

MEMORANDUM

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

From: Vincent L. Bodnar

Date: November 14, 2014

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, 2013 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, and do not consider any potential application of the Moody's interest rate adjustment. 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 2013 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, 2013. 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 Towers Watson liability estimates are based on the assumptions and methods outlined in the July 14, 2014 presentation to the PTNA/ANIC Task Force. 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 30, 2013 engagement letter between TW, FBD and NOLHGA. Distribution of this document beyond FBD, NOLHGA and its member GAs and advisors is not permitted without prior written consent.

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 12/31/2013

Amounts in \$ Thousands

Guaranty Association	PTNA			ANIC			PTNA + ANIC		
	Covered Gross Liabilities	Covered Estate Assets	Covered Net Liabilities	Covered Gross Liabilities	Covered Estate Assets	Covered Net Liabilities	Covered Gross Liabilities	Covered Estate Assets	Covered Net Liabilities
Alabama	7,271	1,315	5,957	93	24	69	7,364	1,338	6,026
Alaska	871	157	714	0	0	0	871	157	714
Arizona	121,570	21,979	99,592	1,417	360	1,057	122,987	22,339	100,648
Arkansas	4,679	846	3,833	192	49	143	4,870	895	3,976
California	432,439	78,180	354,259	3,180	809	2,371	435,620	78,989	356,631
Colorado	44,927	8,122	36,805	19,649	4,997	14,652	64,577	13,120	51,457
Connecticut	3,648	660	2,989	29,040	7,385	21,655	32,688	8,045	24,643
DC	913	165	748	50	13	37	963	178	785
Delaware	3,029	548	2,481	381	97	284	3,410	645	2,765
Florida	365,936	66,157	299,779	12,024	3,058	8,966	377,960	69,215	308,745
Georgia	70,265	12,703	57,562	998	254	744	71,262	12,957	58,306
Hawaii	7,101	1,284	5,817	64	16	47	7,165	1,300	5,865
Idaho	8,633	1,561	7,072	105	27	78	8,738	1,587	7,150
Illinois	94,573	17,098	77,475	222	56	166	94,795	17,154	77,640
Indiana	25,165	4,550	20,615	191	49	143	25,356	4,598	20,758
Iowa	76,445	13,820	62,624	0	0	0	76,445	13,820	62,624
Kansas	0	0	0	16,869	4,290	12,579	16,869	4,290	12,579
Kentucky	27,175	4,913	22,262	35	9	26	27,210	4,922	22,288
Louisiana	12,976	2,346	10,630	278	71	207	13,254	2,417	10,837
Maine	0	0	0	1,726	439	1,287	1,726	439	1,287
Maryland	28,688	5,187	23,502	1,723	438	1,285	30,411	5,625	24,787
Massachusetts	0	0	0	856	218	638	856	218	638
Michigan	36,844	6,661	30,183	0	0	0	36,844	6,661	30,183
Minnesota	4,519	817	3,702	146	37	109	4,666	854	3,811
Mississippi	16,422	2,969	13,453	114	29	85	16,536	2,998	13,538
Missouri	12,571	2,273	10,299	294	75	219	12,865	2,347	10,518
Montana	4,490	812	3,678	41	10	30	4,531	822	3,708
Nebraska	25,040	4,527	20,513	135	34	101	25,175	4,561	20,614
Nevada	13,514	2,443	11,071	317	81	236	13,831	2,524	11,308
New Hampshire	6,243	1,129	5,114	427	109	319	6,670	1,237	5,433
New Jersey	0	0	0	207,745	52,834	154,911	207,745	52,834	154,911
New Mexico	8,314	1,503	6,811	249	63	185	8,563	1,566	6,997
North Carolina	104,201	18,838	85,363	3,590	913	2,677	107,791	19,751	88,039
North Dakota	2,911	526	2,385	0	0	0	2,911	526	2,385
Ohio	32,006	5,786	26,220	218	55	162	32,224	5,842	26,382
Oklahoma	13,474	2,436	11,038	209	53	155	13,682	2,489	11,193
Oregon	7,572	1,369	6,203	19	5	14	7,590	1,374	6,217
Pennsylvania	299,488	54,144	245,344	12,939	3,291	9,649	312,427	57,435	254,992
Rhode Island	1,678	303	1,375	392	100	292	2,070	403	1,667
South Carolina	14,804	2,676	12,128	1,903	484	1,419	16,707	3,160	13,547
South Dakota	42,460	7,676	34,783	0	0	0	42,460	7,676	34,783
Tennessee	44,537	8,052	36,486	2,214	563	1,651	46,751	8,615	38,136
Texas	122,338	22,117	100,221	658	167	491	122,996	22,285	100,711
Utaha	13,909	2,515	11,394	33	8	25	13,942	2,523	11,419
Vermont	9,805	1,773	8,033	410	104	306	10,215	1,877	8,338
Virginia	156,444	28,283	128,161	65,494	16,656	48,837	221,938	44,940	176,998
Washington	119,868	21,671	98,197	166	42	124	120,034	21,713	98,321
West Virginia	0	0	0	5,567	1,416	4,151	5,567	1,416	4,151
Wisconsin	16,620	3,005	13,615	0	0	0	16,620	3,005	13,615
Wyoming	3,234	585	2,649	0	0	0	3,234	585	2,649
<u>Undetermined</u>	<u>35</u>	<u>6</u>	<u>28</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>35</u>	<u>6</u>	<u>28</u>
Total	2,469,646	446,485	2,023,160	392,372	99,789	292,584	2,862,018	546,274	2,315,744