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March 13, 2009

Dear Policyholders and Other Interested Parties:

On January 6, 2009, Penn Treaty Network America Insurance Company (PTNA) and American Network Insurance Company (ANIC) were placed into rehabilitation by Orders of the Commonwealth Court of Pennsylvania. These rehabilitation orders place the companies under control of the Pennsylvania Insurance Department. They give the insurance commissioner as Rehabilitator the ability to oversee the financial situation, stabilize current operations, develop a rehabilitation plan to maximize the protection of policyholders, and plan for the companies' future.

The Insurance Department has been working closely with PTNA and ANIC for the past several months and this rehabilitation has occurred with the consent of the companies. Pennsylvania Insurance Commissioner Joel Ario was named Rehabilitator of PTNA and ANIC in the Commonwealth Court Orders.

As a representative of the Rehabilitator, my staff, legal counsel and I have assumed responsibility for the management of the companies and their rehabilitation. The primary objective of the rehabilitation is to protect and preserve the assets of the companies to minimize financial hardship on the policyholders of PTNA and ANIC.

Work has begun on a comprehensive financial analysis that will determine the actions which will benefit the PTNA and ANIC policyholders. Based upon the financial analysis, we will draft a plan of rehabilitation, which will be presented to the Commonwealth Court. You will be notified of these rehabilitation plans and the impact they may have on you as an interested party.

**Important**

***Claims for benefits will continue to be processed and paid; however, you MUST continue to make premium payments to PTNA or ANIC to keep your policy in force. It is important to recognize that failure to make your payments will result in the discontinuation of coverage under your policy.***

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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)

3440 Lehigh Street :: Allentown, PA 18103

PTNA and ANIC will continue to operate their business as outlined in the Court's rehabilitation orders and under the direction of the Rehabilitator. Due to the magnitude and complexity of this situation, my staff and I will continue to keep you informed as developments warrant. Please refer to the enclosed list of questions and answers, which may answer some of your questions about the rehabilitation. Please note that we do not have any information other than what is contained in this letter and the attached list of questions and answers. We will send you an update when there is additional information to report.

If you need clarification on any of the rehabilitation-related information contained in this mailing, please call 1-800-362-0700, ext. 3270, between 8 a.m. and 8 p.m. Eastern Daylight Time. Our call volume is anticipated to be heavy for the next few weeks, but we will make every effort to respond to your inquiry. For inquiries and correspondence regarding your policies or claims, please call Policyholder Services at 1-800-362-0700, ext. 3190.

Thank you for your patience as we work through this process.

Sincerely,

Robert L Robinson, CLU, ChFC  
Rehabilitation Executive Team

**Q&A for the Penn Treaty and American Network Rehabilitations**  
**March 13, 2009**

**GENERAL QUESTIONS**

**Question**

I have heard Penn Treaty Network America Insurance Company and American Network Insurance Company are going into bankruptcy or being taken over by the state. Is this true?

**Answer**

It is not bankruptcy; it is rehabilitation.

On January 6, 2009, the Commonwealth Court of Pennsylvania placed Penn Treaty Network America Insurance Company and its wholly owned subsidiary American Network Insurance Company into rehabilitation and appointed the Pennsylvania Insurance Commissioner to be the Rehabilitator. The rehabilitations were ordered with the consent of the Boards of Directors of both Penn Treaty Network America and American Network

During the rehabilitations, we will conduct an analysis of each company's financial position and the Rehabilitator will determine what steps are necessary to protect the policyholders of the companies. We will notify all interested parties of our determinations as well as any decisions we make.

**Question**

What is rehabilitation and how does it work?

**Answer**

Rehabilitation is a legal step taken by the Court to protect policyholders by preserving the company's assets.

The Insurance Commissioner petitions the Commonwealth Court for approval to rehabilitate the company. If the Court approves the request, the Insurance Commissioner is named the Rehabilitator and:

- Assumes management of the company
- Attempts to correct existing problems
- Continues operations
- Maintains policyholder accounting
- Develops a Plan of Rehabilitation or petitions the Court for liquidation.

**Question**

How does the Rehabilitator accomplish this?

**Answer**

A company in Rehabilitation meets its obligations by:

- Maintaining premium flow from the existing policyholders
- Managing assets, including the sale of those assets, if appropriate
- Seeking a company with which to merge, as appropriate
- Seeking a business partner to strengthen the company through capital investments, as appropriate

**Question**

How did this happen to Penn Treaty Network America and American Network?

**Answer**

Many factors can impact on the financial stability and solvency of a company. It would be unwise and unfair to speculate as to the reasons for Penn Treaty Network America and American Network's financial status until the Rehabilitator has the opportunity to review the financial position of each company. However, many mono-line long term care companies are experiencing similar financial woes resulting from the cost of claims being greater than was originally priced when the products were sold.

**Question**

What type of coverages did Penn Treaty Network America and American Network offer?

**Answer**

Penn Treaty Network America and American Network Insurance companies offered mostly long term care insurance. In addition, the companies wrote policies for disability income, Medicare supplement and accidental death and dismemberment coverages.

**Question**

How many states did Penn Treaty Network America and American Network sell business in?

**Answer**

An informal review of the 2007 annual reports and other official documents indicate Penn Treaty Network America and American Network together sold or had licenses to sell policies in up to 49 states and the District of Columbia.

**Question**

What will happen when the financial status of the companies is determined?

**Answer**

One of two things will occur. If it is determined for each company that they can be rehabilitated, a rehabilitation plan will be designed and it will be presented to the Commonwealth Court for approval. All interested parties will be notified of the Plan and its impact on them prior to its approval and given an opportunity to comment to the Court on the Plan.

If it is determined for each company that the company's condition is too hazardous to allow for a rehabilitation, the Commissioner will petition the Commonwealth Court for a Liquidation Order. Most of the policies Penn Treaty Network America and American Network sold were guaranteed renewable. Therefore, part of the liquidation will include the transfer of non-cancelable policy obligations to the respective state Guaranty Associations for payment of claims within their limits. Most state guaranty associations have a \$100,000 or \$300,000 limit for long term care policies. There are three states that have a \$500,000 limit and Utah has a limit equal to the policy benefit. Attached to this Q&A is a listing of the state guaranty associations and the respective limits of coverage. Please make sure you read the note that explains how the chart should be read.

**Question**

Who do I call if I have questions concerning the rehabilitation?

**Answer**

***Policyholders*** should call Policyholder Services at (800) 362-0700, ext. 3270. For inquiries regarding the policyholder's premium, policy or claim, call (800) 362-0700, ext. 3190.

For any other questions concerning the rehabilitations, call the PA Insurance Department's Office of Liquidations and Rehabilitations at (717) 787-6009.

## **CLAIM SPECIFIC**

### **Question**

How does Rehabilitation affect my Pending or Open claim?

### **Answer**

The Rehabilitator has decided that for both Penn Treaty Network America and American Network, claims for policy benefits will continue to be processed and paid in the normal course of business. If there is any change in the future, you will be notified.

Claims for Bad Faith or other Extra-Contractual damages will be deferred and not paid. They are addressed in the Rehabilitation Orders.

Claims of other insurance companies under reinsurance agreements and claims by other insurance companies directly against Penn Treaty Network America or American Network will also be deferred and addressed through the Rehabilitation Plans.

### **Question**

Do I need to do anything to get my claim paid or to keep receiving my payments?

### **Answer**

No. You do not need to take any special action or file anything special at this time with respect to your current pending or open claim. You should continue to deal with, cooperate with and communicate with the companies in the same manner that you have in the past.

### **Question**

What if I have a new claim? Can I submit it to Penn Treaty Network America or American Network?

### **Answer**

Yes. You should follow the provisions in your policy that explain how to file your claim.

## **POLICY SPECIFIC**

### **Question**

Will policies be cancelled?

### **Answer**

The Rehabilitator will honor the policy you purchased from Penn Treaty Network America or American Network. If you have a guaranteed renewable policy, it will not be cancelled. No other policy cancellations are being considered at this time. Remember, however, that if you do not pay your premium as it becomes due, your policy will be cancelled. You MUST pay your premiums to continue the policy.

### **Question**

Should policyholders continue to pay premiums?

### **Answer**

Yes. Payment of premiums as they become due will preserve coverage. If you fail to pay your premiums, your policy will be cancelled.

## **LEGAL/LITIGATION SPECIFIC**

### **Question**

I am involved in a suit with Penn Treaty Network America or American Network. What impact do the Rehabilitation Orders have on me?

### **Answer**

Stays have been ordered by the Rehabilitation Orders on all suits against Penn Treaty Network America and American Network and/or its insureds. Suits against Penn Treaty Network America and American Network are being stayed indefinitely.

The plaintiffs in those suits will become general creditors and will be addressed in the Rehabilitation Plans. A stay generally means that all activity on a law suit will cease until the stay is lifted or expires. If there is a compelling reason for an exception to a stay, contact Penn Treaty Network America or American Network so they can bring the request to the Rehabilitator for consideration.

## **LIQUIDATION SPECIFIC**

### **Question**

How would liquidation affect policyholders?

### **Answer**

A Liquidation Order would trigger the various state guaranty associations into action to handle new and existing claims. Eligible claims would be covered up to the policy limit or the limits of your state's guaranty association's coverage, whichever is less.

Your state of residence determines which guaranty association will be responsible for your claim.

Claims not covered by a guaranty association, including any portion exceeding the Guaranty Association's statutory limit, become claims against the estate of the company and will be paid to the extent funds are available. Policyholder claims have priority over most other claimants.

**Guaranty Association Information for Long-Term Care Insurance**

**Note: If there is no specific limit for long-term care insurance (1), it is covered as disability insurance (2). If there is no specific provision for disability (2), the general health insurance limit (3) would apply to long-term care.**

State Association & Contact Information	HEALTH Long-term Care (1)	HEALTH Disability (2)	HEALTH General (3)	NOTES
NAIC Model Current		\$300,000	\$100,000	
NAIC Model 2008 Draft	\$300,000	\$300,000	\$100,000	
<b>Pennsylvania Life &amp; Health Insurance Guaranty Association</b> 610.975.0572 www.pallifea.org	\$300,000		\$300,000	
Alabama Life & Disability Insurance Guaranty Association 205.879.2202 www.allifea.org				\$100,000 cash \$300,000 benefits
Alaska Life & Health Insurance Guaranty Association 907.243.2311 www.akliffea.org		\$300,000	\$100,000	
Arizona Life & Disability Insurance Guaranty Fund 602.364.3863				\$100,000 cash \$300,000 benefits
Arkansas Life and Health Insurance Guaranty Association 501.375.9151 www.arliffea.org			\$300,000	
California Life & Health Insurance Guarantee Association 323.782.0182 www.califea.org		\$200,000 subject to change in CPI		Limited to 80% of contract
Colorado Life & Health Insurance Protection Association 860.647.1054 www.ctliffea.org		\$300,000	\$100,000	
Connecticut Life and Health Insurance Guaranty Association 860.647.1054 www.ctliffea.org			\$500,000	
Delaware Life & Health Insurance Guaranty Association 302.456.3656 www.delifea.org		\$300,000	\$100,000	
District of Columbia Life & Health Insurance Guaranty Association 202.434.8771 www.dclifea.org			\$100,000	
Florida Life & Health Insurance Guaranty Association 904.398.3644 www.flahiga.org				\$100,000 cash \$300,000 benefits
Georgia Life & Health Insurance Guaranty Association 770.621.9835 www.gaiga.org				\$100,000 cash \$300,000 benefits
Hawaii Life & Disability Insurance Guaranty Association 808.528.5400 www.hilifea.org			\$100,000	
Idaho Life & Health Insurance Guaranty Association 208.378.9510 www.idliffea.org		\$100,000 cash \$300,000 benefits		\$300,000 if no limit specified
Illinois Life & Health Insurance Guaranty Association 773.714.8050 www.ilhiga.org			\$300,000	
Indiana Life and Health Insurance Guaranty Association 317.636.8204 www.inliffea.org			\$100,000 cash \$300,000 benefits	
Iowa Life & Health Insurance Guaranty Association 515.248.5712 www.ialifea.org			\$300,000	No more than \$350,000 total per life
Kansas Life & Health Insurance Guaranty Association 785.271.1199 www.ksliffea.org			\$100,000	
Kentucky Life & Health Insurance Guaranty Association 502.895.5915 www.klhiga.org			\$100,000	
Louisiana Life & Health Insurance Guaranty Association 225.381.0656 www.lalifea.org			\$100,000	
Maine Life & Health Insurance Guaranty Association 207.633.1090 www.melifea.org	\$300,000	\$300,000	\$300,000	
Maryland Life & Health Insurance Guaranty Corporation 410.998.3907 www.mdlifea.org		\$300,000	\$300,000	
Massachusetts Life & Health Insurance Guaranty Association 413.744.8483 www.malifea.org			\$100,000	
Michigan Life & Health Insurance Guaranty Association 517.339.1755 www.milifea.org	\$300,000	\$300,000	\$100,000	
Minnesota Life & Health Insurance Guaranty Association 651.407.3149 www.mnlifea.org			\$300,000 (\$390,000)	Limits adjusted for inflation ( )
Mississippi Life & Health Insurance Guaranty Association 601.981.0755 www.mslifea.org		\$300,000	\$100,000	

State Association & Contact Information	HEALTH Long-term Care (1)	HEALTH Disability (2)	HEALTH General (3)	NOTES
Missouri Life & Health Insurance Guaranty Association 573.634.8455 www.mo-iga.org			\$100,000	
Montana Life & Health Insurance Guaranty Association 262.965.5761 www.mtlifeiga.org		\$300,000	\$100,000	
Nebraska Life & Health Insurance Guaranty Association 402.474.6900 www.nelifeiga.org			\$500,000	
Nevada Life & Health Insurance Guaranty Association 775.329.8387 www.nvlifeiga.org		\$300,000	\$100,000	
New Hampshire Life & Health Insurance Guaranty Association 603.226.9114 www.nhlifeiga.org			\$100,000	
New Jersey Life & Health Insurance Guaranty Association 973.623.3989 www.njlifeiga.org			No limit	
New Mexico Life Insurance Guaranty Association 505.820.7355 www.nmlifeiga.org				\$100,000 cash \$300,000 benefits or such higher amounts as the superintendent may set
Life Insurance Company Guaranty Corporation of New York 212.909.6813 www.nylifeiga.org				\$500,000 for all benefits
North Carolina Life & Health Insurance Guaranty Association 919.833.6838 www.nclifeiga.org				\$300,000 for all benefits
North Dakota Life & Health Insurance Guaranty Association 701.235.4108 www.ndlifeiga.org			\$100,000	
Ohio Life & Health Insurance Guaranty Association 614.442.6601 www.olhiga.org			\$100,000	
Oklahoma Life & Health Insurance Guaranty Association 405.272.9221 www.oklifeiga.org			\$300,000	
Oregon Life & Health Insurance Guaranty Association 503.588.1974 www.orlifeiga.org			\$100,000	
Puerto Rico Life and Disability Insurance Guaranty Association 787.765.2095		\$100,000		
Rhode Island Life & Health Insurance Guaranty Association 401.273.2921 www.rilifeiga.org		\$300,000	\$100,000	
South Carolina Life, Accident & Health Insurance Guaranty Association 803.276.0271 www.sclifeiga.org				\$300,000 for all benefits
South Dakota Life & Health Insurance Guaranty Association 605.336.0177 www.sdlifeiga.org		\$300,000	\$100,000	
Tennessee Life & Health Insurance Guaranty Association 615.242.8758 www.tnlifeiga.org			\$100,000	
Texas Life, Accident, Health & Hospital Service Insurance Guaranty Association 512.476.5101 www.txlifeiga.org	\$200,000	\$300,000	\$200,000	
Utah Life & Health Insurance Guaranty Association 801.572.1218 www.utlifeiga.org			Contract limit	
Vermont Life & Health Insurance Guaranty Association 802.229.3553 www.vtlifeiga.org			\$300,000	
Virginia Life, Accident, & Sickness Insurance Guaranty Association 804.282.2240 www.valifeiga.org			\$300,000	
Washington Life & Disability Insurance Guaranty Association 360.426.6744 www.walifeiga.org		\$500,000	\$500,000	
West Virginia Life & Health Insurance Guaranty Association 304.733.6904 www.wvlifeiga.org			\$100,000	
Wisconsin Insurance Security Fund 608.242.9473 www.wilifeiga.org				\$300,000 for all benefits
Wyoming Life & Health Insurance Guaranty Association 303.292.5022 www.wlhigha.org			\$100,000	