

Questions and Answers concerning the Penn Treaty and American Network Rehabilitations

GENERAL QUESTIONS

Question

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

Answer

It is not a bankruptcy it is a rehabilitation.

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

Answer

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

Question

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

Answer

An informal review of the 2007 annual reports and other official documents indicate Penn Treaty and American Network sold or had licenses to sell policies in up to 50 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 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

If management or employees of Penn Treaty or American Network receive any inquiries from the media regarding rehabilitation, do not comment and refer the inquirer to the Insurance Department's Communications Office at (717) 787-3289. Any calls concerning regulatory matters, such as license status or regulatory filings should be referred to the Pennsylvania Insurance Department Office of Corporate and Financial Regulation at (717) 783-2142.

Questions from policyholders concerning claims should be referred to the appropriate claims office or representative as was done in the usual course of business. The toll free number for Penn Treaty and American Network is [\(800\)362-0700, ext. 3190](tel:8003620700).

Inquiries from policyholders regarding non-claims matters, such as premium payments, policy endorsements, etc., should be referred to the appropriate Penn Treaty or American Network department as was done in the usual course of business. Questions from all other parties regarding the rehabilitation should be referred to the management of the appropriate company department. All departments and claims representatives will be provided with a script of anticipated questions and the appropriate answers regarding rehabilitation issues. These scripts will be updated and expanded as appropriate.

All other questions concerning the rehabilitations should be referred to 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 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 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 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 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.

EMPLOYEE SPECIFIC

Question

I am an employee. How will Rehabilitation affect me?

Answer

A letter from the Pennsylvania Insurance Commissioner as Rehabilitator will be distributed to employees addressing this specific issue. If you have not received the letter please contact your Human Resources Department.

AGENT SPECIFIC

Question

Will Penn Treaty and American Network continue to write new business?

Answer

No. Penn Treaty and American Network stopped accepting new business in October 2008.

Question

Will agent commissions be paid?

Answer

The commission payments will continue. During the Rehabilitator's analysis of the companies operations, the continuation of commission payments will be reviewed. Any changes regarding the payment of commissions will be addressed as part of a rehabilitation plan submitted to Commonwealth Court.

VENDOR SPECIFIC

Question

My company provided goods/services to Penn Treaty and American Network before the Rehabilitation Orders were issued. Will we get paid?

Answer

Generally, payments of all vendor bills for services rendered prior to January 6, 2009 are suspended pending the Rehabilitation Plan. You should contact the department of the company that you deal with regarding your goods/services. They will be provided with guidelines on what can be paid for goods/services incurred prior to January 6, 2009.

Question

I am a vendor to Penn Treaty and American Network. How can I be certain that my bills incurred after the January 6, 2009 Rehabilitation Orders will be paid?

Answer

All expenses incurred after January 6, 2009 and authorized by the Rehabilitator are considered administration expenses under the Rehabilitation Orders. They have been given the highest priority of payment under the Orders.

LEGAL/LITIGATION SPECIFIC

Question

I am involved in a suit with Penn Treaty 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 and American Network and/or its insureds. Suits against Penn Treaty 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 or American Network so they can bring the request to the Rehabilitator for consideration.

LIQUIDATION SPECIFIC

Question

How would a 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 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.

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

STATE	LIFE Death	LIFE Cash	HEALTH	HEALTH Disability	HEALTH Hospital, surgical Major medical	HEALTH Long term Care	ANNUITY	STRUCTURED SETTLEMENT	RETIREMENT ANNUITIES	UNALLOCATED ANNUITIES AND GROUP LIFE	NOTES
All numbers in thousands unless otherwise indicated											
NAIC Model Current	300	100	100	300	500		100	100	100	5mm	
NAIC Model 2008 Draft	300	100	100	300	500	300	250	250	250	5mm	
Pennsylvania	300	100	300			300	100 cash 300 benefits		100 cash 300 benefits	5mm	
Alabama											100 cash 300 benefits
Alaska	300	100	100	300	500		100	100	100	5mm	
Arizona											100 cash 300 benefits
Arkansas	300	100	300				300		300	1mm	
California	250	100		200 subject to change in CPI			100			5mm	Limited to 80% of contract
Colorado	300	100	100	300	500		100	100			
Connecticut	500	500	500				500	500	500	5mm	
Delaware	300	100	100	300	500		100	100	100	1mm	

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All numbers in thousands unless otherwise indicated											
DC	300	100	100				300				
Florida											100 cash 300 benefits
Georgia										5mm	100 cash 300 benefits No limit on Workers Comp
Hawaii	300	100	100				100				
Idaho	300	100		100 cash 300 benefits			100 cash 300 benefits				300 if no limit specified
Illinois	300	100	300				100		100	5mm	
Indiana	300	100	100 cash 300 benefits					100	100	5mm	5mm for government lottery annuities
Iowa	300	100 350 aggregate	300				250		250	5mm	No more than 350 total per life
Kansas	300	100	100				100				No limit on annuities to pay Med Mal

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Kentucky	300	100	100				100	100		1mm	
Louisiana	300	100	100				100				
Maine	300	100	300	300	500	300	100	100		5mm	
Maryland	300	100	300	300			100				
Massachusetts	300	100	100				100				
Michigan	300	100	100	300	500	300	100	100	250 100	5mm	
Minnesota	300 (390)	100 (130)	300 (390)				100 (130)	300 (390)		7.5mm (9.76mm)	Limits adjusted for inflation ()
Mississippi	300	100	100	300	500		100	100		5mm	
Missouri	300	100	100				100				
Montana	300	100	100	300	500		100	100	100	5mm	
Nebraska	300	100	500				100	100		5mm	
Nevada	300	100	100	300	500		100	100		5mm	
New Hampshire	300	100	100				100	100	100	5mm	
New Jersey	500	100	No limit				100 cash 500 benefits			2mm	
New Mexico											100 cash 300 benefits or such higher

STATE	LIFE Death	LIFE Cash	HEALTH	HEALTH Disability	HEALTH Hospital, surgical Major medical	HEALTH Long term Care	ANNUITY	STRUCTURED SETTLEMENT	RETIREMENT ANNUITIES	UNALLOCATED ANNUITIES AND GROUP LIFE	NOTES
All numbers in thousands unless otherwise indicated											
											amounts as the superintendent may set
New York										1mm	500 for all benefits
N. Carolina									300	5mm	300 for all benefits
N. Dakota	300	100	100				100	100	100	5mm	
Ohio	300	100	100				100		100	1mm	
Oklahoma	300	100	300				300				
Oregon	300	100	100				100		100	5mm	
Puerto Rico	300	100		100			100				
Rhode Island	300	100	100	300	500		100	100	100	5mm	
S. Carolina											300 for all benefits
S. Dakota	300	100	100	300	500		100	100		5mm	
Tennessee	300	100	100				100				
Texas	300	100	200	300	500	200	100	100	100	5mm	
Utah	500 if death before coverage date, 200 if request		Contract limit		500		Contract limit	Contract limit	200	5mm	

STATE	LIFE Death	LIFE Cash	HEALTH	HEALTH Disability	HEALTH Hospital, surgical Major medical	HEALTH Long term Care	ANNUITY	STRUCTURED SETTLEMENT	RETIREMENT ANNUITIES	UNALLOCATED ANNUITIES AND GROUP LIFE	NOTES
All numbers in thousands unless otherwise indicated	for withdrawal before coverage date, policy limit if after coverage date for both										
Vermont	300	100	300				100			1mm	
Virginia	300	100	300				100		250		
Washington	500	500	500	500	500		500	500	100	5mm	
West Virginia	300	100	100				100			1mm	
Wisconsin											300 for all benefits
Wyoming	300	100	100				100				