



May 2, 2006

Mr. Peter Meryash
PBS NOW
450 West 33rd Street, Seventh Floor
New York, NY 10001

Dear Mr. Meryash:

Thank you for giving our company a chance to respond to your story.

First, let me say a word about our 1.2 million customers. Most insured Americans receive health care coverage through employer-sponsored plans. These typically cost more than \$10,000 per year. Out of that, the employee typically pays about 25 percent.

We serve hard-working Americans who don't have a large employer to subsidize their insurance costs. Our customers are small business owners, employees and individuals who have to pay for 100 percent of their health care coverage. Our customers want affordable insurance and customized solutions that help them balance costs with benefits. We provide plans that range from extremely affordable, scheduled benefit plans to fully comprehensive plans with out-of-pocket expense caps.

We strive to provide the best insurance value for people who might otherwise lack access to any coverage at all. In 2004 alone, HealthMarkets (then known as UICI) paid medical providers in excess of \$1.4 billion in medical claims on behalf of our policyholders.

Following are a few points on specific topics you raise:

Association-Based Health Plans

- Forty-six states have adopted statutes specifically authorizing group health insurance offered through associations. One of the oldest, best-known association plans is offered through the American Association of Retired Persons (AARP). Another is offered through the National Association for the Self-Employed (NASE).
- NASE provides benefits that are not restricted to health insurance. In fact, in 2004, more than 14,000 consumers chose to purchase stand-alone NASE memberships without health insurance.
- We fully disclose to consumers at the point of sale the nature of the business relationship between the Association and our health insurance plans. HealthMarkets does not control

Mr. Peter Meryash
Page 2
May 2, 2006

the management of NASE and has no direct or indirect ownership or other interest in NASE. Likewise, NASE has no direct or indirect ownership in HealthMarkets.

- It's important to remember that every policy and plan we offer is reviewed and approved by insurance regulatory authorities in each of the 44 states where our products are sold.

Regulatory Review

We are committed to full compliance with all applicable laws while we strive for superior customer care and satisfaction.

As we have publicly disclosed, HealthMarkets is currently the subject of a multi-state exam being conducted by a group of state departments of insurance, led by the states of Washington and Alaska. I defer to the examiners to speak to the scope of their review. We are cooperating fully and completely, and we will use the feedback to improve our company.

Without waiting for the review to conclude, we have proactively improved crucial procedures. For instance:

- We enhanced agent training with a comprehensive program in which we have invited regulators across the country to participate alongside agents. Regulators from Massachusetts, Texas and Wisconsin have done so – and expressed satisfaction with our training.
- We are diligent in our efforts to make sure customers understand the policies they purchase.
 - At the point of sale, we confirm in writing that required provisions of the plan have been explained.
 - At the point of sale, applicants must confirm the deductible and benefit levels they have selected and for which they are applying.
 - Beginning in 2005, all new scheduled benefit policyholders receive a call after the sale from a HealthMarkets benefit verification specialist during which the new policy is reviewed to ensure that the customer fully understands their benefits and policy limitations. To ensure accuracy, the calls are recorded.
 - HealthMarkets places more than 30,000 calls a month to new members. In 95 percent of the calls, new members confirm they understand their plans and elect to keep their coverage.

Christensen Case

First of all, we very much regret that one of our policyholders faced a tragic situation, and our sympathy goes to the family. Normally, we do not comment on the situations of specific policyholders. But in this case, the plaintiff's attorney has repeatedly attempted to use the media and other sources as a means to disseminate inaccurate, defamatory statements about the company related to this case.

Here are what we believe to be important facts of the case as they relate to The MEGA Life and Health Insurance Company, a HealthMarkets company:

- The company firmly believes our sales agent -- who herself is a cancer survivor -- properly disclosed what our policy covered, what it did not cover, and how much coverage it offered. There's simply no evidence to the contrary.
- Prior to litigation, MEGA received premiums in the amount of \$7,760 from this individual. MEGA delivered benefits in the form of payments for medical care and negotiated discount rates totaling \$166,847.
- In order to resolve this matter and allow the plaintiff to pay the outstanding medical bill which was the basis for the lawsuit, UICI, with no admission of wrongdoing, paid a settlement of \$1.7 million more than a year ago. The settlement amounted to more than five times the amount of the outstanding medical bill.
- To date, the medical center has not been paid for health care services relating to this case. Ultimate payment of the bill is currently the subject of litigation between the plaintiff, her attorney and the medical center.

Orestuk Case

- Our records show MEGA paid all claims in a timely manner according to the policy purchased by the Orestuks.
- Our records show that the Orestuks lodged a complaint with the Alabama Department of Insurance, and an inquiry was initiated in March 2004. The inquiry resulted in no fines, sanctions or findings.
- The agent involved in this matter had a good record while acting as an agent of the company from 2001 to 2005. During that period, the Orestuks' complaint was the only complaint filed against this agent.

Mr. Peter Meryash
Page 4
May 2, 2006

Summary

HealthMarkets has been and continues to be committed to full compliance with all applicable laws. We operate in a highly regulated industry. Every plan we offer is reviewed and approved by regulatory authorities in each state where we operate.

We strive for superior customer care and satisfaction, and we've made significant gains in the areas of agent training and customer communications and this continues to be a priority for our company.

We believe that we provide the best insurance value for hard-working Americans who might otherwise lack access to affordable health care coverage.

Very truly yours,



William J. Gedwed
President and CEO
HealthMarkets, Inc.

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