

MEMORANDUM

To: Charles Gullickson (Penn Treaty/ANIC Task Force Chair), Richard Klipstein (NOLHGA)

From: Vincent L. Bodnar

Date: November 8, 2013

Subject: **Penn Treaty Network American Insurance Company and
American Network Insurance Company
Estimate of Potential Guaranty Association Covered Net Liabilities**

The attached exhibit summarizes the current estimates developed by Towers Watson Delaware, Incorporated ("Towers Watson") of the Guaranty Association ("GA") covered net liabilities of Penn Treaty Network America Insurance Company ("PTNA") and American Network Insurance Company ("ANIC") in a post-liquidation scenario as of December 31, 2012 for their long-term care insurance ("LTC") policies.

The data and information provided herein is subject to the Common Interest and Confidentiality Agreement, as amended, between Towers Watson, the Pennsylvania Insurance Commissioner as Rehabilitator of PTNA and ANIC (the "Rehabilitator") and the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"), and should be maintained as confidential by NOLHGA and the GAs, except to the extent the parties to the Common Interest and Confidentiality Agreement agree to its broader release.

The values shown in the attached exhibit reflect estimates of potential GA covered net liabilities if the companies were to be placed into liquidation. The covered gross liabilities are based on Towers Watson's estimate of the covered gross premium valuation reserve, claim reserve and unearned premium reserves prior to the estimated asset transfer from the estate. The estate assets are based on the year-end 2012 market value of the assets held by PTNA and ANIC, and provided to Towers Watson for use in our analysis. The assets are assumed to be allocated in proportion to the covered gross liabilities of each policyholder using his or her pro-rata share of the gross liabilities as of December 31, 2012. These assets are assumed to be subrogated to each policyholder's respective GA. The covered net liabilities are the covered gross liabilities less the allocated estate assets. Only LTC liabilities have been included in this estimate of GA covered net liabilities.

The assumptions and methods used to calculate the covered net liabilities shown in the attached exhibit will be described in our final report entitled "Actuarial Analyses of Penn Treaty Network America Insurance Company and American Network Insurance Company as of December 31, 2012" to be provided to NOLHGA (the "Report"). Distribution and use of the Report will be subject to the limitations and reliances that will be described therein and that are also described in the draft version of the report that was provided to NOLHGA on August 30, 2013. Any reliance upon or conclusions drawn from the use of the data contained in the attached exhibit would be inappropriate without a thorough reading of the full Report. Questions regarding the information contained in the Report, or the draft version provided to NOLHGA on August 30, 2013, should be directed to me.

Towers Watson represents and is responsible only to NOLHGA with respect to all matters relating to this exhibit. Any other user of this information will place no reliance on the data contained in the attached exhibit, or related thereto, that would result in the creation of any duty or liability by Towers Watson to the user.

Penn Treaty Network America Insurance Company and American Network Insurance Company
Estimate of Potential Guaranty Association Covered Liabilities as of 12/31/2012

Amounts in \$ Thousands

Guaranty Association	PTNA			ANIC			PTNA + ANIC		
	Covered Gross Liabilities	Estate Assets	Covered Net Liabilities	Covered Gross Liabilities	Estate Assets	Covered Net Liabilities	Covered Gross Liabilities	Estate Assets	Covered Net Liabilities
Alabama	7,743.6	1,574.9	6,168.8	327.4	87.7	239.7	8,071.0	1,662.5	6,408.5
Alaska	814.1	165.6	648.5	0.0	0.0	0.0	814.1	165.6	648.5
Arizona	121,815.6	24,774.2	97,041.4	1,235.2	330.7	904.5	123,050.8	25,105.0	97,945.8
Arkansas	5,299.1	1,077.7	4,221.4	156.2	41.8	114.4	5,455.3	1,119.5	4,335.7
California	462,590.9	94,079.4	368,511.5	2,707.8	725.0	1,982.8	465,298.7	94,804.4	370,494.3
Colorado	45,347.8	9,222.6	36,125.2	15,897.8	4,256.8	11,641.0	61,245.6	13,479.4	47,766.2
Connecticut	4,548.6	925.1	3,623.5	31,278.5	8,375.1	22,903.4	35,827.1	9,300.2	26,526.9
Delaware	3,094.4	629.3	2,465.1	374.0	100.1	273.8	3,468.4	729.5	2,738.9
DC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Florida	387,326.2	78,772.4	308,553.8	13,590.4	3,639.0	9,951.4	400,916.6	82,411.4	318,505.2
Georgia	70,198.9	14,276.7	55,922.2	1,041.2	278.8	762.4	71,240.1	14,555.5	56,684.6
Hawaii	6,897.5	1,402.8	5,494.7	48.7	13.0	35.7	6,946.2	1,415.8	5,530.4
Idaho	8,822.0	1,794.2	7,027.8	91.2	24.4	66.8	8,913.2	1,818.6	7,094.6
Illinois	95,137.4	19,348.6	75,788.8	169.5	45.4	124.1	95,306.9	19,393.9	75,913.0
Indiana	24,319.8	4,946.0	19,373.8	160.6	43.0	117.6	24,480.5	4,989.1	19,491.4
Iowa	77,979.0	15,859.0	62,120.0	0.0	0.0	0.0	77,979.0	15,859.0	62,120.0
Kansas	0.0	0.0	0.0	15,522.2	4,156.2	11,366.0	15,522.2	4,156.2	11,366.0
Kentucky	29,878.4	6,076.5	23,801.9	40.5	10.9	29.7	29,918.9	6,087.4	23,831.6
Louisiana	13,393.1	2,723.8	10,669.3	238.2	63.8	174.4	13,631.3	2,787.6	10,843.7
Maine	0.0	0.0	0.0	1,292.5	346.1	946.4	1,292.5	346.1	946.4
Maryland	30,928.9	6,290.2	24,638.8	1,798.8	481.7	1,317.2	32,727.8	6,771.8	25,955.9
Massachusetts	0.0	0.0	0.0	828.2	221.7	606.4	828.2	221.7	606.4
Michigan	34,928.3	7,103.5	27,824.7	0.0	0.0	0.0	34,928.3	7,103.5	27,824.7
Minnesota	4,953.0	1,007.3	3,945.7	129.1	34.6	94.5	5,082.0	1,041.9	4,040.2
Mississippi	7,803.9	1,587.1	6,216.8	1.7	0.5	1.3	7,805.6	1,587.6	6,218.0
Missouri	12,591.0	2,560.7	10,030.3	320.4	85.8	234.6	12,911.5	2,646.5	10,265.0
Montana	4,502.3	915.7	3,586.7	33.7	9.0	24.7	4,536.0	924.7	3,611.3
Nebraska	26,858.2	5,462.3	21,395.9	140.1	37.5	102.6	26,998.3	5,499.8	21,498.5
Nevada	5,708.3	1,160.9	4,547.4	21.9	5.9	16.0	5,730.2	1,166.8	4,563.4
New Hampshire	6,358.1	1,293.1	5,065.0	405.3	108.5	296.8	6,763.4	1,401.6	5,361.8
New Jersey	0.0	0.0	0.0	228,391.9	61,154.2	167,237.8	228,391.9	61,154.2	167,237.8
New Mexico	10,085.2	2,051.1	8,034.1	258.7	69.3	189.4	10,343.9	2,120.3	8,223.5
North Carolina	101,653.5	20,673.8	80,979.7	3,103.7	831.1	2,272.7	104,757.2	21,504.8	83,252.4
North Dakota	3,074.2	625.2	2,449.0	0.0	0.0	0.0	3,074.2	625.2	2,449.0
Ohio	29,481.4	5,995.8	23,485.6	31.3	8.4	22.9	29,512.7	6,004.1	23,508.5
Oklahoma	13,502.9	2,746.2	10,756.8	224.4	60.1	164.3	13,727.3	2,806.2	10,921.1
Oregon	7,470.0	1,519.2	5,950.8	14.9	4.0	10.9	7,484.9	1,523.2	5,961.7
Pennsylvania	309,815.3	63,008.7	246,806.7	12,185.9	3,262.9	8,923.0	322,001.2	66,271.5	255,729.7
Rhode Island	1,656.7	336.9	1,319.8	513.5	137.5	376.0	2,170.2	474.4	1,695.7
South Carolina	15,771.2	3,207.5	12,563.7	1,612.8	431.8	1,180.9	17,384.0	3,639.3	13,744.7
South Dakota	41,412.6	8,422.3	32,990.3	0.0	0.0	0.0	41,412.6	8,422.3	32,990.3
Tennessee	46,460.1	9,448.8	37,011.3	2,038.8	545.9	1,492.9	48,498.9	9,994.7	38,504.2
Texas	136,299.1	27,719.8	108,579.3	635.7	170.2	465.5	136,934.7	27,890.0	109,044.7
Utah	14,057.2	2,858.9	11,198.3	22.9	6.1	16.8	14,080.1	2,865.0	11,215.1
Vermont	10,470.9	2,129.5	8,341.4	426.3	114.2	312.2	10,897.2	2,243.7	8,653.5
Virginia	148,825.5	30,267.4	118,558.2	64,808.6	17,353.1	47,455.5	213,634.2	47,620.5	166,013.7
Washington	122,861.4	24,986.9	97,874.5	166.5	44.6	121.9	123,027.9	25,031.5	97,996.4
West Virginia	0.0	0.0	0.0	5,030.7	1,347.0	3,683.7	5,030.7	1,347.0	3,683.7
Wisconsin	16,387.6	3,332.8	13,054.7	0.0	0.0	0.0	16,387.6	3,332.8	13,054.7
Wyoming	3,435.0	698.6	2,736.4	0.0	0.0	0.0	3,435.0	698.6	2,736.4
<u>Undetermined</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	2,532,558.2	515,058.7	2,017,499.5	407,317.7	109,063.3	298,254.4	2,939,875.9	624,122.0	2,315,753.9