STATEMENT OF PENNSYLVANIA INSURANCE COMMISSIONER JESSICA ALTMAN REGARDING THE REHABILITATION PLAN FOR SENIOR HEALTH INSURANCE COMPANY OF PENNSYLVANIA

For the policyholders and others interested in the Approved Rehabilitation Plan for Senior Health Insurance Company of Pennsylvania (SHIP), we offer this statement to address questions we have received about this matter.

A NOTE ABOUT THE LTC INDUSTRY

Insurance regulators collectively through the NAIC have identified long-term care (LTC) insurance as posing a significant national challenge for state insurance regulation. Many insurers that hold LTC policies sold more than a few years ago are facing difficult financial circumstances because the premiums charged for these policies have generally been inadequate relative to the actual claims experienced by the company since inception. While insurers have attempted to increase the premium rates for these policies, in general premiums have largely remained inadequate relative to claims. The issues regarding premium rate adequacy affect a company's financial viability and result in involuntary subsidization of some policyholders by others. This occurs because insurers end up charging different rates in different states for the same coverage. As a result, rate increases in some states have effectively caused the affected policyholders to subsidize those whose policies were issued in states in which rates did not increase as much.

The premium inadequacy issue is compounded by a dramatic decline over the last two decades in the income these insurers earned from investing these premiums. These problems are industry-wide and not isolated to SHIP, although SHIP has experienced these challenging dynamics.

While regulators are keenly aware of the consumer impact of rate increases and this is generally the focus of conversations around the impact of these LTC issues on policyholders, solvency issues bring to bear the need to greatly consider the consumer impact of regulatory actions that could reduce the benefits available to policyholders. These two considerations, minimizing rate increases to prioritize consumer affordability and protecting the benefits policyholders invested in and planned for, while both important, are also inherently at odds with one another. It is Pennsylvania's belief that these two considerations must be balanced and that the best way to achieve this balance is by providing choices to policyholders that they can make, rather than the regulator making those choices unilaterally on their behalf. It is further Pennsylvania's belief that any action taken in this regard must be equitable across all policyholders and cannot provide favorable treatment to any policyholder over another.

DEVELOPMENT OF THE REHABILITATION PLAN

Taking into account what we knew about the LTC industry and SHIP's condition, and following the difficulties faced in the liquidation of the Penn Treaty companies, the Pennsylvania

Insurance Department (PID or Department) determined to take formal action with respect to SHIP. Our goals were to address SHIP's financial challenge while, as much as possible, enabling policyholders to preserve necessary LTC coverage tailored to their individual circumstances if they so choose. This required the development of a manageable number of carefully designed options from among which each policyholder might find the one best suited to his or her needs. We wanted these options to be adjustable for each policyholder's individual case. It was equally important that we develop materials that would enable us to explain these options in a manner that policyholders would be able to understand, and which would permit them to readily make the best decisions.

As the Department developed SHIP's proposed Rehabilitation Plan, we engaged in an extensive campaign to inform and solicit the views of our fellow insurance regulators. The responses we received focused on two issues that we addressed in the Approved Rehabilitation Plan. First, some states suggested that LTC business held by SHIP through reinsurance rather than issuance or novation be made the responsibility of the issuing insurers. We accepted this suggestion and amended the proposed Rehabilitation Plan accordingly. Second, some states objected to not having the ability to approve rate increases themselves rather than have the Rehabilitator do it. The Plan was amended to enable states to "opt out" of the Plan's rate increase provisions, and to approve rates themselves, with benefits being adjusted to the approved rates to eliminate involuntary subsidies by other policyholders and ensure the Plan's equitability. In due course, eleven states (AL, CA, CT, HI. IA, ID, MD, ND, OH, SD, and WV) and the District of Columbia (together amounting to just over 19% of affected policies) have availed themselves of this option and will determine rates for policies issued in those states no matter where the policyholders currently reside. Similarly, opt out states will not set the premium rates for policyholders residing in their states if their policies were written in a state that is subject to the plan.

PRESENTATION OF THE PLAN TO THE COURT AND COURT APPROVAL

The Department finalized the proposed rehabilitation plan and presented it to the Court for approval in May 2021. The Court held a weeklong, in-person hearing at which parties were afforded the opportunity to oppose or weigh in on the Plan. On August 25, 2021, the Court filed a well-reasoned opinion approving the Plan ("Approved Rehabilitation Plan"). The opinion, which addressed the objections and opposition to the Plan, and the Approved Rehabilitation Plan are available at www.shipltc.com.

The Insurance Commissioners of the States of Maine, Massachusetts, and Washington (Intervening Regulators) have filed an appeal to the Supreme Court of Pennsylvania which is pending. The Intervening Regulators also requested that the Commonwealth Court stay (suspend) implementation of the Plan while they pursued their appeal. The Court denied this request. The Intervening Regulators have also requested that the Supreme Court order suspension of the Plan and that request is pending. For now, at least, the Plan is being implemented.

WHY REHABILITATION IS BETTER THAN LIQUIDATION

The problems faced by SHIP are substantial. To be sure, it was tempting to take the "easy way out" and simply place the company in liquidation. That would not have been controversial, and it would have been much easier in many respects. However, the Department's lengthy and careful analysis, taking into account past experience and applicable law, convinced us that liquidating the company would not be nearly as good for SHIP's policyholders as the proposed Rehabilitation Plan. We worked hard to explain the bases of that conclusion to our fellow regulators and to the Court. After careful consideration, the Court agreed. The following highlight some of the benefits of the Plan as compared to liquidation:

1. Every policyholder will be able to select a Non-forfeiture Option, a policy that provides some coverage but for which no premium has to be paid - ever. For policyholders whose policies were issued in states that did not opt out of the Plan's rate setting provisions ("Opt-in States"), this coverage is enhanced, guaranteeing that they will have at least two and a half years of coverage (or whatever is left on their policies if less than that), again at no premium. This option would not be available in liquidation.

2. The more than 80% of our policyholders whose policies were issued in Opt-in States will also have the ability to select one of two "Basic Policy Endorsements" designed to provide different levels of basic long-term care coverage at reasonable rates. No such option would be available if SHIP were placed in liquidation or for policyholders whose policies were issued in states that opted out of the Plan's rate setting provisions ("Opt-out States"). The options available to policyholders whose policies were issued in Opt-out States will be governed largely by those states' premium rate determinations.

3. Every policyholder will have the ability to retain his or her full current coverage if he or she is willing and able to pay for it. For some policyholders that may mean sizable increases in premiums but for many it will mean moderate or no increases. This option would not be available in liquidation to the almost half of SHIP's policyholders whose policies currently provide potential benefits that exceed their states' guaranty fund coverage limit. While we cannot predict any one policyholder's future claims, we estimate that at least 40% of our policyholders will have claims that exceed the guaranty fund coverage limit. To avoid unfairly disadvantaging policyholders whose policies were issued in Opt-out States, our team has made this option available to those policyholders as well, although it will not be the default option for those policyholders.

4. Each Plan option has been calculated individually for each policyholder, and each policyholder will receive individualized information about his or her current coverage and each option available to him or her with information applicable uniquely to that policyholder. That would not be possible in liquidation.

5. The Plan offers other options as well. It is this ability for policyholders to select from among several meaningful options that makes the Approved Rehabilitation Plan preferable to liquidation.

6. It is important to note that every policyholder whose policy was issued in an Opt-in State

will have at least one option (sometimes more) that will provide no less in potential benefits than would the guaranty associations in liquidation. It is also important to note that if, despite our efforts, SHIP still has to be placed in liquidation later, all policyholders will retain the ability to access guaranty association benefits.

In our response to SHIP's challenges, the Department has placed the interests of affected policyholders at the top of our priorities. We remain very confident that our approach offers these policyholders the best array of possible outcomes given our difficult circumstances. Doing the right thing is not always the easiest path, but it is the one I am taking nonetheless.