



**PENN TREATY NETWORK AMERICA
INSURANCE COMPANY**

REQUEST FOR INITIAL PROPOSAL

[MAY 2009]

CONFIDENTIAL

Background:

Penn Treaty Network America Insurance Company (PTNA) & America Network Insurance Company (ANIC) are long-term care insurance companies with approximately \$283 million of annualized premium and 135,000 long-term care insurance (LTCi) policies in force. The companies also service a small number of specialty insurance products, and maintain a block of approximately 2,500 Medicare Supplement policies administered by a third party administrator.

The long-term care insurance products vary in design and tax status and were issued between the years of 1972 and 2008.

On January 6, 2009, the Commonwealth Court of Pennsylvania placed PTNA and ANIC in rehabilitation under the authority of the Pennsylvania Insurance Commissioner. A Rehabilitation Plan is being developed that, among other things, addresses the capability of PTNA and ANIC to cost-effectively service existing policyholders.

Due diligence in the creation of the Rehabilitation Plan will include an analysis of external organizations that may have the capability to provide technological solutions and/or administrative services solutions, enabling PTNA and ANIC to improve services to policyholders, reduce costs and maximize process efficiencies.

Request for Initial Proposal [RFIP]:

This request will initiate the process to solicit information from qualified and interested third party administration (TPA) organizations and systems solution vendors to provide TPA and/or application software systems to process LTCi policyholder administrative services and claim management and adjudication services. Key components of this RFIP include, but are not limited to qualifications, the implementation methodologies, suitability, relevant experience and market competitiveness of interested parties.

Alternatives being considered by PTNA/ANIC include, but are not limited to:

- TPA administration of business onsite, utilizing existing staff;
- TPA administration of business located remotely, utilizing TPA staffing;
- Technology solutions utilizing existing system platform; and/or
- Technology solutions introducing new system platform.

Process for Interested Parties:

All organizations who are qualified and interested in participating in the process must read the information in this RFIP, answer all questions, and provide a description of the methodology to be employed to implement a proposed solution.

Be certain to clearly explain how PTNA/ANIC would benefit from selecting your organization's solution and provide specific examples of successful implementation of your proposed solution with other companies.

Key Business & Operational Statistics:

[Q1 2009]

- Annual premium - \$283 million [\$275 million related to long-term care insurance]
- LTCi policies in force - 135,000
- Non Tax Qualified - 72% Tax Qualified - 28%
- Total open/pending claims - approximately 7,900
 - 50% Facility (Nursing Facility / Assisted Living Facility)
 - 50% Home Health Care
- Average new claims reported annually - 7,000
- Annual Paid Claims - \$205 million
- Registered Nurse Case Managers - 25 FTE
- Claim supervisors and examiners - 55 FTE
- Claim audit and provider credentialing staff - 9 FTE
- Premium/commission services staff - 9 FTE
- Mail/document services/imaging staff - 14 FTE
- Policyholder services call center staff - 28 FTE
- Policies in force and subject to insurance regulation in all 50 states

Product Design

PTNA and ANIC's long-term care insurance products are primarily individual policies that were designed with varying elimination periods, maximum daily benefits, and maximum benefit periods. Elimination periods are represented as calendar days, maximum daily benefits as dollars per day, and maximum benefit periods as either days per year, pool of money, or elapsed time periods.

Benefits paid for long-term care facility confinement are generally paid on an indemnity basis, subject to a daily maximum selected at the time the policy was issued, ranging from \$60 to \$300 per day. Some of our newer policies pay facility confinement benefits on an expense incurred basis, paying the lessor of the daily maximum or the daily amount billed. Benefits are paid for as long as the insured remains eligible, or until the policy's maximum benefit period has been exhausted. Maximum benefit periods range from one to 10 years, or lifetime option.

Many policies also provide benefits for home health care services. Nurses, home health aides and certified nurse's aides are typically covered for the care/services they provide in the insured's home. Some policies also cover private, unlicensed caregivers and family members, subject to our pre-approval. Home health care benefits are paid on an expense-incurred basis and are generally subject to the same requirements and limitations as facility benefits, such as the daily maximum and maximum benefit period described above.

Our long-term care insurance policies can also cover other long-term care providers and services, such as adult day care and hospice care. Most policies include waiver of premium benefits that waive the premiums payable for the duration of the claim once the insured has received benefits for 90 days, and restoration of benefits features that permit the benefits of the policy to be replenished after the insured has recovered and been independent for a specified period of time. Many also include an inflation feature, purchased as a rider to the base policy.

Systems

PTNA and ANIC currently use a legacy insurance administration system called Universe supported by IBM for policy administration, claims management, billing and commissions. The green-screen application is written in PICK with a proprietary database running on the Windows 2003 operating system. In addition to Universe, PTNA and ANIC also have Microsoft technologies for underwriting and web applications; and Java/Oracle platform for rate increase processing and workflow tools.

PTNA and ANIC use EMC's Application Extender product suite for imaging and document management.

Tell Us About Your Organization

Background Information: Please answer all questions:

[Complete on this form, or attach additional documents as necessary]

1) Provide an outline of your organization and the services it provides and describe how this qualifies your organization to be responsive to the requirements of this RFIP.

2) How long have you been in business providing the types of services we are soliciting?

3) Describe your organizational structure and explain how your organization qualifies to be responsive to the requirements of this RFIP. Please include the names and biographical information for executive officers and any key personnel of your organization.

4) Provide proof of financial stability in the form of financial statements, credit ratings, a line of credit, or other financial arrangements sufficient to enable you to be capable of meeting the requirements of this RFIP.

5) Describe your (or your company's staff) qualifications and experience in providing similar services or goods as required in this RFIP.

6) Provide names and contact information for at least three of your current clients to whom products or services similar in scope to the requirements of this RFIP have been provided. Please include names of persons who may be contacted, position of person, addresses, and phone numbers.

7) Do you provide, or have you provided, the same or similar services to any insurance companies in rehabilitation, runoff or liquidation? If so, please explain.

Responses

This RFIP is not an offer to contract. Upon evaluation of all responses received, PTNA/ANIC may, at its sole option, invite organizations who are deemed capable of meeting the requirements of PTNA/ANIC to participate in the final request for proposal phase of this process.

Initial Proposals are to be submitted to Robert Robinson, Chief Rehabilitation Officer, and must be received in electronic format or by mail by June 12, 2009, 5:00 pm (EST):

Mr. Robert Robinson, Chief Rehabilitation Officer
Penn Treaty Network America Insurance Company [In Rehabilitation]
American Network Insurance Company [In Rehabilitation]

3440 Lehigh Street
Allentown, PA 18103
(610) 965-2222 x3658
rrobinson@penntreaty.com

Any questions associated with the Request for Initial Proposal should be submitted to:

Mr. Robert Robinson
(610) 965-2222 x3658
rrobinson@penntreaty.com