitation or liquidation. After the entry of an order of liquidation, subsequent premiums will go to the guaranty association that will provide you with continuing coverage. If you stop paying premiums, your insurance benefits/guaranty association coverage may be terminated.

**QUESTIONS**

**24. Whom should I contact with questions about my policy?**

While the companies remain in rehabilitation, you should continue to contact PTNA/ANIC Policyholder Services at 800-362-0700, x3190 for policy or claim information.

You may contact your state insurance department or your state guaranty association with questions about guaranty association coverage. Coverage will be provided by the guaranty association of the state where you resided on the date of the entry of the order of liquidation, even if the policy was purchased in some other state. Policyholders who reside in states where the insolvent insurer was not licensed will be covered, in most cases, by the guaranty association of the company's domiciliary state, in this case, Pennsylvania.