

# Penn Treaty Network America Insurance Company and American Network Insurance Company: INSURANCE COMMISSIONER 'S STATEMENT

**Penn Treaty Network America Insurance Company and American Network Insurance  
Company Liquidation  
Official Statement by Pennsylvania Insurance Commissioner Teresa Miller  
March 1, 2017**

The decision to request that the Commonwealth Court liquidate Penn Treaty Network America Insurance Company (PTNA) and its subsidiary American Network Insurance Company (ANIC) was made after a long and complicated court process that began in January 2009. This process led to the conclusion that further attempts to rehabilitate PTNA and ANIC would have been futile and would have substantially increased the risk of loss to creditors, policyholders, and the public. I firmly believe liquidation was the best option to protect policyholders, as policyholders have assurances of coverage through state guaranty associations.

Policyholder claims will continue to be covered by the state guaranty association system pursuant to law, and policy claims will be paid subject to the applicable state guaranty association coverage limits and conditions. Policyholders should continue to file claims as they have in the past, and must continue to pay their premiums in order to be eligible for guaranty association coverage. State guaranty associations were created to protect state residents who are policyholders of a company that has become insolvent. In each state, other insurance companies licensed in that state pay into a guaranty fund, and that money is used to cover claims when a company becomes insolvent and is liquidated.

In addition, I wish to reassure PTNA and ANIC policyholders that we will be responsive to their service needs. The companies have entered into agreements with the guaranty associations to continue to provide services to policyholders, including collecting premium payments and paying claims on behalf of the guaranty associations. This arrangement will mean a smooth transition for policyholders and no disruptions to claims payments. Policyholders can continue to contact the PTNA and ANIC customer service representatives with any questions about coverage or claims.

In business since 1972, PTNA and ANIC together sold or had licenses to sell policies in 49 states and the District of Columbia. The companies primarily wrote long-term-care insurance, but also issued a limited number of major medical, disability, and other health insurance policies. The two companies currently have approximately 76,000 policyholders nationwide, with 9,000 residing in Pennsylvania. More than 98 percent of PTNA and ANIC's policies are long-term care insurance. The companies stopped writing new business in 2008.

Prior to the recent orders of liquidation, the companies had insufficient assets to pay all policyholder claims in full, and the costs associated with continued attempts to rehabilitate the companies would have further depleted those assets. PTNA and ANIC were in such conditions that the further transaction of business would have been financially hazardous. As of December 31, 2016, the companies have \$ 503 million in assets and almost \$ 4.49 billion in liabilities, for a deficit of more than \$ 3.9 billion on a combined basis.

A major reason the companies ended up in their critical financial condition is that many policies were underpriced when they were initially sold. Long term care insurance is a relatively new product and many insurers made assumptions concerning the number and duration of expected claims that later proved faulty. Pricing this type of policy appropriately is particularly difficult given the developing experience, the low market penetration, the poor investment climate, and the fact that many policyholders are elderly and on fixed incomes. Because of these factors, PTNA and ANIC were unable to obtain sufficient rate increases, which would have been significant, to render the business profitable.

PTNA and ANIC were placed into Rehabilitation by an Order of the Commonwealth Court of Pennsylvania on January 6, 2009. Since that time, the Pennsylvania Insurance Department has overseen the companies' finances and operations. Policy and claim administration has continued from the PTNA/ANIC office in Allentown, Pennsylvania.

Three months into Rehabilitation, on April 6, 2009, the Commissioner presented a preliminary proposal for Rehabilitation of the companies calling for additional rate increases and expense reductions. During the third quarter of 2009, it was determined that the financial condition of the companies was more dire than was initially evident. Therefore, in October 2009, the Commissioner petitioned the Court to convert the existing rehabilitations to liquidations.

In May 2012, the Commonwealth Court denied the Commissioner's petitions to liquidate the companies and instead ordered that plans of rehabilitation be developed.

The Commissioner appealed that decision to the Pennsylvania Supreme Court. In July 2015, the Pennsylvania Supreme Court affirmed the May 2012 Order, but clarified the standard by which the Commonwealth Court must adjudge a petition to convert an insurer rehabilitation to a liquidation and stated that the Commonwealth Court should give more deference to the Commissioner in the ongoing court proceedings related to PTNA and ANIC.

Carrying out the Court's Order, the Commissioner proposed rehabilitation plans for the companies in April 2013 ("April 2013 Plans"). Those April 2013 Plans called for imposing temporary insurance policy modifications; suspending payment of agent commissions, premium taxes and guaranty association assessments; developing additional sources of revenue such as through the potential sale of certain assets and administrative services as well as possible later premium rate increases; and eventually restoring policy benefits if possible. When these plans were made public, the Court received hundreds of comments objecting to various aspects of them.

In response to those objections, the Commissioner convened a Multi-Party Rehabilitation Group (“MPRG”) in October 2013. The purpose of the MPRG was to consider potential modifications or alternatives to the April 2013 Plans.

The MPRG included representatives of the Pennsylvania Insurance Department, Policyholders Committee, Penn Treaty American Corporation (the parent company of PTNA and ANIC), agents, investors, guaranty associations, and several health insurers. The group examined, considered, and debated ways to rehabilitate the business of PTNA and ANIC.

These discussions resulted in the proposal of an alternate rehabilitation plan for the companies, which was filed with the Court in August 2014 and which was amended in October 2014 (“2014 Plan”). The 2014 Plan proposed dividing all policies into two groups; policies determined to be adequately priced would be placed in one company which potentially could exit rehabilitation and all other policies would be placed in the other company which would be liquidated with guaranty association protection for its policyholders. Every policyholder could choose either company, though holders of inadequately priced policies would have to agree to rate increases and/or benefit reductions to make them adequately priced.

When the 2014 Plan was made public, the Court again received hundreds of comments and objections to it. The Commissioner considered all comments and objections, and attempted to resolve all issues. Ultimately, all issues could not be resolved, and it became evident that the limited benefits expected from the proposed plan compared to the time and expense that would be necessary to invest in litigation to support the proposed plan, and the costs to ultimately implement the plan, would not be in the best interests of the policyholders, creditors, or the public.

Therefore, I petitioned the Court to liquidate the companies, and the Liquidation Orders were issued on March 1, 2017.

Although the concept of Liquidation may be upsetting to PTNA and ANIC policyholders, I believe that the Orders of Liquidation are in the policyholders’ best interests, as policyholders now have assurances of coverage through their state guaranty associations.

Thank you for your patience and understanding throughout the long rehabilitation process.