

TREK HOLDINGS CORPORATION  
8 West 38<sup>th</sup> Street  
Suite 1002  
New York, NY 10018

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FROM: Tucker Taylor, Chairman, Trek Holdings Corp.  
TO: Trek Shareholders  
American Medical and Life Insurance Company Employees and Partners  
SUBJ: **Pending Health Reform Legislation**

Like virtually everyone else in the country (including most members of Congress), you probably are concerned about and confused by the current state of health care reform. At Trek and AMLI, we have been closely monitoring developments over the past ten months. As of this writing, we are at the point where the Senate and the House are poised to conference on their respective bills which were passed prior to the New Year. Whether a final bill will emerge — and when — is uncertain. Nevertheless, I want to take this opportunity to share my thoughts with you at this juncture.

**IF HEALTH CARE REFORM PASSES, WHAT IS THE LIKELY OUTCOME?**

With all the other domestic and foreign policy issues that need to be addressed — and with health care reform inextricably linked to abortion and the national debt, not to mention emerging constitutional challenges— it's possible that the current proposed legislation will sink of its own weight or result in a weakened minor compromise.

For purposes of our strategic planning, however, we are taking the position that a more likely outcome at this point is that legislation containing the key tenets of the House and Senate legislation will become law within the next several months. While not taking effect in total until 2014 (Senate) or 2013 (House), this legislation proposes near-term restrictions on major medical plans that will impact medical loss ratios and removes annual limits on health plans that provide essential coverage. It remains unclear whether association plans such as AMLI's would be grandfathered in the legislation and, if so, to what degree.

We do know, however, that supplemental and ancillary health benefit plans are excluded from proposed restrictions. While supplemental and ancillary benefits are not precisely defined in either bill, the industry characterizes them as follows:

“Supplemental benefits” augment a health plan by expanding coverage and/or filling the gap left by deductibles and coinsurance. They are generally flat indemnity payments and include, for example, hospital Indemnity, urgent care, accident-medical, and preventive care.

“Ancillary benefits” are provided in addition to a health plan. They can have their own deductibles and co-insurance and can provide additional benefits for illness or injury conditions excluded from coverage under a core major medical plan. Examples are Dental, Vision, Short and Long Term Disability, Rx, and Long Term Care.

## WHAT WOULD THIS MEAN FOR AMLI?

As you know, AMLI is a specialty life, accident and health insurer with well established nationwide distribution. It offers a suite of products to meet the needs of the uninsured and underinsured, including those who have no access to such products at their place of employment. These predefined benefit insurance products are priced to be affordable to customers who have a limited ability to pay for health insurance.

It is important to note that, under both the House and Senate proposed legislation, our current programs can serve as supplemental and ancillary benefits and can be delivered in conjunction with existing primary coverage at equivalent or potentially better margins than we are now realizing.

Indeed, as we currently understand the pending regulatory reform agenda, the core components of AMLI's products appear to be ideally suited to fill profitably the vacuum that the new legislation creates:

- AMLI will augment coverage in the deductible and co-insurance gaps created by both proposed bills; e.g., our basic limited medical product line, which is a most basic health maintenance, preventive and emergency benefit plan that provides for limited hospital reimbursement can, as we currently price it, help individuals "insure" the \$5,995 and \$11,995 personal and family mandate deductible and coinsurance payment obligations that are part of the current draft legislation.
- Both bills immediately allot \$5 billion to state regulators to "cover" the uninsured. This fund is expected to run until 2013 or 2014, when the legislation at large (which includes an Individual Mandate) takes effect: Depending on how states decide to make use of these funds, there will be additional opportunities for AMLI to support the state's objectives.

To reiterate, it continues to appear that AMLI's supplemental and specialty products will have a place after the enactment of proposed federal regulation. More specifically, we believe that niche product supplemental insurance carriers will emerge as the highest profit producers in future years.

We will continue to keep you informed by posting updates on our website:

<http://www.usamli.com>

Regards and best wishes for a Happy New Year.



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Tucker Taylor