



SHIP IN REHABILITATION
FREQUENTLY ASKED QUESTIONS

On January 29, 2020, Senior Health Insurance Company of Pennsylvania (SHIP) was placed in rehabilitation by the Commonwealth Court of Pennsylvania (the Court). The following are answers to frequently asked questions.

GENERAL

Question 1: Who is SHIP?

Answer: SHIP is the Senior Health Insurance Company of Pennsylvania, a Pennsylvania stock limited life insurance company that administers a closed block of long-term care insurance policies.

Question 2: Where is SHIP located?

Answer: SHIP's corporate office is located in Carmel, Indiana. SHIP's Administrative office is located in St. Paul, Minnesota.

Question 3: Is SHIP still in business?

Answer: Yes. Although SHIP was placed in rehabilitation, it is currently continuing to conduct its business as usual subject to the limitations of rehabilitation explained here.

Question 4: Is SHIP selling new insurance policies?

Answer: No. SHIP has not sold new policies since 2003 and that has not changed. That is why its business is sometimes called a "closed block."

Question 5: Who is in charge during rehabilitation?

Answer: The Court appointed Pennsylvania Insurance Commissioner Jessica K. Altman (the Commissioner) as Rehabilitator. The Commissioner and the Pennsylvania Insurance Department (Department)'s Office of Liquidations, Rehabilitations and Special Funds (OLRSF), under the direction of Deputy Commissioner Laura Lyon Slaymaker, are in charge of SHIP's rehabilitation, as they are of all Pennsylvania insurance liquidations and rehabilitations. The Commissioner has appointed Patrick H. Cantilo as Special Deputy Rehabilitator (SDR). He will work with the Rehabilitation Management Team (RMT) to direct SHIP's rehabilitation.

Question 6: Who is the Rehabilitation Management Team?

Answer: The Rehabilitation Management Team (RMT) is an informal group that consists of the Rehabilitator, the Special Deputy Rehabilitator (SDR), Deputy Commissioner Laura Lyon Slaymaker and the OLRSF. It also includes Robert L. Robinson, who serves as Chief Rehabilitation Officer (CRO) to manage SHIP's and Fuzion's day-to-day operations, and other counsel and consultants.

Question 7: Who is the Special Deputy Rehabilitator?

Answer: As contemplated by the Rehabilitation Order and 40 P.S. § 221.16, the Commissioner has appointed Patrick H. Cantilo, an insurance rehabilitation expert, as Special Deputy Rehabilitator (SDR). Under the Rehabilitation Order and the statute Mr. Cantilo "shall have all the powers of the rehabilitator" and will be in charge of the company's day-to-day affairs and of the rehabilitation efforts, subject to the oversight of the Commissioner, the Department, and the Court.

Question 8: What does rehabilitation mean?

Answer: Rehabilitation is a court supervised process intended to remedy the company's financial deterioration for the benefit of policyholders and creditors. The Rehabilitator and the SDR, in conjunction with the RMT, are charged with the protection of SHIP's policyholders, creditors, and the public. The RMT's actions are dictated by the laws and regulations of Pennsylvania and are subject to review by the Commonwealth Court.

Question 9: What does the Rehabilitation Order provide?

Answer: You should review the Rehabilitation Order (available at www.shipltc.com) in its entirety. Generally the Rehabilitation Order, in keeping with Pennsylvania law appoints the Commissioner as Rehabilitator and authorizes and directs the Commissioner as Rehabilitator and the SDR to take possession of SHIP's business and take such actions as are necessary to correct the condition that prompted SHIP's rehabilitation.

Question 10: How will rehabilitation change the company's business?

Answer: Initially, SHIP will continue operating largely as it has been though under the control of the RMT. Cost saving measures will be implemented immediately as will efforts to conserve SHIP's assets and control its debts. If a Rehabilitation Plan is approved by the Court, changes will be made in SHIP's business under the plan, as explained below.

Question 11: Why was this action necessary?

Answer: On March 1, 2019, SHIP filed with the Pennsylvania Insurance Department its 2018 statutory annual financial statement reflecting a surplus deficit of more than \$466 million, rendering the company statutorily insolvent as defined in 40 P.S. § 221.3. Additionally, the Company's most recent risk-based capital ("RBC") report indicates that its total adjusted capital is substantially below its mandatory control level RBC, thereby triggering a "mandatory control level event" as defined in 40 P.S. § 221.1-A. When that happens, insurance regulators are required to take control of an insurer for the protection of policyholders and creditors.

Question 12: What has caused these financial problems?

Answer: As is typical with financially troubled insurers, there are many contributing causes to SHIP's difficulties, including poor performance of investments and other such matters the details of which are not yet fully known to the Rehabilitator. However, one key contributing factor that is common to many long-term care insurers is that the expected cost of benefits that will be due under the insurance policies in effect greatly exceeds the assets and expected revenues from which such benefits will have to be paid.

Question 13: What has caused this shortfall in assets and expected revenues?

Answer: Many issues contributed to this shortfall and it is too early for the Rehabilitator to be able to identify them with specificity. One that stands out, however, is that the premiums charged historically for many, if not most, of SHIP's long-term care insurance policies were inadequate for the benefits expected to be due under such policies.

Question 14: How will the company be rehabilitated?

Answer: The Commissioner and SDR will propose to the Court a plan for the rehabilitation of SHIP (the Rehabilitation Plan) that is expected to include modification of premiums and benefits of SHIP's long-term care insurance policies. Emphasis will be placed on giving policyholders choices. Notice and details of the Rehabilitation Plan will be provided to all policyholders and interested parties and they will have an opportunity to comment upon, or object to, the proposed Rehabilitation Plan.

Question 15: When will the Rehabilitation Plan be filed and provided to policyholders and interested parties?

Answer: The court order placing SHIP in rehabilitation (the Rehabilitation Order) requires that a Preliminary Rehabilitation Plan be filed by April 22, 2020, unless the Court extends that deadline.

Question 16: How can I get a copy of the Rehabilitation Order?

Answer: The Rehabilitation Order can be downloaded from the company's website, www.shipltc.com. It is also available on the Department's website <https://www.insurance.pa.gov/Regulations/LiquidationRehab/Pages/Companies-Currently-in-Rehabilitation.aspx>. If you do not have access to the internet, you can call the company at (833) 894-8577 to request a copy of the order. Please be aware that expected heavy call volumes may result in delays when calling the Company.

Question 17: Were other efforts made to address SHIP's financial problems before it was placed in rehabilitation?

Answer: The Commissioner provided SHIP's management an opportunity to restore SHIP's financial condition before seeking its rehabilitation. Management concluded that no other viable option existed that would eliminate the deficit.

Question 18: Have any efforts been made to sell SHIP?

Answer: The financial condition of the Company and its circumstances make its sale impractical. There is insufficient value to attract potential buyers in a transaction that would be beneficial to policyholders and creditors.

Question 19: Is it likely that SHIP will be placed in liquidation?

Answer: The goal of rehabilitation is to avoid that eventuality. However, the financial problems faced by SHIP are substantial and there can be no assurance that a Rehabilitation Plan will correct them sufficiently to avoid liquidation.

Question 20: If SHIP is placed in liquidation, when will that happen?

Answer: The RMT cannot predict at this time whether, and if so when, SHIP will be placed in liquidation. That would occur if the court found that the rehabilitation should be converted to a liquidation. Under 40 P.S. § 221.18 the Commissioner can request that the rehabilitation be converted to a liquidation "whenever she has reasonable cause to believe that further attempts to rehabilitate SHIP would substantially increase the risk of loss to creditors, policy and certificate holders, or the public, or would be futile."

Question 21: Who is Fuzion Analytics, Inc.?

Answer: Fuzion Analytics, Inc. (Fuzion), is a company that provides management and consulting services to SHIP. In effect, Fuzion actually conducts SHIP's insurance operations in SHIP's offices since SHIP does not have any staff of its own. For a while Fuzion was a sister company to SHIP, both owned by the Senior Health

Care Oversight Trust (the Trust). Recently Fuzion became a wholly owned subsidiary of SHIP.

Question 22: How will the rehabilitation affect Fuzion?

Answer: Fuzion will continue operating as before but will be overseen by the RMT.

Question 23: Who is the Senior Health Care Oversight Trust?

Answer: The Senior Health Care Oversight Trust is a Pennsylvania trust formed in 2008 to own SHIP and continues to own 100% of the Company. The trustees of the Trust have agreed to have SHIP placed in rehabilitation.

Question 24: How will the rehabilitation affect the Senior Health Care Oversight Trust?

Answer: Under the Rehabilitation Order and the statute, the Rehabilitator and the SDR are now in charge of SHIP replacing the authority of the Trust. Unless SHIP is released from rehabilitation, beginning on the date of the Rehabilitation Order the Trust will have no control over or responsibility for its affairs.

Question 25: Is the Rehabilitator managing the affairs of the Senior Health Care Oversight Trust?

Answer: Although Fuzion will continue providing limited support services to the Trust, the Rehabilitator is not in charge, and will not conduct the affairs, of the Trust.

Question 26: I have information I want to send only to the rehabilitation team. How do I do that?

Answer: You may send an email to SHIPrehab@cb-firm.com, an address accessible only by the SDR.

Question 27: What is the exact legal name of the court case for SHIP's rehabilitation?

Answer: The case is styled *IN RE: Senior Health Insurance Company of Pennsylvania In Rehabilitation*, Docket No. 1 SHP 2020 in the Commonwealth Court of Pennsylvania.

Question 28: How do I keep up with what is going on with SHIP?

Answer: All pleadings filed in SHIP's rehabilitation, as well as relevant notices, will be posted on SHIP's website, www.shipltc.com and on the Department's website, <https://www.insurance.pa.gov/Regulations/LiquidationRehab/Pages/Companies-Currently-in-Rehabilitation.aspx>.

ABOUT THESE QUESTIONS AND ANSWERS: The information contained in these questions and answers is intended to be general guidance and does not address any specific claim or circumstances. Nothing herein constitutes a binding legal statement by the Commissioner, the Rehabilitator, the SDR, the Department or SHIP. The statements contained herein are not intended to serve as, and do not constitute, legal advice or complete legal descriptions of the events or matters to which they relate. Any forward-looking statements are based on current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. For full legal information, interested parties should review the Rehabilitation Order and the applicable Pennsylvania statutes and other legal authorities.