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IN THE COMMONWEALTH COURT OF PENNSYLVANIA

In Re: Penn Treaty Network America Insurance Company in Rehabilitation	:	DOCKET NO. 1 PEN 2009
In Re: American Network Insurance Company in Rehabilitation	:	DOCKET NO. 1 ANI 2009
	:	

**APPLICATION TO APPROVE STATEMENT REGARDING, AND
AUTHORIZE, RESTRUCTURING OF INSURANCE LIABILITIES IN
LIQUIDATION**

Teresa D. Miller, Insurance Commissioner of Pennsylvania, in her capacity as statutory receiver of Penn Treaty Network America Insurance Company (“PTNA”) and American Network Insurance Company (“ANIC” and, with PTNA, “the Companies”), hereby requests that the Court approve the attached Statement Regarding Restructuring of Insurance Liabilities in Liquidation (“Restructuring

Statement” or “Statement”), and authorize the Commissioner to proceed with the restructurings, modifications and procedures described therein which constitute the Receiver’s plan for the mitigation of potentially significant adverse tax consequences for the Companies and their policyholders. Approval of the Restructuring Statement and authorization for the Commissioner to proceed with the restructurings, modifications and procedures set forth in that statement will facilitate the process for requesting a Private Letter Ruling (“PLR”) from the Internal Revenue Service (“IRS”) confirming that the liquidation proceedings should not result in specified adverse tax consequences for the Companies or their policyholders.

ARGUMENT

On July 27, 2016, the Commissioner filed petitions to convert the receiverships of both Companies from rehabilitation to liquidation. The Court conducted a hearing on the petitions on November 9, 2016. No objections to the petitions were filed or presented to the Court, and the Court closed the hearing for the receipt of argument and evidence. The Court also approved an on-the-record resolution of certain disputes including the Court’s confirmation that liquidation orders with respect to the Companies would not be entered by the Court any earlier than January 1, 2017. The Commissioner advised the Court at the hearing that she

would later submit to the Court the date on which she would prefer the liquidation orders to be entered.

As the Commissioner has previously advised the Court, and is explained more fully in the Restructuring Statement, one consequence of the Companies' insolvencies is that they will be unable to pay in full their insurance liabilities to policyholders, including some of those taken into account in computing the Companies' federal income tax reserves. In the absence of remedial measures, failure to pay such liabilities before conclusion of the respective liquidations could result in the requirement that the Companies recognize taxable income in the amount of previously deducted tax reserves for insurance liabilities that are not ultimately paid. The restructurings described in the Restructuring Statement, coupled with an eventual request for discharge from this Court, are intended to convert the unfunded portion of insurance liabilities into debt to minimize such potential tax liability.

To confirm the effectiveness of the Receiver's plan to minimize those tax consequences, the Receiver intends to seek a PLR verifying that there will not be specified adverse tax consequences to the Companies or their policyholders as a result of the liquidation proceedings.

As noted in the Statement, the restructurings described therein will not affect any policyholder's or other creditor's rights or the obligations of any state guaranty

association. In addition, for purposes of informing the Internal Revenue Service the Statement describes certain potential future transactions and planned activities including (i) the allocation of estate assets between covered and uncovered liabilities, (ii) determination of amounts of assets and liabilities related to the uncovered liabilities that are to be transferred to another insurer to provide benefits to the policyholder in excess of guaranty association coverages, (iii) the set-aside of estate assets for estate administration costs and contingencies, and (iv) the determination of early access distribution amounts. The Commissioner is not through this application seeking the Court's approval of these transactions or activities. This application concerns only the restructurings, modifications, and procedures described in the Statement. To the extent necessary, the Commissioner will file one or more applications with the Court following entry of liquidation orders to address such other future transactions and related matters.

As this Court previously recognized, these tax issues are significant. The Commissioner thus requests that the Court approve the Restructuring Statement and authorize the Commissioner to effect the restructurings, modifications and procedures described therein, so that the Commissioner can then request a PLR based on the approach outlined in that Statement.

CONCLUSION

For the reasons set forth above, the Commissioner respectfully requests that the Court approve the Restructuring Statement and authorize the Commissioner to effect the restructurings, modifications and procedures described therein.

Dated: December 22, 2016

Respectfully submitted,

/s/ Stephen W. Schwab

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IN THE COMMONWEALTH COURT OF PENNSYLVANIA

In Re: Penn Treaty Network America Insurance Company in Rehabilitation	:	DOCKET NO. 1 PEN 2009
In Re: American Network Insurance Company in Rehabilitation	:	DOCKET NO. 1 ANI 2009

**LIQUIDATOR’S STATEMENT REGARDING
RESTRUCTURING OF INSURANCE LIABILITIES IN LIQUIDATION**

The Pennsylvania Insurance Commissioner, as Rehabilitator of Penn Treaty Network America Insurance Company (**PTNA**) and American Network Insurance Company (**ANIC**, together with PTNA, the **Companies** or the **Insurers**, and each a **Company** or **Insurer**) respectfully submits for the Court’s approval this statement (**Statement**) regarding the planned restructuring of the Companies’

insurance policy liabilities, including related modifications of the Companies' policies for purposes of managing the liquidation of the Companies effectively and to minimize certain potential adverse federal income tax consequences for the Companies and their policyholders as a result of the liquidation. As part of the restructuring, in due course coverage attributable to the unfunded portion of Policy Liabilities will be converted into Insurer indebtedness to the Policy Owners. The planned restructuring, however, will not affect any policyholder's or other creditor's rights or the obligations of any state guaranty association. The Companies do not have, and will not have, the financial ability to fully fund anticipated Covered Benefits and Uncovered Benefits obligations, and the Rehabilitator expects eventually to seek the discharge of the unfunded indebtedness from this Court. The Rehabilitator requests that the Court specifically approve the planned restructuring, including the modifications of the Companies' Policies described herein, which will be undertaken in this form only if the Court enters Orders of liquidation for both Companies.

RELEVANT FACTS

1. Penn Treaty American Corporation (**PTAC**) is a holding company that is the common parent of a life/nonlife consolidated group which includes PTNA and ANIC. PTAC owns all of the stock of PTNA. PTNA, in turn, owns all of the stock of ANIC. Both Companies are Pennsylvania-domiciled stock insurance companies, and both have issued primarily guaranteed renewable long-term care (**LTC**) policies and certain other accident and health insurance (**A&H**) policies (each a **Policy** and as a group the **Policies**). Both Companies are life insurance companies under section 816 of the Code.¹ On January 6, 2009, the Court ordered that the Companies be placed into rehabilitation in accordance with the provisions of Article V and appointed Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, and his successors in office, as Statutory Rehabilitator of the Companies. On October 8, 2014, then Pennsylvania Insurance Commissioner Michael F. Consedine, as statutory Rehabilitator for the Companies, filed with the Court the Second Amended Plan for the Rehabilitation of the Companies (the **Plan**). The Plan contemplated a restructuring of certain Policy liabilities substantially similar in some respects to the restructuring described in this Statement. This Statement uses certain relevant terms as they are defined in

¹ References to **section** are to sections of the Internal Revenue Code of 1986, as amended, unless otherwise indicated.

the Plan and in the Glossary below.² Some of the LTC Policies qualify under section 7702B (**Tax-Qualified LTC Policies**), and none of the LTC or A&H Policies has any cash value. Neither Insurer has written new business since October 2008, but both have been required to renew their existing business pursuant to the terms of their Policies and applicable law.

Because of deteriorating financial conditions and other relevant considerations, current Pennsylvania Insurance Commissioner Teresa Miller, successor statutory Rehabilitator of the Companies, is seeking from the Court orders for the liquidation of the Companies. As of or soon after the Effective Date (**ED**) of the liquidation, State and the District of Columbia insurance guaranty associations (**GAs**) will be required to provide coverage to the Companies' policyholders for Covered Benefits (**CB**) based on each policyholder's state of residence, subject to individual state limits and coverage conditions.³ The ED is the date the liquidation will commence and become effective pursuant to the Court Order of liquidation, and the Rehabilitator will become the Liquidator.

² A Glossary is attached as **Exhibit A** at the end of this Statement containing the relevant definitions. Capitalized terms not appearing in the Glossary are accorded the definition provided in the Plan.

³ There are a small number of Policies that are not eligible for GA coverage. In some cases, the premiums for GA-covered Policies may be increased in the future by a state's GA (if that GA seeks to increase premiums and has the necessary legal authority and approvals), or the benefits may be changed or reduced with the consent of the Policy owner (the **Owner**) as an alternative to a GA rate increase (e.g., when the Owner makes an allowable benefit reduction, including an **RPU Election**, at that time).

PLANNED RESTRUCTURING

2. As part of the liquidation, the liabilities under the Policies will be restructured as provided herein. In order to determine the extent of the restructuring, a determination will be made as to what portion of each Company's assets will be required for its costs of administration and contingencies, and the rest of its assets will be notionally allocated to each of its LTC and A&H Policies (the **Allocated Assets**) in proportion to the liability associated with each Policy, as determined by each Policy's gross premium reserve (**GPR**) before any restructuring or modification of the Policy following the liquidation Orders. Each Company has liabilities with respect to its LTC and A&H Policies (**Policy Liabilities**) that vastly exceed its assets, and are therefore not fully funded by the Companies. For purposes of the liquidation, the measure of the Policy Liabilities before the restructuring is referred to herein as the Unmodified Policy Value (**UPV**). As part of the liquidation the Liquidator will, in due course, seek an order from this Court discharging the Companies' liability for the portion of these liabilities that cannot be paid by the Companies (Unfunded Benefit Liability or **UBL**), i.e., the excess of the UPV over the amount expected to be funded (the Initial Funded Restructured Policy Value or **IFRPV**).

3. In order to determine the amount of the UBL, assets of the Companies will first be set aside to pay costs of estate administration and for contingencies. Then

the remaining assets will be allocated to the GAs (**Covered Benefits Assets**) and to the portion of the Companies' Policy Liabilities that are not assumed, continued or guaranteed by the GAs (**Uncovered Benefits Assets**) based on the respective separate GPRs for the respective Covered Benefits and Uncovered Benefits. After the restructuring, the benefits not covered by the GAs (Uncovered Benefits or **UB**) will be limited and provided only to the extent of available Uncovered Benefits Assets.⁴

4. It is anticipated that the Covered Benefits (for which the GAs will be responsible) will greatly exceed the Covered Benefits Assets. To the extent that the GAs have and fund (from assessments levied upon their members per state law) more Policy Liabilities than the assets transferred to them or for their benefit by the Companies, including future premiums (i.e., the excess of Covered Benefits over the coverage funded by the Covered Benefits Assets and future premiums - the **GA Shortfall**), the GAs will have claims (and rights of subrogation) against the Companies, because the GAs will have assumed that portion of the Companies' Policy Liabilities and will have thereby enhanced their Policies. However, it is unlikely that the Companies will have assets to pay these GAs' claims for subrogated Policy Liabilities, because they will have already been allocated for

⁴ It is possible that a small portion of future premiums will also be allocated to Uncovered Benefits, but that matter remains undetermined at this time. For purposes of this Statement, it is assumed that only Uncovered Benefits Assets will be available to fund Uncovered Benefits.

higher priority claims or distributed to or for the benefit of the Guaranty Associations and the Uncovered Benefits. The Liquidator expects that the GA Shortfall will therefore be part of the Unfunded Benefit Liability to be ultimately discharged by the Court as described above at the final conclusion of the liquidation (the **Final Discharge Order**).

5. Similarly, it is anticipated that Uncovered Benefits of the LTC Policies⁵ will vastly exceed the coverage funded by the Uncovered Benefits Assets (the **Uncovered Benefits Shortfall**). As a result, there will remain a substantial amount of Policy Liabilities that cannot be funded by the Companies, consisting of the Uncovered Benefits Shortfall, which will also be part of the UBL to be discharged by the Court as described above at the time of the Final Discharge Order. Any LTC Policy with Uncovered Benefits Liability will be restructured to reflect any separate Covered Benefits and Uncovered Benefits components (as well as any separate funded and unfunded components therein) as of the Effective Date. This will allow the Companies to have separate Policy components timely assumed or guaranteed as appropriate by the GAs (Covered Benefits) and/or by another insurer that could provide Uncovered Benefits Coverage (**Insurer U**), to prevent any component coverage amount from being unnecessarily terminated.

⁵ A&H Policies are not expected to have any significant amount of UB Policy Liabilities.

6. As of the Effective Date, immediately after the limits of the GA guaranty liability for the Policy Liabilities of each Policy are fixed as to amount (Covered Benefits) (but before any Allocated Assets or Policy Liabilities are transferred completely to a GA or Insurer U⁶), the Liquidator will restructure any LTC Policy entitled to both UB and CB in two steps, primarily to reduce the Policy Liabilities to the amounts that the Liquidator believes can be funded as of such time. Each such Policy will be deemed to be initially restructured by the Liquidator into two separate components for UB and CB, with the UB Component (**UBC**) being restructured completely on the ED and the CB Component (**CBC**) being restructured completely on the Final Restructuring Date (**FRD**).⁷ Such a two-step restructuring is designed to ultimately reduce the liability associated with each separate UB or CB component (or the entire Policy if it has only one component) to the amount of the liability that the Liquidator estimates can be funded (the IFRPV), determined as of the ED and/or FRD, based on the Policy's Allocated Assets and future premiums. Any excess of a Policy's UPV over its IFRPV (its UBL) that is eliminated from the UPV by this restructuring of each separate

⁶ The transfer of any portion of the Policy Liabilities completely to a GA or Insurer U on or after the Effective Date will be effected by a Court-approved transaction that, in the same way as assumption reinsurance or a novation, will extinguish the transferor's liability with respect to such Policy (even though certain notice and consent requirements normally applicable to assumption reinsurance under certain state laws may not apply to such transfer). Generally, such a termination of the transferor's liability will occur when Allocated Assets are transferred to (or for the benefit of) the transferee to fund the payment of such a liability.

⁷ Any LTC (or A&H) Policy entitled to only CB will be fully restructured only on the FRD, and any LTC Policy entitled to only UB will be fully restructured only on the ED. Insurer U will not assume or reinsure any unfunded amount of Policy Liability.

component shall be treated as creating an equal amount of indebtedness of the issuing Company to the Policy's Owner (or to that Owner's GA or Insurer U as subrogee). To the extent that this indebtedness relates to the Policy's Covered Benefits, the GA's guaranty liability will be carried over and attached to this portion of the debt amount immediately after the component's restructuring is complete, as a GA enhancement to the Policy. To the extent that this indebtedness relates to the Policy's Uncovered Benefits, Insurer U will have a contingent reinsurance liability that will attach to any UB Policy Liability for which Insurer U has obtained sufficient closed block funding from the Policy's issuer, as another enhancement to the Policy that is described below. The specific steps that will occur on both the ED and the FRD are described below in paragraphs 7 and 8.

7. Effective Date Transactions and Initial Restructurings. – There will be specific allocations and transactions for each Company as of and after the ED and prior to the FRD:

- a. The amounts of the UPV (which equals the GPR) and the Allocated Assets for each LTC or A&H Policy will be determined as of the ED, as will its IFRPV and UBL, based on those GPR and asset determinations.
- b. The GA limits for each LTC Policy and A&H Policy (prior to any restructuring taking effect) will be identified.

- c. The amounts of initial **Early Access Distributions** to be made to or for the benefit of the GAs for the Policies will be determined.
- d. As of the ED each Policy's UPV/ED will be restructured initially into separate CB and UB components (before any Allocated Assets or Policy Liabilities are transferred completely to any GA or Insurer U). Each Policy's separate **UPV/CBC** and **UPV/UBC** will then be divided into its separate IFRPV and UBL subcomponents (i.e., **UPV/CBC/IFRPV**, **UPV/CBC/UBL**, **UPV/UBC/IFRPV** and **UPV/UBC/ UBL**).
- e. Any Policy's separate UBC will be restructured further as of the ED by reducing its UPV/UBC to its funded UPV/UBC/IFRPV amount, in return for an amount of indebtedness from its issuing Company to the Policy's Owner that is equal to the unfunded UPV/UBC/UBL amount that is deducted from this UPV/UBC. Within 29 days after this restructuring, the funded UPV/UBC/IFRPV amount of Policy Liabilities will be transferred to and reinsured by Insurer U, which will have a liability to reinsure any UB Policy Liability only to the extent that Insurer U will have obtained sufficient closed block funding from the Policy's issuer, as described below.

f. As part of its initial restructuring (before any Allocated Assets or Policy Liabilities are transferred completely to any GA or Insurer U), each Policy's provisions shall be deemed to be subject to the following modification provisions (Restructuring Statement Modification Provisions or **RSM Provisions**):

- i. Each Policy's provisions shall be interpreted to ensure and maintain its tax qualification, despite any other provision to the contrary.
- ii. All LTC Policies of each Company that are entitled to some Uncovered Benefits as of the ED shall have their UB Policy Liabilities and UB Allocated Assets treated as part of a closed block of Policies, so that their UB can be continued by Insurer U when each Policy's Covered Benefits are exhausted (on that Policy's Uncovered Benefits Start Date or **UBSD**), and this closed block's UB Allocated Assets can be administered accordingly, both before and after each Policy's UBSD, all as described below.
- iii. To maximize the funding available to provide each Policy's UB for as long as possible after its Covered Benefits are exhausted, the closed block will pool all of its Policies' remaining

available UB Allocated Assets, risks and experience for this continuing insurance. No Policy's Owner will have any secured interest in, or property right to, any UB Allocated Assets. Instead, the potential maximum amount of that Policy's Uncovered Benefit Payments (**UBP**) (the **MUBP**) will fluctuate with the value of UB Allocated Assets and actuarial projections of liabilities, including that block's overall experience with such pooled factors as claims, expenses, investment values and gains, lapses, deaths and other Policy terminations that can cause redeterminations or reallocations of the amounts available for each Policy's Uncovered Benefits Payments. The amount of UBP coverage available to a particular Policy Owner will be finally determined as of the Policy's UBSD, and will not fluctuate thereafter. Prior to the UBSD this amount of available UBP coverage will be initially specified to the Owner as of the ED (after the initial restructuring), and thereafter will be subject to adjustment and reported to the Owner periodically until he or she becomes eligible for UBP on the UBSD.

- iv. As is typical of closed blocks of insurance coverage, the Uncovered Benefits that each Policy Owner will ultimately

receive will depend on the risk and asset pooling inherent in the block. With such a closed block Insurer U will have only a finite amount of assets that can be used to fund UBP. However, and again typical of such insurance arrangements, it will not be known on the ED which Policy Owners will actually seek UBP and in what amounts. Nevertheless, it can be reasonably projected through established actuarial methodology that only a fraction (i.e., a probability percentage) of all of the Policy Owners entitled to UB coverage will actually make a claim for UBP or receive their MUBP. As a result, the total in UBP that any one Policy Owner may actually receive could exceed materially the separate amount of assets in the closed block that would be notionally assigned to that Policy Owner if, instead of using such an actuarial methodology of risk pooling, the closed block assets were simply allocated *per capita* among all Policy Owners who could (rather than those who actually will) claim UBP, based on each Policy's GPR/UB as a percentage of the total GPR/UB.⁸ As described below in the next subparagraph, a

⁸ To the extent that a Policy's actual UBP exceeds its UPV/UBC/IFRPV amount (used to determine the issuer's indebtedness to the Policy Owner), this debt amount would be reduced accordingly, as a Policy enhancement paid by Insurer U.

Policy Owner's level of UBP will be determined as of the UBSD by using such an actuarial methodology of risk pooling prescribed by the Liquidator.

- v. On the UBSD the Policy Owner's level of MUBP will be determined essentially by the Policy's funded portion of its GPR for Uncovered Benefits (initially its UPV/UBC/IFRPV), as adjusted periodically up to the UBSD under the closed block's actuarial methodology (its Adjusted GPR/UB or **AGPR/UB**). As of the ED, upon the restructuring of the Policy's UPV to reflect its funded (IFRPV) and unfunded (UBL) components, its initial AGPR/UB will be used to calculate the portion of the UB Allocated Assets in the closed block that is notionally allocated to the Policy, and will be equal to its UPV/UBC/IFRPV subcomponent. Consequently, the funded portion of the Policy's GPR/UB (i.e., its UPV/UBC/IFRPV) will be initially equal to its notional UB Allocated Assets as of the ED. The Policy's available UBP coverage will be, in turn, actuarially determined based on its most recent AGPR/UB calculation prior to its UBSD and the resulting amount of its notional UB Allocated Assets. Since

Insurer U will not initially assume any UBL amount on the ED as a Policy enhancement, the Policy's measure of its MUBP thereafter will be determined based on this funded AGPR/UB component, as adjusted periodically up to its UBSD. After the ED, any projection or adjustment of the Policy's AGPR/UB up to its UBSD will be determined by the closed block's established actuarial methodology, which will take into account such probability factors as mortality risks, morbidity risks, the probability of a Policy termination (e.g., by lapse or death) or of a claim being filed (and its severity), as well as actual and projected claims and expenses experience and growth of the closed block assets. Then, upon the Policy's UBSD (after its CB coverage has been exhausted), the Owner may no longer be required to pay any premium, and its remaining level of MUBP to the Owner will become fixed (based on the Policy's latest redetermined AGPR/UB amount prior to the UBSD), and will not be subject to redetermination thereafter (in the absence of unforeseen circumstances). However, no such AGPR/UB redetermination will allow a Policy's MUBP amount to exceed its original Policy Liability limits (as reduced by its benefits

received before the ED, and by its GA and UBP benefits received thereafter). In addition, unlike the Covered Benefits, the amounts of Uncovered Benefits will not be guaranteed, and will not continue beyond what Insurer U can provide with the total remaining Uncovered Benefits Assets in the closed block.

- g. On or after the ED, after the Policies have been initially restructured, the Policy Liabilities for Covered Benefits will be transferred to the GAs or to the GA Captive on their behalf as described above and below. Within 29 days after the ED, in return for a promise to transfer Uncovered Benefits Assets to Insurer U, the Policy Liabilities for Uncovered Benefits will be transferred to Insurer U to the extent of available funding. Covered Benefits Assets will be transferred to the GAs as they become available after the Court approves the Liquidator's asset distribution application required by 40 P.S. § 221.36, or sooner as deemed Early Access Distributions. The Liquidator may pay some claims on the GAs' behalf, under Services Agreements with the GAs. Such asset transfers and payments will constitute completed transfers of the corresponding amounts of Policy Liabilities transferred to the GAs. Similarly, after the Court's approval of the Liquidator's asset distribution application, the

Liquidator will transfer Uncovered Benefits Assets to Insurer U as they are made available. Such an asset transfer will constitute a completed transfer of the corresponding amount of Uncovered Benefits Liabilities to Insurer U.

8. Final Restructuring Date and Subsequent Transactions

- a. As of the FRD the CB Component will be restructured by reducing its current UPV/CBC to its current UPV/CBC/IFRPV amount, in return for an amount of indebtedness from its issuing Company to the Policy's Owner that is equal to the current UPV/CBC/UBL amount that is deducted from this UPV/CBC. Immediately after this restructuring, the GA liability for the deducted UPV/CBC/UBL amount will be carried over and attached to the corresponding amount of this debt to the Owner, as a GA enhancement to the Policy.
- b. After this final restructuring, the GAs and Insurer U will separately continue, reinsure, assume or guarantee the respective Covered Benefits and Uncovered Benefits (and the respective funded UPV/CBC/IFRPV and funded AGPR/UB subcomponents of the Policy Liabilities, along with any GA and Insurer U enhancements thereof), and receive transfers of the remaining Allocated Assets to fund these benefits, in accordance with their agreements with the

Liquidator. The Liquidator will request that any remaining UBL debt of the Companies to their Policy Owners and the GAs be discharged by Court order pursuant to and at the time of the Final Discharge Order following completion of all of the other steps in the liquidation.

9. Accordingly, the Liquidator will seek the Final Discharge Order from the Court after the FRD, discharging the Companies of their remaining liabilities that cannot be funded at the final conclusion of the liquidation.

IRS RULING REQUEST

10. In due course the Liquidator will seek from the IRS a Private Letter Ruling (“**PLR**”) regarding certain tax consequences of the liquidation transactions. As a general matter, the primary federal income tax issues are (1) protection for the Policy Owners from adverse tax consequences potentially resulting from any changes in their Policies that in turn result from any restructuring, modification, guarantee implementation, assumption, continuation or reinsurance of any of their liabilities by the Companies, the GAs or Insurer U, or from the liquidation of the Companies, and (2) certainty for the Companies as to their tax treatment with respect to the restructuring, modification or discharge of Policy Liabilities, particularly those liabilities for which the Companies currently have inadequate funding (*i.e.*, the **Funding Gap**). The specific rulings that the Liquidator currently intends to seek are:

1. Any Court-approved restructuring or modification of a LTC or A&H Policy described in the Restructuring Statement will not affect the Policy's issue date for purposes of section 7702B, nor result in a taxable disposition of any interest in such Policy by its Owner under section 1001, nor result in any amount includible in gross income by its Owner, pursuant to sections 104(a)(3) and 451. Such restructuring or modification will consist of:
 - (a) Any Court-approved restructuring or modification by the Restructuring Statement of any LTC or A&H Policy's provisions relating to any subdivision into CBC, UBC, IFRPV or UBL components or subcomponents or interpretative provisions, or any reduction in its Policy Value either (i) initially relating to its UPV/UBC/UBL, and/or (ii) subsequently relating to its UPV/CBC/UBL, in return for one or more amounts of indebtedness of the restructuring Insurer to the Policy's Owner and/or a GA;
 - (b) Any Court-approved guarantee, assumption, continuation, reinsurance or enhancement of any Covered Benefits under any LTC or A&H Policy by a GA or its designated agent resulting from the Court's finding that the issuing Insurer is insolvent and should be liquidated; and/or
 - (c) Any Court-approved modification of any LTC Policy's provisions relating to Uncovered Benefits by the Restructuring Statement or its RSM Provisions, and any Court-approved assumption, guarantee, continuation, reinsurance or enhancement of such a modified Policy's Uncovered Benefits liability by Insurer U, resulting from the Court's finding that the issuing Insurer is insolvent and should be liquidated.
2. The Owner's tax basis in any LTC or A&H Policy will remain the same amount immediately after any Court-approved restructuring, modification, guarantee, assumption, continuation, reinsurance or enhancement of any of the Policy's provisions or benefit liabilities described in Ruling paragraph 1 as such tax basis was immediately before such transaction.
3. When any Policy's UBC is initially restructured as of the Effective Date to minimize the Policy's unfunded liabilities, for purposes of Subchapter L of Chapter 1 of the Code as of such restructuring's Effective Date:

- (a) The restructuring Insurer will include in income under section 803(a)(2) the total amount of the existing tax reserves under section 807(d) attributable to the UPV/ED of the Policy;
 - (b) The restructuring Insurer will be able to deduct under section 805(a)(1) accrued benefits equal to the UPV/ED of the Policy;
 - (c) The restructuring Insurer will include in premium income under section 803(a) the sum of the restructured Policy's UPV/UBC/IFRPV and its UPV/CBC as of the Effective Date; and
 - (d) The restructuring Insurer will deduct under section 805(a)(2) the increase in tax reserves under section 807(d) attributable to the sum of the restructured Policy's UPV/UBC/IFRPV and its UPV/CBC.
4. When any Policy is finally restructured as of the Final Restructuring Date to minimize the Policy's unfunded liabilities, for purposes of Subchapter L of Chapter 1 of the Code as of this Final Restructuring Date:
- (a) The restructuring Insurer will include in income under section 803(a)(2) the total amount of the existing tax reserves under section 807(d) attributable to the current UPV/CBC of the Policy;
 - (b) The restructuring Insurer will be able to deduct under section 805(a)(1) accrued benefits equal to the current UPV/CBC of the Policy;
 - (c) The restructuring Insurer will include in premium income under section 803(a) the restructured Policy's current UPV/CBC/IFRPV; and
 - (d) The restructuring Insurer will deduct under section 805(a)(2) the increase in tax reserves under section 807(d) attributable to the restructured Policy's current UPV/CBC/IFRPV.
5. Under section 108(a), the restructuring Insurer will not recognize income as a result of the discharge by the Court of certain obligations to Policy Owners or the GAs resulting from the restructurings or modifications of the Policies pursuant to the Restructuring Statement (the UBL), to the extent that the

restructuring Insurer is insolvent at the time of such discharge as of entry of the Final Discharge Order.

COURT APPROVALS

The Rehabilitator hereby respectfully requests that the Court approve this Restructuring Statement and authorize the Commissioner to effect the restructurings, modifications and procedures described herein.

Dated: December 22, 2016

Respectfully submitted,

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EXHIBIT A

GLOSSARY

“A&H Policies” means the non-LTC insurance Policies issued by the Companies that remain in force on the Effective Date and are more fully described as “Other Products” in Section I.C.2 of Exhibit B of the Plan.

“Adjusted GPR/UB” or **“AGPR/UB”** means the Policy’s adjusted GPR for Uncovered Benefits, as redetermined periodically between the ED and UBSD using a closed block’s actuarial methodology that is used to calculate the Policy’s notional amount of UB Allocated Assets for purposes of determining the level of the Policy’s UBP as of the UBSD.

“Allocable Assets” means the total value of both of the Companies’ liquid invested assets combined, after making provision for contingencies, costs and expenses of administration and accrued but unpaid claim payments.

“Allocated Assets” means, for each Policy or group of Policies, the portion of the Allocable Assets nominally allocated to that Policy or group of Policies.

“Court” means the Commonwealth Court of Pennsylvania.

“Covered Benefits” or **“CB”** means the amount of policy benefits provided by the Companies’ insurance Policies that are within the limits, conditions and scope of coverage of the responsible Guaranty Association, taking into account the residence and other attributes of the policyholders as determined by the responsible Guaranty Association in accordance with applicable law.

“Covered Benefits Assets” means the portion of the Companies’ assets, as of the Effective Date, allocated to the funding of Covered Benefits, which will be distributed to, or paid on behalf of, the responsible Guaranty Associations.

“Covered Benefits Component” or **“CBC”** means the CB Policy Liabilities component of the restructured UPV.

“Early Access Distribution” means the preliminary partial distribution of Covered Benefits Assets by the Companies to the GAs for the payment of Covered Benefits, whether such distribution is made in lump sums or through the payment by the Companies of GA Benefits.

“Effective Date” or **“ED”** means the date on which the Court enters an order of liquidation.

“Final Discharge Order” means the Court Order discharging the Companies of their remaining liabilities that cannot be funded at the final conclusion of the liquidation.

“Final Restructuring Date” or **“FRD”** means a date two years after the Effective Date unless a different date is selected by the Liquidator with the Court’s approval.

“Funding Gap” means the gap between: (1) the sum of (a) the amount of the Companies’ assets, (b) projected future premiums, and (c) projected earnings in investments, and (2) the amount of the Companies’ future Policy benefit payment obligations and other expenses, determined collectively or individually for ANIC and PTNA.

“GA Shortfall” means the excess of Covered Benefits over the coverage that can be funded by the Covered Benefits Assets and future premiums.

“Gross Premium Reserve” or **“GPR”** means the present value as of the valuation date of expected benefits unpaid, expected expenses unpaid, and unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect and including provision for moderately adverse developments.

“Guaranty Associations” or **“GAs”** means the life and health insurance guaranty association or equivalent organization established in each state that will be required to guarantee, continue, assume or reinsure, or caused to be guaranteed, continued, assumed or reinsured, the contractual obligations of the Companies following an order of liquidation subject to statutory limits and conditions.

“Initial Funded Restructured Policy Value” or **“IFRPV”** means a policy value equal to the portion of the liabilities arising under the Policy (or any CB or UB Component) that the Company responsible for the Policy can reasonably be expected to meet based on future premiums and allocated assets.

“Insurer U” means the insurer that will assume liability for Uncovered Benefits to the extent of available Uncovered Benefits Assets. Insurer U may be a separate cell of a GA Captive insurance vehicle established to administer the Covered Benefits for which the GAs will be responsible.

“Owner” means the owner of the Policy.

“PLR” means a private letter ruling issued by the Internal Revenue Service.

“Restructuring Statement Modification Provisions” or **“RSM Provisions”** means the modification provisions described in section 7.f of this Statement.

“RPU Election” means an Owner’s election to stop paying premiums and put a Policy on reduced paid-up status.

“Uncovered Benefits” or **“UB”** means the portion of the Policy benefits to which its Owner is contractually entitled that exceed Guaranty Association statutory limits or otherwise are not covered by Guaranty Associations in accordance with applicable law.

“Uncovered Benefits Assets” means the portion of the restructuring Insurer’s assets as of the Effective Date that will be allocated to the funding of the Policy’s Uncovered Benefits, based on the proportion of its Uncovered Benefits to total Uncovered Benefits. Uncovered Benefits Assets do not include future premiums.

“Uncovered Benefits Component” or **“UBC”** means the UB Policy Liabilities component of the restructured UPV.

“Uncovered Benefits Payments” or **“UBP”** means the payments made by or for Insurer U for Uncovered Benefits under a Policy.

“Uncovered Benefits Shortfall” means the excess of the Policy’s Uncovered Benefits over the benefits that can be funded by its Uncovered Benefits Assets. Future premiums may not be available to fund Uncovered Benefits.

“Uncovered Benefits Start Date” or **“UBSD”** means the date following the exhaustion of Covered Benefits for a Policy on which its Owner is entitled to begin receiving Uncovered Benefits Payments.

“Unfunded Benefit Liability” or **“UBL”** means the portion of a Policy’s Unmodified Policy Value (or its CB or UB Component) that exceeds its IFRPV.

“UBL (Covered Amount)” means the excess of the Policy’s Covered Benefits over the benefit amount that can be funded by its Covered Benefits Assets and future premiums. It is a Policy’s GA Shortfall.

“UBL (Uncovered Amount)” means the excess of the Policy’s Uncovered Benefits over the benefit amount that can be funded with the Uncovered Benefits Assets. Future premiums may not be available to fund Uncovered Benefits.

“Unmodified Policy Value” or **“UPV”** means a policy value equal to the liabilities arising under the Policy before it is restructured or modified. The UPV will be equal to a Policy’s GPR before it is restructured or modified.

“UPV/ED” means the Policy’s UPV as of the ED, which will be restructured into separate **UPV/CBC** and **UPV/UBC** components as of the ED.