

MEMO

DATE: June 16, 2016

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

FROM: Vincent L. Bodnar

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

COMMENTS:

The attached exhibit summarizes the current estimates developed by Long Term Care Group, Inc (“LTCG”) 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, 2015 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 LTCG, 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, and do not consider any potential application of the Moody’s interest rate adjustment. The covered gross liabilities are based on LTCG’s estimate of the future collected premium, paid benefits, and expenses, prior to the estimated asset transfer from the estate. The estate assets are based on the year-end 2015 market value of the assets held by PTNA and ANIC, and provided to LTCG 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, 2015. 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 LTCG liability estimates are based on the assumptions and methods discussed in the April 20, 2016 MPC presentation. A complete, technical description of these assumptions is available to FBD and NOLHGA upon request. Vincent L. Bodnar, ASA, MAAA is the actuary responsible for the actuarial opinions contained in this communication and is qualified to render them. This document was prepared under the terms of the May 1, 2015 engagement letter between LTCG, FBD and NOLHGA. Distribution of this document beyond FBD, NOLHGA and its member GAs and advisors is not permitted without prior written consent.

LTCG 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 LTCG to the user.

Penn Treaty Network America Insurance Company and American Network Insurance Company

Summary of Guaranty Association Coverage Estimates¹ by State as of December 31, 2015

GA State	GA Limit	PTNA				ANIC				Total			
		Policy Count	Gross Liabilities	Assets ²	Net Liabilities	Policy Count	Gross Liabilities	Assets ²	Net Liabilities	Policy Count	Gross Liabilities	Assets ²	Net Liabilities
AL	300,000	314	\$6,835,005	\$868,095	\$5,966,911	6	\$115,093	\$29,318	\$85,775	320	\$6,950,098	\$897,412	\$6,052,686
AK	300,000	34	\$1,248,429	\$158,559	\$1,089,870	-	\$0	\$0	\$0	34	\$1,248,429	\$158,559	\$1,089,870
AZ	300,000	3,131	\$130,155,392	\$16,530,665	\$113,624,727	59	\$2,093,028	\$533,164	\$1,559,864	3,190	\$132,248,420	\$17,063,829	\$115,184,591
AR	300,000	233	\$4,841,121	\$614,857	\$4,226,264	1	\$16,563	\$4,219	\$12,344	234	\$4,857,684	\$619,076	\$4,238,608
CA	533,182	8,781	\$435,578,680	\$55,321,606	\$380,257,073	37	\$2,567,314	\$653,980	\$1,913,334	8,818	\$438,145,994	\$55,975,586	\$382,170,407
CO	300,000	1,613	\$44,829,962	\$5,693,726	\$39,136,236	996	\$23,020,355	\$5,864,048	\$17,156,307	2,609	\$67,850,317	\$11,557,774	\$56,292,543
CT	500,000	57	\$2,856,713	\$362,823	\$2,493,890	578	\$33,910,804	\$8,638,207	\$25,272,598	635	\$36,767,518	\$9,001,030	\$27,766,488
DC	300,000	32	\$1,128,138	\$143,282	\$984,856	4	\$189,212	\$48,199	\$141,013	36	\$1,317,350	\$191,480	\$1,125,870
DE	300,000	82	\$3,253,456	\$413,212	\$2,840,244	10	\$515,255	\$131,252	\$384,002	92	\$3,768,711	\$544,465	\$3,224,246
FL	300,000	9,484	\$390,816,779	\$49,636,525	\$341,180,254	325	\$17,177,990	\$4,375,804	\$12,802,186	9,809	\$407,994,769	\$54,012,328	\$353,982,440
GA	300,000	1,784	\$68,671,000	\$8,721,708	\$59,949,292	31	\$1,683,896	\$428,944	\$1,254,952	1,815	\$70,354,897	\$9,150,652	\$61,204,245
HI	300,000	262	\$9,079,905	\$1,153,213	\$7,926,692	1	\$17,177	\$4,376	\$12,802	263	\$9,097,082	\$1,157,588	\$7,939,494
ID	300,000	301	\$8,932,106	\$1,134,441	\$7,797,665	5	\$139,395	\$35,509	\$103,887	306	\$9,071,501	\$1,169,950	\$7,901,551
IL	300,000	3,847	\$91,869,282	\$11,668,056	\$80,201,227	9	\$274,160	\$69,838	\$204,322	3,856	\$92,143,442	\$11,737,893	\$80,405,549
IN	300,000	939	\$27,806,345	\$3,531,605	\$24,274,741	4	\$189,931	\$48,382	\$141,549	943	\$27,996,276	\$3,579,986	\$24,416,290
IA	300,000	2,311	\$92,536,946	\$11,752,854	\$80,784,093	-	\$0	\$0	\$0	2,311	\$92,536,946	\$11,752,854	\$80,784,093
KS	300,000	-	\$0	\$0	\$0	680	\$15,009,402	\$3,823,393	\$11,186,010	680	\$15,009,402	\$3,823,393	\$11,186,010
KY	300,000	966	\$30,464,346	\$3,869,190	\$26,595,156	7	\$330,608	\$84,217	\$246,391	973	\$30,794,953	\$3,953,406	\$26,841,547
LA	500,000	426	\$11,697,445	\$1,485,659	\$10,211,786	2	\$202,793	\$51,658	\$151,135	428	\$11,900,238	\$1,537,317	\$10,362,921
ME	300,000	-	\$0	\$0	\$0	53	\$984,021	\$250,663	\$733,358	53	\$984,021	\$250,663	\$733,358
MD	300,000	806	\$31,435,844	\$3,992,577	\$27,443,267	40	\$2,296,878	\$585,091	\$1,711,787	846	\$33,732,722	\$4,577,668	\$29,155,054
MA	300,000	-	\$0	\$0	\$0	65	\$2,357,261	\$600,472	\$1,756,788	65	\$2,357,261	\$600,472	\$1,756,788
MI	300,000	1,317	\$34,401,753	\$4,369,269	\$30,032,484	-	\$0	\$0	\$0	1,317	\$34,401,753	\$4,369,269	\$30,032,484
MN	410,000	140	\$3,727,276	\$473,391	\$3,253,885	4	\$152,393	\$38,820	\$113,573	144	\$3,879,668	\$512,210	\$3,367,458
MS	300,000	465	\$14,870,075	\$1,888,606	\$12,981,469	1	\$11,922	\$3,037	\$8,885	466	\$14,881,997	\$1,891,643	\$12,990,354
MO	100,000	833	\$12,888,706	\$1,636,958	\$11,251,748	40	\$377,110	\$96,063	\$281,048	873	\$13,265,816	\$1,733,020	\$11,532,796
MT	300,000	173	\$3,181,444	\$404,066	\$2,777,378	1	\$34,898	\$8,890	\$26,009	174	\$3,216,343	\$412,956	\$2,803,387
NE	300,000	822	\$27,285,440	\$3,465,446	\$23,819,994	10	\$97,282	\$24,781	\$72,501	832	\$27,382,722	\$3,490,227	\$23,892,495
NV	300,000	361	\$13,163,334	\$1,671,838	\$11,491,497	7	\$223,158	\$56,846	\$166,312	368	\$13,386,492	\$1,728,683	\$11,657,809
NH	300,000	159	\$7,156,564	\$908,935	\$6,247,630	20	\$528,804	\$134,704	\$394,100	179	\$7,685,369	\$1,043,639	\$6,641,730
NJ	Unlimited	-	\$0	\$0	\$0	2,032	\$192,112,638	\$48,937,460	\$143,175,177	2,032	\$192,112,638	\$48,937,460	\$143,175,177
NM	300,000	227	\$8,276,190	\$1,051,135	\$7,225,055	12	\$372,302	\$94,838	\$277,464	239	\$8,648,492	\$1,145,973	\$7,502,519
NC	300,000	2,467	\$109,245,596	\$13,874,972	\$95,370,624	83	\$4,000,755	\$1,019,125	\$2,981,630	2,550	\$113,246,350	\$14,894,097	\$98,352,254
ND	300,000	191	\$2,655,742	\$337,298	\$2,318,443	-	\$0	\$0	\$0	191	\$2,655,742	\$337,298	\$2,318,443
OH	300,000	2,141	\$62,904,211	\$7,989,285	\$54,914,927	21	\$445,832	\$113,568	\$332,264	2,162	\$63,350,044	\$8,102,853	\$55,247,191
OK	300,000	453	\$13,316,434	\$1,691,282	\$11,625,152	9	\$266,012	\$67,762	\$198,250	462	\$13,582,446	\$1,759,044	\$11,823,402
OR	100,000	703	\$12,240,363	\$1,554,614	\$10,685,749	11	\$135,431	\$34,499	\$100,932	714	\$12,375,794	\$1,589,112	\$10,786,682
PA	300,000	9,582	\$318,009,616	\$40,389,495	\$277,620,122	344	\$13,324,589	\$3,394,215	\$9,930,375	9,926	\$331,334,206	\$43,783,709	\$287,550,496
RI	300,000	56	\$1,809,647	\$229,838	\$1,579,809	13	\$641,542	\$163,422	\$478,120	69	\$2,451,189	\$393,260	\$2,057,929

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SC	300,000	573	\$17,299,898	\$2,197,211	\$15,102,688	75	\$2,814,490	\$716,944	\$2,097,546	648	\$20,114,388	\$2,914,155	\$17,200,233
SD	300,000	1,186	\$43,709,847	\$5,551,463	\$38,158,384	-	\$0	\$0	\$0	1,186	\$43,709,847	\$5,551,463	\$38,158,384
TN	300,000	1,429	\$48,545,586	\$6,165,636	\$42,379,949	37	\$1,752,624	\$446,451	\$1,306,172	1,466	\$50,298,209	\$6,612,088	\$43,686,122
TX	300,000	4,142	\$133,425,635	\$16,946,009	\$116,479,626	28	\$898,328	\$228,834	\$669,494	4,170	\$134,323,963	\$17,174,843	\$117,149,120
UT ³	Unlimited	398	\$13,171,203	\$1,672,837	\$11,498,366	2	\$44,810	\$11,415	\$33,396	400	\$13,216,014	\$1,684,252	\$11,531,762
VT	300,000	197	\$11,083,499	\$1,407,684	\$9,675,815	11	\$474,823	\$120,953	\$353,870	208	\$11,558,322	\$1,528,637	\$10,029,685
VA	300,000	3,996	\$158,704,379	\$20,156,591	\$138,547,789	1,450	\$68,083,529	\$17,343,133	\$50,740,396	5,446	\$226,787,909	\$37,499,724	\$189,288,185
WA	500,000	3,183	\$136,135,422	\$17,290,172	\$118,845,250	3	\$221,809	\$56,502	\$165,307	3,186	\$136,357,230	\$17,346,674	\$119,010,557
WV	300,000	-	\$0	\$0	\$0	217	\$4,926,045	\$1,254,827	\$3,671,218	217	\$4,926,045	\$1,254,827	\$3,671,218
WI	300,000	592	\$17,920,677	\$2,276,054	\$15,644,623	-	\$0	\$0	\$0	592	\$17,920,677	\$2,276,054	\$15,644,623
WY	300,000	125	\$3,116,155	\$395,774	\$2,720,381	-	\$0	\$0	\$0	125	\$3,116,155	\$395,774	\$2,720,381
Undeter.	0	3	\$0	\$0	\$0	3	\$0	\$0	\$0	6	\$0	\$0	\$0
Total		71,314	\$2,622,281,586	\$333,048,507	\$2,289,233,079	7,347	\$395,032,263	\$100,627,819	\$294,404,444	78,661	\$3,017,313,849	\$433,676,326	\$2,583,637,523

¹Based on LTCG estimates, discounted at 4.25%.

²Based on 2015 assets, which are distributed in proportion to gross liabilities for this exhibit. Actual allocation by state would be different if allocation was based on re-priced premium or NAPM.

³The limit in Utah is based on a \$500,000 reserve amount, as opposed to \$500,000 of payments.

Disclosure

The actuarial portions of this document were prepared by Long Term Care Group, Inc. ("LTCCG") for the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA") in accordance with a statement of work dated May 1, 2015 between LTCCG and NOLHGA. It may not be referenced or distributed to any other party without the prior written consent of LTCCG. NOLHGA may distribute this document to its advisors, its member Guaranty Associations and their advisors.

In developing this document and the underlying actuarial analyses, LTCCG relied on information that was supplied by the staff of Penn Treaty Network America Insurance Company. LTCCG staff reviewed the information being relied upon for reasonableness, but performed no audits or independent verification of such information. To the extent that there are material errors in the information provided, the results of our analysis will be affected as well.

The liability estimates provided in this document are based on assumptions for future morbidity, lapse, mortality, expenses and other actuarial factors that were developed by LTCCG from a recent analysis of experience through 12/31/2015. A detailed technical description of these assumptions and this analysis are available to NOLHGA at its request. Actual future experience may be more or less favorable than the assumptions underlying this document. To the extent that actual experience differs from the assumptions underlying this document, actual results will differ, perhaps materially, from the projected results.

We accept no responsibility for any consequences arising from any third party relying on our work product.

Vincent Bodnar, ASA, MAAA is the actuary that is responsible for the actuarial findings contained in this document. He is a member of the American Academy of Actuaries and meets its Qualification Standards for issuing such findings.