THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. **SUPERIOR COURT**

Docket No. 03-E-0106

In the Matter of the Liquidation of
The Home Insurance Company

LIQUIDATOR'S MOTION FOR
APPROVAL OF 2015 COMPENSATION PLANS

Roger A. Sevigny, Commissioner of Insurance for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home"), hereby moves that the Court enter an order approving integrated compensation plans for the employees of Home in 2015 (the "2015 Employee Compensation Plans") and a compensation and incentive/retention plan in 2015 (the "Special Deputy Plan") for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") (collectively, the "Plans"). Summaries of the incentive components of the 2015 Employee Compensation Plans are attached as Exhibits A and B as well as the related Ernst & Young LLP ("E & Y") advisory letter dated October 15, 2014 which is attached as Exhibit C. A summary of the Special Deputy Plan is provided in the Liquidator's Affidavit and in the E & Y advisory letter concerning the Special Deputy Plan dated October 13, 2014, which is attached as Exhibit D. The 2015 Employee Compensation Plans consist of annual salary programs supplemented by an Annual Incentive Plan ("Annual Plan") (Exhibit A) and a Collection Incentive Plan ("Collection Plan") (Exhibit B). The Special Deputy Plan provides compensation for services rendered on an hourly basis as well as a retention program. The Plans are intended to reward performance and reinforce retention of essential employees and the Special Deputy Liquidator in order to facilitate the successful, efficient and prompt completion of the liquidation process. The structure of the Plans is substantially the same as originally proposed and approved in 2004 and each year thereafter although the Retention Incentive Plan was eliminated in 2006, the number of employees eligible to participate in the Annual Plan was reduced to 15 by 2012, the Special Deputy Liquidator's base compensation was capped in the same year, and the incentive portions of the Special Deputy Liquidator's compensation have been decreased several times. In 2015, participation in the Annual Plan is proposed to be further reduced (to 8) and the Special Deputy Liquidator has requested further reduction of the incentive portion of his compensation including elimination of his annual incentive bonus structure. The Plans and their estimated 2015 cost have been reviewed with the National Conference of Insurance Guaranty Fund's Subcommittee on Home which has advised that it has no objection to this Court's approval of the Plans. In support hereof, the Liquidator respectfully represents as follows:

1. Liquidation Staff for Home. As described in the Liquidator's reports and the Liquidator's Motion for Approval of Compensation Plans dated April 5, 2004 (concerning the 2004 compensation plans) (the "2004 Compensation Motion"), shortly after the liquidation proceeding began in June 2003, the Liquidator determined that the most efficient way to organize the liquidation process was to hire the most critical Risk Enterprise Management ("REM") employees. This permitted the Liquidator to benefit from the continued involvement of experienced employees with prior involvement with the Home runoff. The Liquidator initially hired 98 employees (93 from REM and 5 others) to handle the liquidation of Home. The liquidation is presently staffed by 53 employees, 46 of whom are located in New York City, 6 in Manchester, New Hampshire, and one in Atlanta, Georgia. Affidavit of Peter A. Bengelsdorf,

Special Deputy Liquidator, in Support of Approval of 2015 Compensation Plans ("Bengelsdorf Aff.") ¶ 3.

2. The Special Deputy Liquidator. The Special Deputy Liquidator was recruited from private industry and appointed to manage the operations of the liquidation.[1] The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of Home. The terms of his engagement are described in a June 11, 2003 Consulting Agreement which was approved by the Court on June 30, 2003 (the "Consulting Agreement"). The Consulting Agreement remains in effect until terminated. The Special Deputy Liquidator does not participate in the incentive compensation plans for employees of Home, nor does he receive any health and welfare, retirement or severance benefits from Home. As an independent contractor, he pays the full Social Security tax (employer and employee share) on his compensation. Pursuant to the Consulting Agreement, the Special Deputy Liquidator was paid base compensation at an hourly rate of $250 from 2003 through 2011 and $285 beginning in 2012 when his total base compensation was capped at $600,000. The Special Deputy Liquidator was eligible to receive an annual incentive award of $400,000 during 2004 and 2005; $300,000 during 2006, 2007 and 2008; $200,000 during 2009 and 2010; $175,000 during 2011 and 2012; $150,000 during 2013; and $50,000 during 2014 as well as an annual "Stay Bonus" of $400,000 during each such year. The reductions in potential annual incentive bonus amounts were at the Special Deputy Liquidator's request. Affidavit of Roger A. Sevigny, Liquidator, in Support of Approval of Compensation Plan for the Special Deputy Liquidator ("Sevigny Aff.") ¶ 3.

3. The Retention of Experienced Employees and the Special Deputy Liquidator Benefits Creditors. Home operated internationally and specialized in affording complex forms

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[1] The Special Deputy Liquidator also served as Special Deputy Commissioner during Home's rehabilitation.

of insurance to large enterprises. Due to the sophisticated nature of Home's insurance products, operations and supporting reinsurance programs, an experienced and stable liquidation staff operating under the management of a well-qualified and competent Special Deputy Liquidator will materially contribute to the efficient collection of assets and adjudication of claims. This is illustrated by the increase in Home's liquid assets from the day the Order of Rehabilitation was entered, approximately $12.7 million as of March 2003, to an estimated $1.59 billion as of September 30, 2014. (These figures exclude USI Re and give credit for $232 million of Class II early access distributions to guaranty associations to date, $51.9 million in Class I distributions to guaranty associations, $3.15 million in workers compensation advance payments to guaranty associations, and $56.4 million in assets held by states to pay Home claims.)[2] Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated by the Special Deputy Liquidator and Home's experienced staff. Maximizing the prompt collection of assets advantages Home's creditors and is one of the principal statutory goals of the liquidation. RSA 402-C:25, VI. The Liquidator believes that this objective can be facilitated through an alignment of creditor interests with the interests of Home's employees. Sevigny Aff. ¶ 4; Bengelsdorf Aff. ¶ 4.

4. Performance Based Compensation Plans are Appropriate for Large Insurer Receiverships. The Liquidator seeks to continue to provide compensation consistent with best practices with respect to compensation in insurance company liquidations, provide competitive annual and long-term earnings opportunities and balance performance-based rewards with short-term and long-term retention. Sevigny Aff. ¶ 5. As set forth in the 2004 Compensation

[2] Motions for approval of compensation plans filed in prior years have included USI Re assets in the calculation of liquid invested assets. Due to the completion of the USI Re liquidation proceeding in 2013, the $1.59 billion figure referenced in this motion does not include USI Re.

Motion, the Liquidator engaged nationally recognized compensation consultants to assist in the design of employee compensation plans for 2004. The consultants had experience in the design of compensation plans for large insurers, like Home, in liquidation. They concluded that Home's base salaries were approximately at the 50^{th} percentile among comparable companies and recommended that total direct compensation (base salary and incentive bonuses) range between the 50^{th} and 75^{th} percentile. Bengelsdorf Aff. ¶ 5. E & Y also reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to evaluate market competitiveness of the Special Deputy Plan. The overall compensation framework includes compensation and incentive/retention components designed to align incentives for the Special Deputy Liquidator with liquidation goals. Sevigny Aff. ¶ 5.

5. The Three 2004 Employee Compensation Programs. To retain and compensate the necessary staff for Home, the Liquidator accordingly developed and requested approval for three integrated compensation plans for 2004: a Retention Incentive Plan for non-exempt full time employees, an Annual Incentive Plan for exempt full time employees including executives, and a Collection Incentive Plan for executives. As set forth in the 2004 Compensation Motion, the Liquidator's consultants advised that the plans represented best practices with respect to compensation in insurance company liquidations, provided competitive annual and long-term earnings opportunities, and balanced performance-based rewards with short-term and long-term retention. The individual programs were integrated across employee levels and would provide, if performance goals were met or exceeded, total direct compensation between the 50^{th} and 75^{th} percentile market levels. This was the level of compensation recommended by the Liquidator's

consultants in order to retain experienced employees. The Court approved the compensation plans for 2004 by order issued April 21, 2004 and the similar 2005 compensation plans by order dated March 4, 2005. Bengelsdorf Aff. ¶ 6.

6. The Proposed 2015 Employee Compensation Plans are Based on the 2006 Compensation Plans. In 2006, after consulting with E & Y, the Liquidator proposed to eliminate the Retention Incentive Plan and continue the Annual Plan and Collection Incentive Plan on essentially the same terms as in 2005. The Court approved the 2006 Compensation Plans, including the elimination of the Retention Incentive Plan, by order dated February 8, 2006. During 2004 and 2005 the Retention Incentive Plan applied to Home's 15 non-exempt (Federal Wage and Hour Law) employees. Beginning in 2006 those employees had individual performance goals and were included in the Annual Plan. The proposed 2015 Employee Compensation Plans are based on the 2006 Compensation Plans. Bengelsdorf Aff. ¶ 7.

7. The 2015 Employee Compensation Plans. The Liquidator seeks to continue to provide compensation consistent with best practices with respect to compensation in insurance company liquidations, provide competitive annual and long-term earnings opportunities and balance performance-based rewards with short-term and long-term retention. The 2015 Employee Compensation Plans therefore consist of annual base salary programs supplemented, in certain cases, by the Annual Plan and the Collection Plan. Bengelsdorf Aff. ¶ 8.

a. *Annual Plan*. This plan is designed to provide additional cash compensation based on the overall performance of Home's liquidation and the individual employee during the annual plan cycle. Eight full time employees as of January 1, 2015, would be eligible to participate in the Annual Plan. Bengelsdorf Aff. ¶ 8.a.

i. The Annual Plan was a component of the 2004 Employee Compensation Plans. For 2011, the Liquidator proposed to reduce participation in the Annual Plan by eliminating participation for employees with base salaries less than $75,000. In lieu of the Annual Plan, up to 70% of the amount that would otherwise be paid in incentive payments to these employees was used to increase their salaries and the remainder was applied toward the annual 401(k) safe harbor contribution. This change, which did not increase total expenses, was based on the conclusion that, in the prevailing circumstances, the nature of these positions was such that the affected employees had less ability to directly affect operating results. Compensation based solely on annual salary was therefore deemed most appropriate. The court approved this change in an order dated December 30, 2010. Bengelsdorf Aff. ¶ 8.a.

ii. For 2012 the Liquidator proposed to further reduce participation in the Annual Plan by eliminating participation for employees with base salary at or less than $150,000. This change was based on the conclusion that, in continuation of the trend underlying the 2011 changes to the Annual Plan, the nature of these positions is such that they have less ability to directly affect operating results. As a result, compensation based solely on annual salary was therefore deemed most appropriate and, in lieu of the Annual Plan, the Liquidator proposed that up to 60% of the amount that would otherwise be paid in incentive payments to these employees would be used to increase their salaries and the remainder would be applied toward the annual 401(k) safe harbor contribution. The court approved this change in an order dated January 25, 2012. For 2013 and 2014 the Annual Plan followed the same form as the 2012 Annual Plan. Bengelsdorf Aff. ¶ 8.a.ii.

iii. For 2015, the Liquidator proposes to further reduce participation in the Annual Plan by eliminating all participants except for seven senior executives and one other key employee. This proposed change is based on the conclusion that, in continuation of the trend underlying the 2011 and 2012 changes to the Annual Plan, the employees to be eliminated from participation have less ability to directly affect operating results. As a result, and in consultation with E & Y, compensation based solely on annual salary was deemed most appropriate and, in lieu of the Annual Plan, the Liquidator proposes that up to 60% of the amount that would otherwise be paid in incentive payments to these employees would be used to increase their salaries and the remainder would be applied toward the annual 401(k) safe harbor contribution. This change is not anticipated to affect Home's total expenses. Bengelsdorf Aff. ¶ 8.a.iii.

iv. The remaining eight Annual Plan participants have direct responsibility for each operating area, manage employees within such areas, and are held accountable for their respective results. As with the Annual Plan for preceding years, for 2015 the Liquidator would determine the annual goals, performance measures and payouts for these employees. The 2015 goals would include: operation within budget, accomplishment of enumerated claim determination processing objectives and reaching asset marshaling targets. Annual cash payments would be made after the close of the performance year (no later than March 15, 2016). If an employee voluntarily leaves or is terminated for cause, then no Annual Plan payment would be made. In the event of death, disability or an involuntary termination, the employee would be entitled to a pro rata share of any Annual Plan payment. The estimated 2015 cost for the Annual Plan is approximately $928,025.[3] Bengelsdorf Aff. ¶ 8.a.iv.

[3] This $928,025 figure may be compared with payments for prior years:

Annual Plan Payments (millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Payment	$2.61	$2.28	$2.28	$2.23	$2.29	$1.86	$1.73	$1.58	$1.17	$1.17	$1.21 (anticipated)

b. *Collection Plan*. At the discretion of the Liquidator, the seven senior executives of Home would be eligible to participate in the Collection Plan. The Collection Plan is designed to provide focused incentives for the collection of assets, determination of claims and management of the liquidation in an efficient manner. Awards under this plan will be based on the accomplishment of annual corporate targets but may also vary, at the discretion of the Liquidator, based on achievement of individual performance goals. Bengelsdorf Aff. ¶ 8.b.

i. The objective of the Collection Plan, through deferred compensation, is to retain senior and experienced executives as long as deemed necessary by the Liquidator. Therefore, any Collection Plan award will be deferred and funded into a trust account. The employee will actually receive those funds only upon the involuntary termination of employment other than for cause, or at the dates established by the Liquidator. If an employee voluntarily terminates or is terminated for cause, then all Collection Plan amounts are forfeited. In the event of death or disability, the Collection Plan amounts will be distributed per the Plan document. Bengelsdorf Aff. ¶ 8.b.i.

ii. For 2014, the Liquidator reduced Collection Plan awards by 60% and amended the vesting period to a two year period (2014 awards will vest in 2016). The Court approved the reduction and amended vesting period on January 7, 2014. Bengelsdorf Aff. ¶ 8.b.ii.

iii. The Liquidator proposes to continue the Collection Plan on the same basis in 2015. The estimated 2015 cost for the Collection Plan is $338,123 with any amounts awarded vesting in 2017. This figure includes a 2012 reduction of 5% in the awards for all but one executive plus an additional $5,000 reduction for each of two executives whose compensation was considered to be highly competitive at the median market level.[4] Bengelsdorf Aff. ¶ 8.b.iii.

8. Market Comparability of Home's 2015 Employee Compensation Plans. The Liquidator's consultant, E & Y, advises that the 2015 Employee Compensation Plans are appropriate and consistent with general market practices and to insurance companies in liquidation. It further advises that the individual plan designs and mechanics are based upon commonly accepted compensation practices for insurance companies in liquidation, and that the levels of pay provided by the individual plans, as well as the overall total compensation, represent market competitive compensation levels.[5] Bengelsdorf Aff. ¶ 9.

9. Home's 2015 Safe Harbor 401(k) Plan Payment. As described in the Liquidator's previous reports, pursuant to Internal Revenue Service rules Home adopted a safe harbor 401(k) plan effective January 1, 2005, so that all employees who wished to do so were able to contribute the maximum amount. Employers with such plans must make an annual contribution to employees' 401(k) accounts. For 2015, Home will contribute an amount equal to 4% of the employee's earnings up to the individual employee earnings cap set by the IRS. The contribution rate is equal to the 4% rate used in 2014 and approved by the Court on January 7, 2014. Bengelsdorf Aff. ¶ 10.

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[4] This $338,123 figure may be compared with payments for prior years:

Collection Plan Payments (thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Payment	$1,479	$1,510	$1,454	$1,312	$1,320	$1,060	$895	$895	$845	$845	$338 (anticipated)

[5] E & Y's analysis has historically been based on national data and E & Y continues to use such data in analyzing the market competitiveness of compensation for Home's seven senior executives. For Home's remaining key employees, however, E & Y determined to analyze 2012 compensation on the basis of data for the region in which these employees work. For 2015, E & Y has continued to compare compensation for the seven senior executives to national data and compensation for the remaining key employee to regional data. See Ex. C.

10. Purposes of the Proposed Special Deputy Plan. The proposed 2015 Special Deputy Plan is described in the E & Y letter and has three primary objectives. First, it recognizes the Special Deputy Liquidator's role as top executive of the Home liquidation operation. Although an independent contractor, the Special Deputy Liquidator works at least the hours of a full time employee and, because he is responsible for Home's day-to-day operations he has more responsibility than any employee or other executive of Home. He provides similar services, at no cost to Home, respecting certain other pending New Hampshire insurer receiverships. Second, the Plan acknowledges the Special Deputy Liquidator's significant accomplishments to date as evidenced by the large increase in Home's cash and liquid invested assets and the resolution of numerous business issues as described in the Liquidator's quarterly reports. Third, the Special Deputy Plan is intended to provide the Special Deputy Liquidator with compensation consistent with competitive market positioning in relation to Home's current executive team. Sevigny Aff. ¶ 6.

11. The Proposed 2015 Special Deputy Plan. In prior years, the Special Deputy Plan has consisted of three components: base compensation, an annual incentive bonus structure, and a "Stay Bonus". For 2015, the Liquidator proposes that base compensation remain unchanged while the Special Deputy Liquidator has requested that the annual incentive bonus structure be eliminated and that the Stay Bonus be reduced to $325,000:

a. *Base Compensation.* From 2003 through 2011, the Special Deputy Liquidator's base compensation was calculated by applying a $250 per hour rate to the number of hours worked and billed. The 2012 Special Deputy Plan proposed an adjustment to the structure of the Special Deputy Liquidator's base compensation such that his hourly rate increased to $285 and his total base compensation was capped at $600,000. This adjustment was approved by the court in an order dated January 25, 2012. Sevigny Aff. ¶ 7.a.

i. The 2013 Special Deputy Plan continued the structure of the 2012 Special Deputy plan except that the Special Deputy Liquidator's hourly rate was increased to $325. The proposed modification envisioned that the Special Deputy Liquidator would be paid twelve monthly installments of $50,000 and, if he worked fewer than 2,100 hours, an amount equal to the shortfall in hours multiplied by the $325 hourly rate would be deducted from the "Stay Bonus" otherwise payable to him. If the Special Deputy Liquidator worked more than 2,100 hours then no additional base compensation would be payable and there would be no adjustment to his "Stay Bonus". The increase in the Special Deputy Liquidator's hourly rate was intended to better reflect the market rate but did not increase the Special Deputy Liquidator's compensation or Home's expenses. The 2013 Special Deputy Plan, reflecting these modifications, was approved by the court in an order dated December 20, 2012. The 2014 Special Deputy Plan provided for adjustment to the "Stay Bonus" if the Special Deputy Liquidator worked fewer than 2,000 hours. Sevigny Aff. ¶ 7.a.i.

ii. For 2015, the Liquidator proposes that base pay for the Special Deputy Liquidator follow the same structure as the 2013 Special Deputy Plan. The Special Deputy Liquidator's base compensation for 2015 would be $600,000 payable in twelve monthly installments of $50,000 conditioned upon a minimum of 1,850 hours worked (rather than 2,000 as in the 2014 Special Deputy Plan). If there is a shortfall based on actual hours worked from January 1, 2015 through December 31, 2015, an amount equal to the shortfall in hours multiplied by the $325 hourly rate would be deducted from the "Stay Bonus" otherwise payable to him. Sevigny Aff. ¶ 7.a.ii.

b. *Annual Incentive*. From 2004 through 2014, the Special Deputy Plan provided an annual incentive bonus structure ("AI"). The AI component of the Special Deputy Plan for those years set annual goals for the Special Deputy Liquidator (e.g., success in marshaling assets, organization performance within budget, implementation of an effective claim determination operation, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year). After the end of the year, the Liquidator would evaluate the Special Deputy Liquidator's performance with respect to each of those goals and determine the AI bonus based upon those accomplishments. The AI bonus available for the Special Deputy Liquidator was $400,000 in 2004; $300,000 in each of 2006, 2007 and 2009; $200,000 in 2009 and 2010; $175,000 in 2011 and 2012; $150,000 in 2013; and $50,000 in 2014 -- each of these reductions being made at the Special Deputy Liquidator's request. For 2015, the Special Deputy Liquidator has requested that the AI bonus be eliminated with a resulting $50,000 decrease in his potential total compensation although the Special Deputy Liquidator will continue to report his annual performance to the Liquidator. Sevigny Aff. ¶ 7.b.

c. *"Stay Bonus"*. Pursuant to his compensation plans from 2004 through 2014, the Special Deputy Liquidator received a "Stay Bonus" of $400,000. The "Stay Bonus" provides a cash incentive to this senior and experienced insurance industry executive and encourages him to remain with Home. As proposed in the 2015 Special Deputy Plan, a "Stay Bonus" covering a twelve month period from January 1, 2015 through December 31, 2015 of $325,000 (adjustable as discussed above in subparagraph 11.a.ii) is payable on or after December

18, 2015. This $75,000 reduction in his potential total compensation is made at the Special Deputy Liquidator's request.[6] Sevigny Aff. ¶ 7.c.

d. *Reduction in Compensation over Time*. Consistent with the objective of minimizing costs as the liquidation process continues, the Special Deputy Liquidator's total compensation was reduced by more than one third from inception through 2014. In addition to these prior reductions, the 2015 Special Deputy Plan represents a decrease of more than 11% from the total compensation available under the 2014 Special Deputy Plan. Sevigny Aff. ¶ 7.d.

12. Annual Renewal of the AI and "Stay Bonus". Prior to 2008, the term of the Consulting Agreement between the Liquidator and Mr. Bengelsdorf had been continuous until terminated but the term of the AI and "Stay Bonus" was annual. The AI and "Stay Bonus" had been negotiated and agreed upon each year but were not always submitted and approved before January 1 of the applicable year. This left a gap between the end of the performance year and the effective date of the next year's plan, creating substantial risk to Mr. Bengelsdorf and his estate in the event of his death or disability during the interim. In order to avoid such unintended consequences from a gap in entitlement to the AI and "Stay Bonus," in 2008 the Special Deputy Plan provided for the AI and "Stay Bonus" to remain in effect but be subject to annual review by the Liquidator and approval by the Court. If the Special Deputy Plan were to be terminated by the Liquidator or not approved for continuation by the Court, Mr. Bengelsdorf would receive a pro rata benefit.[7] Sevigny Aff. ¶ 8.

[6] In the event of death or disability both the AI bonus and the Stay Bonus are paid in full. In the event the Special Deputy Liquidator is terminated without cause or the Special Deputy Plan is terminated or not renewed, such bonuses will be pro-rated.

[7] If the Court approves the 2015 Special Deputy Liquidator Plan, the AI portion of the Special Deputy Liquidator's will be eliminated and only the "Stay Bonus" would continue to renew annually.

13. Market Competitiveness of the Proposed Special Deputy Plan. E & Y reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to evaluate market competitiveness of the 2015 Special Deputy Plan. E & Y advises that a competitive compensation level is one that approximates 85%-115% of the targeted market level (typically a range between the 50th and 75th percentile). As stated in its advisory letter (Exhibit D), E & Y found that the Special Deputy Liquidator's proposed 2015 total direct compensation (defined as base salary, adjusted to reflect the absence of an employee benefit plan, plus incentive pay) is significantly below the market median (50th percentile) and is significantly less than competitive. E & Y further advises that the Special Deputy Liquidator's total cash compensation (base salary, without adjustment, plus incentive pay) is competitive of median market levels. Sevigny Aff. ¶ 9.

14. The Liquidator's Consultant Advises that the Proposed Plans are Appropriate. The Liquidator's consultant, E & Y, advises that the 2015 Employee Compensation Plans are

appropriate and consistent with general market practices and to insurance companies in liquidation. E & Y also concludes that the overall levels of pay provided by the individual incentive plans, as well as the overall total compensation, represent market competitive compensation levels. Bengelsdorf Aff. ¶ 11. The 2015 Special Deputy Plan compensation, in E & Y's opinion, represents total direct compensation significantly below the competitive range of median market levels but total cash compensation which is competitive of median market levels. Sevigny Aff. ¶ 10.

15. The Plans Are Necessary. The Liquidator believes that without the adoption of these plans the liquidation effort would be harmed because key employees would seek better, more long-term career opportunities elsewhere while the services and experience of the Special Deputy Liquidator might be lost. See Sevigny Aff. ¶ 11; Bengelsdorf Aff. ¶ 12.

16. The Liquidator's Authority to Set the Terms of Employment. The Liquidator has authority under RSA 402-C:25, II, and paragraph (r) of the Order of Liquidation issued June 13, 2003, to engage employees and set the terms of their compensation "subject to the control of the court." The Liquidator also has authority pursuant to RSA 402-C: 25, IV, to use the property of Home and to defray the costs of collecting its assets and liquidating its property and business.

17. The Liquidator's Authority to Appoint a Special Deputy Liquidator. The Liquidator has authority under RSA 402-C: 25, I and paragraph (t) of the Liquidation Order entered June 13, 2003, to appoint a special deputy and determine his or her compensation "subject to the court's control." The Liquidator also has authority pursuant to RSA 402-C: 25, IV to use the property of Home to defray the costs of collecting its assets and liquidating its property and business.

18. The Plans are Fair and Reasonable. For the reasons described above, in the Sevigny Affidavit and in the Bengelsdorf Affidavit, the Liquidator submits that the Plans are fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of Home.

WHEREFORE, the Liquidator requests that the Court enter an order in the form submitted herewith approving the Plans and grant such other and further relief as may be just.

Respectfully submitted,

ROGER A. SEVIGNY, COMMISSIONER OF INSURANCE FOR THE STATE OF NEW HAMPSHIRE, AS LIQUIDATOR OF THE HOME INSURANCE COMPANY,

By his attorneys,

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December 11, 2014

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2015 Compensation Plans, the Affidavit of Roger A. Sevigny, Liquidator, the Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, and the proposed form of order will be sent, the 11th day of December, 2014, by first class mail, postage prepaid to all persons on the attached service list.

J. David Leslie

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. SUPERIOR COURT

In the Matter of the Liquidation of
The Home Insurance Company
Docket No. 03-E-0106

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Exhibit A

The Home Insurance Company in Liquidation
2015

Annual Incentive Plan ("AIP")

Component	Plan Design
Administration	Plan to be administered by the Liquidator who retains the authority to interpret the Plan, to establish or revise the Plan rules and policies, and to make any determinations necessary to administer the Plan including individual award determinations, funding, and distributions/payouts.
Term	Annual plan, renewable at the discretion of the Liquidator.
Effective Date	January 1, 2015 - December 31, 2015
Eligibility	Senior executive employees of The Home Insurance Company in Liquidation (the "Home") will be eligible for participation in this Plan at the sole discretion of the Liquidator except in the case of a newly hired senior executive, eligibility will be determined on or about the beginning of the Plan Cycle and all participants will be informed in writing of their participation, potential payouts (including interim payouts) under the Plan, performance goals and payout formula(s), and Plan administration protocols no later than 60 days after the start of the Plan Cycle. Eligible employees must be employed full time for no less than 90 days to participate in the annual Plan Cycle. Payments will be prorated in the event of a partial year of service. Eligibility and/or participation in this plan is not intended as a commitment by The Home Insurance Company in Liquidation for continued employment for the duration of the Plan Year. Participation is not to be construed as a guarantee of employment or of any payments under the Plan.
Payment Currency	All awards under this Plan will be paid in cash via regular payroll, subject to all tax reporting and withholding. Employees must be employed full time as of the date checks are issued to receive payment under the Plan.
General Design	The Plan is designed to provide additional annual cash compensation based on the overall performance of Home and the individual eligible employee during the Annual Plan Cycle. Performance will be assessed in relation to annual goals as determined by the Liquidator. The Liquidator retains sole authority to determine annual goals, performance measures, and payouts.

Annual Incentive Plan

Component	
	Eligible positions/employees will have the opportunity to earn an additional annual cash incentive payment under this Plan. Individual earnings opportunities will be based on position level as determined by the Liquidator. Annually, at the outset of the Plan Cycle, the Liquidator will set the annual corporate goals for this plan. Both a "threshold" (or minimum) and "target" (or expected) level of net cash collections will be defined. When the "threshold" level is attained, AIP payments will be triggered at 50% of the "target" payout defined for each participating position. Achievement of "target" results will trigger the "target" payout. Annual performance goals for participating individuals may also include, at the discretion of the Liquidator, an individual component. Any individual performance goals will be defined at the outset of the plan year in the individual confirmation (of participation) letters. The relative weighting of these individual goals in relation to the total company financial goals will also be specified. In 2015 the maximum bonus payout shall not exceed 100% of the target opportunity.
Payout Frequency	Payouts are annual and will be made no later than 30 days following the release of unaudited annual financial results.
Coordination with employment offer letters	Payouts under this Plan will be coordinated with any annual bonus/incentive payments provided in individual employment offer letters. Annual payments under this plan to any eligible participating employees will be computed as the greater of either the AIP payment or the payment specified in the individual employment offer letter.
Payout Decision Rules	If employment is terminated due to: **Death** - a pro rata share of the current Plan Year's AIP payment will be paid to the employee's estate within 30 days of the Company receiving written notice of the employee's death. **Disability** - accrual ceases when the employee has been disabled for greater than 30 calendar days; a pro rata share of any partial year AIP payment will be paid to the employee at the next regular year end payout date. Participation

Annual Plan

Component	
	can resume if the employee returns to full time employment; in such case a pro rata share of any AIP payment will be made for a partial year of participation. Voluntary resignation - no payments will be made to employees who voluntarily resign their employment. **Involuntary termination "not for cause" or position elimination** – a pro rata payment will be made to employees who are terminated involuntarily at the next regular year end payout date or, at the Liquidator's discretion, paid out at the next regular payroll cycle following the termination date. **Involuntary termination "for cause"** - no payments will be made to employees who are terminated "for cause".

Exhibit B

The Home Insurance Company in Liquidation
2015

Collection Incentive Plan ("CIP")

Component	Plan Design
Administration	Plan to be administered by the Liquidator who retains the authority to interpret the Plan, to establish or revise the Plan rules and policies, and to make any determinations necessary to administer the Plan including individual award determinations, funding, and distributions/payouts.
Term	Annual plan, renewable at the discretion of the Liquidator.
Effective Date	January 1, 2015 - December 31, 2015
Eligibility	Senior executive employees of The Home Insurance Company in Liquidation (the "Home") will be eligible for participation in this Plan at the sole discretion of the Liquidator. Except in the case of a newly hired senior executive, eligibility will be determined on or about the beginning of the Plan Cycle and all participants will be informed in writing of their participation, potential payouts (including interim payouts) under the Plan, performance goals and payout formula(s), and Plan administration protocols no later than 60 days after the start of the Plan Cycle. Eligible employees must be employed full time for no less than 90 days to participate in the annual Plan Cycle. Payments will be pro rated in the event of a partial year of service. Eligibility and/or participation in this plan is not intended as a commitment by The Home Insurance Company in Liquidation for continued employment for the duration of the Plan Year. Participation is not to be construed as a guarantee of employment or of any payments under the Plan.
Payment Currency	All annual awards made under this Plan will be funded into a trust account for eligible participants no later than 30 days following the release of unaudited annual financial results. The Trust account will be held by the Trustee in the name of Home Incentive Compensation and will be administered as follows:

Collection Incentive Plan

Component	
	The Trustee shall invest Trust assets so as to preserve principal, however if market conditions affect the principal negatively Home will guarantee the original award amount. Capital appreciation of Trust assets is not an investment objective. The Liquidator, may agree however, to the establishment of a procedure which allows for individual informal and non-binding suggestions with respect to the manner in which their awards may be invested prior to payment. This is not currently in place but if the Liquidator or Trustee chooses to implement this option, he will provide appropriate notice to Participants. In such an event, Home will not guarantee the original award amount. A participant's allocation within the funded account will be distributed to participants at the close of the liquidation, or at a predetermined date set in the individual's employment offer letter, the Annual CIP letter or the Plan. Funds will be distributed or forfeited according to the Distribution Decision Rules noted below. Participants must take their allocated distribution from the incentive compensation Trust account at the time of distribution (assets cannot be held in the trust or rolled over to an IRA or other qualified pension plans). Distributions will be made in cash and will be subject to all normal tax withholding and reporting; the Trustee will be directed to file all necessary tax reporting upon distribution.

Collection Incentive Plan

Component	
General Design	The Plan is designed to serve as a retention incentive for senior executives to remain at Home through the successful close of the estate and to focus their energies on achieving the Liquidation's goals. Awards under this Plan will be based on annual financial results as determined by the Liquidator. For this Plan Cycle (January 1, 2015 through December 31, 2015), the corporate goals are defined as net cash collected, expense control, and claim determination activity. Goals may vary in different Plan Cycles/Years. Annual goal(s) will be announced by the Liquidator at the outset of the Plan Year and communicated in writing to all eligible participants. Final results will be determined based on unaudited annual financial results at the end of the Plan Cycle. Target award levels will be defined and communicated at the outset of the Plan Year for all eligible participants. Target awards will be paid (i.e., funded into the Trust account as described herein) when the annual financial target(s) is achieved. Target awards for any participant may vary from Plan Year to year. Target awards will be defined in terms of a "percentage of base salary" and may vary from the target payout level based on company and individual performance. Annual awards may vary from the target amount based on the sole discretion of the Liquidator in assessing annual performance under the Plan. Annual performance goals for participating individuals may also include, at the discretion of the Liquidator, an individual component. Any individual performance goals will be defined at the outset of the Plan Year in the individual confirmation (of participation) letters. The relative weighting of these individual goals in relation to the total company financial goals will also be specified. Evaluation of results in relation to these individual goals will be made at year-end and integrated with the calculation of Annual Incentive Plan payouts.
Payout Frequency	Funding of the trust account for participants will be annual and the distribution of the funds will be made according to the annual document presented to the participants. Distributions of funds upon the participant's termination will be administered by the Trustee according to the Distribution Decision Rules below.

Collection Plan

Component	
Distribution Decision Rules	Funds in the CIP trust account will be distributed as follows based on the conditions as stated below: **Death** - all funds in the participant's allocated portion of the trust account including a pro rata share of the deceased employee's partial Plan Year participation will be paid to the individual's estate within 30 days of the Trustee receiving written notice of the employee's death. **Disability** -accrual of benefits under this plan ceases when the employee is disabled for more than one calendar month; a pro rata share of any annual CIP award payment will be funded to the trust account at the next regular annual funding date. Employees can re-enter the Plan upon return to full time employment, in such a case, a pro rata share of the annual CIP award will be funded to the Trust's participating employee's account for the partial year. If the employee remains disabled and employment terminates pursuant to policy, such termination shall be deemed to be "not for cause" and payment for the participants allocated portion of the trust account payment shall be made as soon as reasonably possible following the conclusion of the Plan Cycle. **Voluntary resignation** – a participant's allocated portion of the Trust account will be forfeited should the participating employee resign employment with Home prior to the close of the liquidation or other predetermined payout dates as specified in the Plan document, employment offer letter, or employee agreement. The Trustee will return all previously allocated funds for the ex-employee to Home. **Involuntary termination** "not for cause" or position elimination - if an employee is terminated "not for cause" or his/her position is eliminated during the course of the Liquidation the participant's allocated portion of the trust account will be distributed to the participant by the Trustee as soon as reasonably possible. In the case of any Plan Cycle which is not yet completed, payment shall be made as soon as reasonably possible following the conclusion of the Plan Cycle. Involuntary termination "for cause" – a participant's CIP allocation will be forfeited with respect to employees who are terminated "for cause". **Close of the estate/liquidation** - at the termination of The Home Insurance Company liquidation proceeding, the Liquidator will direct the Trustee to distribute all remaining funds based on each participant's allocated portion of the trust account according to the procedures described above.

Exhibit C

EY

Building a better working world

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15 October 2014

Mr. Roger Sevigny
In his capacity as Liquidator of The Home Insurance Company in Liquidation
State of New Hampshire Insurance Department
21 South Fruit Street, Suite 14
Concord NH 03301-7317

Dear Commissioner Sevigny:

As a part of our engagement with Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (EY) Human Capital Practice has been asked to review the competitiveness of Home's compensation levels to current market levels and provide a letter summarizing our findings. The information included in this letter is based upon our knowledge and experience advising (1) insurance companies in liquidation, (2) non-insurance companies in liquidation, (3) a broad cross-section of companies undergoing financial restructurings, and (4) the results of the competitive market studies we have historically completed on behalf of Home.

As Home approaches its twelfth year of liquidation, the Company has significantly transformed itself, as evidenced by the following:

- Collected \$1.6B of the projected \$1.9B in potential domestic and foreign reinsurance collections;
- Resolved approximately 18,000 Proof of Claims (POCs), from an initial 20,669 POCs (or approximate 4,244 POCs remaining);
- Reduced initial employee head count from 95 employees and 15 consultants to 53 employees and five remaining consultants, with additional reductions anticipated.

Given these reductions in POCs and Home's employee base, the Special Deputy Liquidator and EY agreed that certain scope criteria utilized to conduct the FY 2015 Competitive Market Analysis (2015 Analysis) should also be reduced. Accordingly, we agreed to reduce Home's asset size (for purposes of this analysis) from \$1.9B to \$1.0B for all benchmark positions analyzed.

In preparation for this year's analysis, EY collected and reviewed information from Home, including updates regarding Home's current organizational structure, key employee position descriptions, executive compensation arrangements and the Liquidator's proposal to further reduce participation in Home's AIP program to include seven (7) Senior Executives and one (1) key employee.

Overall, Home's current compensation levels are consistent with market practices and our experience working with companies in liquidation. In identifying the competitive market, companies in liquidation typically focus on "healthy" company pay levels because they will continue to compete with healthy companies for talent during the liquidation process. Based upon our experience, companies in liquidation typically target base salaries at median (50th percentile) market levels and total cash compensation (or "TCC", defined as base salary plus annual incentives) at or above median market levels of healthy companies within their specific and broader industry segments. In addition to TCC, companies typically provide their Senior Management Group with long-term incentives ("LTI") that are designed to provide additional performance-based incentives that can result in total direct compensation (or "TDC", defined as TCC plus LTI) levels between 50th and 75th percentile market levels of healthy companies within their specific and/or broader industry segment.

HOME INSURANCE COMPANY IN LIQUIDATION

Background
As Home approaches its twelfth year of liquidation, it is critical to retain certain individuals in key positions. Once Home entered liquidation, the Company hired 95 executives and employees that were considered critical to the success of the liquidation and valuable to the Company due to their significant industry and Company experience. Since 2004, 42 employees have terminated employment with Home, either voluntarily or due to a reduction in force. Presently, there are 53 employees who are employed with Home.

Beginning in the fall of 2003, EY performed a market competitiveness compensation study by reviewing executive and employee compensation in healthy insurance companies of similar size and scope to Home. The approach and methodology employed within the original study reflected the most prevalent techniques for assessing the competitiveness of compensation for companies in liquidation and this methodology has consistently been applied throughout Home's liquidation process.

Three of the commonly used incentive plan designs for insurance companies in liquidation were selected and customized to the specific needs of Home in 2004. These plans included: (1) the Retention Incentive Plan (RIP), (2) the Annual Incentive Plan (AIP), and (3) the Collection Incentive Plan (CIP) which is a long-term incentive plan. For the performance-based plans (AIP and CIP), performance measures were selected that were (a) consistent with market practices of similarly situated companies, and (b) aligned with the overall objectives of Home's liquidation.

As is typical among companies in restructuring and liquidation, Home's top executives currently participate in the AIP and the CIP programs. The Liquidator eliminated the RIP program in 2006 and moved the remaining employees into the AIP. From 2006 to 2010, the Liquidator gradually began reducing participation in the AIP so that the program was focused on retaining the most critical key employees.

In 2011 (effective for FY 2012), the Liquidator decided to further reduce participation in the AIP program to include only the seven (7) Senior Executives and eight (8) other key employees. Up to 60% of the targeted AIP amount was reallocated and applied to base salary increases for those employees eliminated from the plan. The remaining 40% of the target AIP was used to fund annual 401(k) safe harbor contributions that Home makes each year and for cost savings. The Liquidator also reduced CIP by 5% for six (6) of the seven (7) Senior Executives and by an additional $5,000 for two (2) executives with highly competitive compensation levels.

There were no program changes for FY 2013.

Effective for FY 2014, the Liquidator reduced the CIP awards by 60% for the seven (7) Senior Executives.

In 2014 (effective for FY 2015), the Liquidator proposes to further reduce participation in the AIP program to include only the seven (7) Senior Executives and one (1) other key employee. Similar to the changes for FY 2012, up to 60% of the targeted AIP amount will be reallocated and applied to base salary increases for those employees eliminated from the plan. The remaining 40% of the target AIP will be used to fund annual 401(k) safe harbor contributions that Home makes each year and for cost savings. Under the new approach, Home will not incur any additional compensation cost in 2015.

Compensation Analysis & Findings

Generally, under EY's methodology, an incumbent's compensation level that is 85% to 115% of targeted benchmark levels (e.g., 50th percentile) is considered competitive. This assumes that the incumbent has a moderate level of experience and is performing as expected. EY calculated the competitiveness of each incumbent's base salary, target TCC (calculated for the Top 7 Senior Executives and 7 other key employees, including the 6 key employees that will no longer eligible for AIP beginning in FY 2015), and target TDC (for the Top 7 Senior Executives only) by dividing each component of pay by the market consensus at the 25th, 50th, and 75th percentiles. The published survey sources provide actual base salary and actual TCC data points for specific positions based on industry, asset size, etc. (trended to a specific date). The resulting percentage is used to categorize the competitiveness of compensation, as described by the following table:

Incumbent Pay vs. Market Consensus	Degree of Competitiveness
115% +	Highly Competitive
85% to 114.9%	**Competitive**
75% to 84.9%	Less than Competitive
Less than 75%	Significantly less than Competitive

Overall, Home's base salary (105.2%), target TCC (107.4%) and target TDC (104.5%) compensation levels are competitive compared to the median (50th percentile) of the competitive market. We suggest that the Liquidator individually evaluate the competitiveness of each incumbent's compensation relative to their indicated market compensation level to confirm that each individual's relative positioning to market is appropriate given the responsibility level, tenure and impact potential on Home's performance by the individual.

2015 Analysis Results (for FY 2015 Planning)

The numbers in bold are outside EY's methodology for a competitive range (refer to the chart above for degrees of competitiveness). Values in red are **less than competitive** or **significantly less than competitive** while values in blue are **highly competitive**.

Home Data vs. Market	25th Percentile			50th Percentile (Median)			75th Percentile		
	Base	TCC	TDC	Base	TCC	TDC	Base	TCC	TDC
7 Senior Executives	129.8%	167.8%	144.9%	102.4%	125.4%	104.5%	83.2%	88.0%	72.1%
Salary Grades 22[1]	137.6%	151.9%	n/a	101.3%	111.3%	n/a	81.3%	72.5%	n/a
Salary Grades 21-22[2]	124.8%	121.8%	n/a	108.3%	102.7%	n/a	86.7%	75.2%	n/a
Salary Grades 18-21[3]	120.4%	n/a	n/a	106.0%	n/a	n/a	91.6%	n/a	n/a
Salary Grades 16-17	116.2%	n/a	n/a	105.0%	n/a	n/a	92.8%	n/a	n/a

Top 7 Senior Executives:
For the 7 Senior Executives, Home's target compensation data, which represents base salaries and incentive awards, are compared to national published survey analysis results.

Competitiveness to Market: Overall, the competitiveness of target TDC to current market compensation levels is as follows:

- ***25th Percentile:*** Target TDC for Top 7 is 44.9% above the 25th percentile (or 144.9% of 25th percentile market levels), or is **highly competitive** to 25th percentile market compensation levels.
- ***50th Percentile:*** Target TDC for Top 7 is 4.5% above the market median (or 104.5% of median market levels), or is **competitive** to median market compensation levels.
- ***75th Percentile:*** Target TDC for the Top 7 is 27.9% below the 75th percentile (or 72.1% of 75th percentile market levels), or is **significantly less than competitive** to 75th percentile market compensation levels.

17 Key Employee Benchmarked Positions (20 incumbents):
For the key employees, Home's target compensation data (which represents base salaries and incentive awards, where applicable) is compared to regional published survey data analyses. We have applied geographic differentials to better align the market data to the specific markets that Home's employees are based, namely New York City, New York (ranging from 119.1% to 124.6% based on the median market consensus base salary rounded to the nearest thousand using standard rounding rules), Manchester, New Hampshire (101%) and Atlanta, Georgia (104.4%).

Competitiveness to Market: Overall, the competitiveness of target Base or TCC, where applicable, to market levels is as follows:

- ***25th Percentile:***
  - **Salary grade 22 w/ AIP[1]:** Target TCC is **highly competitive** at 51.9% above the 25th percentile.
  - **Salary grades 21 – 22[2]:** Target TCC is **highly competitive** at 21.8% above the 25th percentile and Target base is **highly competitive** at 24.8% above the 25th percentile.
  - **Salary grades 18 – 21[3]:** Target base is **highly competitive** at 20.4% above the 25th percentile.
  - **Salary grades 16 – 17:** Target base is **competitive** at 16.2% above the 25th percentile.

- ***50th Percentile:***
  - **Salary grade 22 w/ AIP[1]:** Target TCC is **competitive** at 11.3% above the median.
  - **Salary grades 21 – 22[2]:** Target TCC is **competitive** at 2.7% below the median and Target base is **competitive** at 8.3% above the median.
  - **Salary grades 18 – 21[3]:** Target base is **competitive** at 6.0% above the median.
  - **Salary grades 16 – 17:** Target base is **competitive** at 5% above the median.

[1] Includes incumbents in job grade 22 that participate in the AIP (only one key employee)
[2] Includes incumbents in job grades 21 and 22 that will no longer participate in the AIP beginning in FY 2015
[3] Includes incumbents in job grades 18-21 that do not participate in the AIP

- ***75th Percentile:***
  - **Salary grade 22 w/ AIP**[1]: Target TCC is **less than competitive** at 27.5% below the 75th percentile.
  - **Salary grades 21 – 22**[2]**:** Target TCC is **less than competitive** at 24.8% below the 75th percentile and Target base is **competitive** at 13.3% below the 75th percentile.
  - **Salary grades 18 – 21**[3]**:** Target base is **competitive** at 8.4% below the 75th percentile.
  - **Salary grades 16 – 17:** Target base is **competitive** at 7.2% below the 75th percentile.

SUMMARY CONCLUSION

Based upon our experience, the estimated 2015 compensation levels for Home's employee's, in aggregate, are appropriate and consistent with general market practices and insurance companies in liquidation. We suggest that the Liquidator evaluate each incumbent individually relative to their indicated market compensation level to determine the appropriateness of individual variation from market.

The individual plan designs and mechanics that Home has employed over the last 11½ years are based upon commonly accepted compensation practices for insurance companies in liquidation. Overall, the levels of pay provided by the individual incentive plans, as well as the overall total compensation, represent market competitive compensation levels.

In addition, turnover does not appear to be a present risk within the organization.

For additional supporting documentation and analyses please refer to the following list of appendices and supporting exhibits for more detailed information:

List of Appendices and Exhibits		
Appendix/Exhibit	**Title**	**Pg #**
Exhibit 1	Competitive Benchmark Matches	7
Exhibit 2	Published survey exhibit with market pricing data for the Senior Executives (7 positions)	9
Exhibit 3	Published survey exhibit with market pricing data for the Other Key Employees (17 positions)	12

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If you have any questions regarding this information please call Martha Cook at 404.817.5734 or Ana Fluke 216.583.4783.

Sincerely,

Ernst + Young LLP

Copies to: Peter Bengelsdorf – The Home Insurance Company in Liquidation
Martha Cook, EY – Atlanta
Ana Fluke, EY - Cleveland

Exhibit D

Building a better
working world

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13 October 2014

PRIVATE AND CONFIDENTIAL

Mr. Roger Sevigny
Commissioner of Insurance and Liquidator of The Home Insurance Company
State of New Hampshire Insurance Department
21 South Fruit Street, Suite 14
Concord NH 03301-7317

Dear Commissioner Sevigny:

At your request, as Liquidator of The Home Insurance Company (Home or the Company), Ernst & Young LLP's (EY) Human Capital Practice has reviewed the competitiveness of Home's current compensation levels to typical market levels. As a part of this engagement, you also asked that we review the Special Deputy Liquidator's (Peter Bengelsdorf's) existing compensation arrangements relative to typical market levels. The purpose of this letter is to provide you with our findings concerning the competitiveness of the Special Deputy Liquidator's estimated compensation levels to comparative market levels using the same methodology employed for our update of Home's 17 benchmarked positions (for 20 incumbents, detailed under separate cover), including a reduction in Home's asset size from $1.9B to $1.0B

Similar to the analysis conducted for Home's Senior Executives and other key employees, companies in liquidation typically focus on "healthy" company pay levels to determine appropriate market compensation levels for their Special Deputy Liquidators because they will continue to compete with healthy companies for talent during the liquidation process.

BACKGROUND

Beginning in the fall of 2003, EY developed three incentive compensation programs for the executives and other employees of Home specifically designed to meet the needs of the liquidation operations. These plans, the Retention Incentive Plan (RIP), the Annual Incentive Plan (AIP), and the Collection Incentive Plan (CIP) were approved by the State of New Hampshire Superior Court (Court) on April 21, 2004 (please see Docket No. 03-E-0106). In addition, the Liquidator decided to submit the incentive and retention plans for annual approval by the Court. The Special Deputy Liquidator position does not participate in these incentive plans. The Liquidator is the administrator of the incentive and retention plans (now the AIP and CIP plans, only) and the Special Deputy Liquidator, by delegation, is responsible for monitoring the operation of the two plans. As such, it is appropriate for the Special Deputy Liquidator's compensation to be independent of these plans.

The Special Deputy Liquidator is the top executive of Home serving as an independent consultant to the State of New Hampshire and reporting directly to the Insurance Commissioner as Home's liquidator. We have reviewed the scope and duties of the Special Deputy Liquidator position and, based on our experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to develop a market competitive compensation program for the Special Deputy Liquidator position. Similar to the 2012-2014 analyses the comparable position results in a blend of CEO and COO positions.

The Special Deputy Liquidator is presently subject to a one year compensation plan which expires on December 31, 2014. We understand that Mr. Bengelsdorf's compensation continues, as does his consulting agreement, unless terminated with thirty days' notice by either of the parties or if the Court does not approve its continuation. We also understand that you wish for us to continue providing annual assessments with respect to the competitiveness of the Special Deputy Liquidator's compensation plan since his plan will be submitted to the Court annually for review and approval of its continuation.

The proposed compensation plan for the Special Deputy Liquidator consists of Base Compensation, which is $600,000 for 2015, payable at $50,000/month with a minimum of 1,850 hours worked, a "Stay" Bonus of $325,000, down from $400,000 in 2014, and no performance bonus for 2015. Mr. Bengelsdorf has eliminated the $50,000 performance bonus from previous years. The summary below includes an assessment of the competitiveness of Mr. Bengelsdorf's proposed compensation plan for 2015.

Compensation Program Objectives

The overall compensation framework for the Special Deputy Liquidator was developed based on the following primary objectives:

1. **Recognize Mr. Bengelsdorf's role as the top executive of Home;**
   - Preserve the position's consultant status but recognize that, in terms of time spent, Mr. Bengelsdorf is more than a full-time employee and is filling the role of the top executive.
2. **Acknowledge the significant contributions that have occurred;**
   - Recognize the significant amount of value contributed to the liquidation process by the Special Deputy Liquidator with liquid assets at March 5, 2003 (when the rehabilitation order was entered) of $12.7 million rising to approximately $1.251 billion at September 30, 2014 which is net of $232.0 million of Class II early access distributions to guaranty associations and Class I distributions to guaranty associations of $51.9 million. From January 1, 2014 to September 30, 2014 liquid assets increased $57.9 million.
3. **Align incentives with the Liquidation's goals;**
   - Provide for Mr. Bengelsdorf's incentive compensation to be based on structured performance objectives that align his objectives with Home's creditors.
   - Mr. Bengelsdorf's primary responsibilities are to: (1) effectively marshal assets of the estate, (2) supervise the claim determination and asset distribution process, (3) hire and maintain an adequate staff, (4) file timely and appropriate reports on the Liquidation's status, and (5) operate the Liquidation in a cost effective manner.
4. **Use available comparable market compensation data;**
   - Develop competitive market data consistent with Published Survey Analysis.
   - Remain consistent with competitive market positioning in relation to the current executive team.

Compensation Components (please see Exhibit I for details)

Since Mr. Bengelsdorf has eliminated the $50,000 performance bonus from previous years, the estimated Total Direct Compensation (TDC) for the Special Deputy Liquidator position consists of the following two (2) components:

1. **Base Compensation:**
   - **Estimated 2015 Base Compensation Level:** Mr. Bengelsdorf's estimated 2015 Base Compensation will be $600,000 payable in twelve monthly installments of $50,000 conditioned upon a minimum of 1850 hours worked (if there is a shortfall based on actual hours worked during the year that shortfall amount would be deducted from the Stay Bonus otherwise payable, if more than 1850 hours are worked no additional amount will be paid beyond the "base" pay).

- ***Please Note:*** In order to present Base Compensation in the same manner as other Home employees and to develop an "apples-to-apples" comparison with market data, we have adjusted the Base Compensation to reflect the fact that Mr. Bengelsdorf does not receive employee benefits from Home. As an independent consultant, Mr. Bengelsdorf, pays the full Social Security tax (employer and employee share) on his compensation. He does not receive any health and welfare, vacation, paid holidays, retirement or severance benefits from Home.
  - Specifically, our experience indicates that the typical cost of employee benefits offered to Home employees approximates 25% of employee base salary.
  - The estimated 2015 Base Compensation of $600,000 has been adjusted downward to reflect the absence of this typical benefit load/cost to Mr. Bengelsdorf.
  - This adjustment results in an estimated 2015 Base Compensation of $480,000.

2. **"Stay" Bonus**
   - **Estimated 2015 Stay Bonus Compensation Level:** Mr. Bengelsdorf's estimated "Stay" Bonus opportunity is $325,000 (which would cover the twelve month period from January 1, 2015 to December 31, 2015) payable on or after December 18, 2015.
   - **Please Note:** Payment of the "Stay" Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, such amount will be paid in full.

FINDINGS – COMPETITIVENESS OF COMPENSATION TO MARKET LEVELS

Among healthy companies, TDC typically reflects an incumbent's base salary plus annual and long-term incentives. For purposes of assessing the competitiveness of Mr. Bengelsdorf's TDC to market, TDC for Mr. Bengelsdorf reflects Base Compensation (adjusted for absence of participation in employee benefit plan) plus a Performance Bonus and "Stay" Bonus. Generally, under EY's methodology, a level of pay that is 85% to 115% of the market consensus at the desired market position (typically 50th percentile, to 75th percentile) is considered competitive.

Mr. Bengelsdorf's estimated 2015 TDC, after adjusting the estimated Base Compensation by 25% to account for the absence of his participation in the employee benefits currently provided to Home employees (and normally provided to persons occupying similar positions), is ***significantly less than competitive*** (or 61.7%) of median market levels and is ***significantly less than competitive*** (or 40.5%) of 75th percentile market levels. Please note that Mr. Bengelsdorf's estimated 2015 Total Cash Compensation (TCC, which is base salary plus the "Stay" Bonus) is ***competitive*** (or 110.5%) of median market levels and is ***less than competitive*** (or 74.0%) of 75th percentile market levels.

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Exhibit I
Estimated 2015 Compensation

Position	Home Insurance 2015 Proposed Compensation (1)	25TH PERCENTILE Market Consensus	50TH PERCENTILE Market Consensus	75TH PERCENTILE Market Consensus	Overall Competitiveness (2) 25th Percentile	50th Percentile	75th Percentile
Chief Executive Officer (3)	Bengelsdorf, Peter						
Base Salary Adjusted	$480.00	$328.7	$459.2	$640.9	146.0%	104.5%	74.9%
Performance Bonus (as a % of Base)	0.0%	42.5%	58.7%	69.7%			
Performance Bonus (amount)	$0.0	$139.6	$269.6	$446.7			
"Stay" Bonus (amount)	$325.0	$0.0	$0.0	$0.0			
Total Cash Compensation (4)	$805.0	$468.3	$728.8	$1,087.6	171.9%	110.5%	74.0%
Long-term Incentive (as a % of Base) (5)	0.0%	67.0%	125.5%	196.0%			
Long-term Incentive (amount) (6)	$0.0	$307.7	$576.3	$900.0			
Total Direct Compensation (7)	$805.0	$776.0	$1,305.1	$1,987.6	103.7%	61.7%	40.5%
Overall Competitiveness							
Base Salary					146.0%	104.5%	74.9%
Total Cash Compensation					171.9%	110.5%	74.0%
Total Direct Compensation					103.7%	61.7%	40.5%

(1) Assumes 2015 base salary and assumes achievement at target values for incentive compensation (e.g., annual incentive). Although the stated base salary is $600,000 we adjusted Mr. Bengelsdorf's base salary downward to $480,000 to reflect the absence of employee benefits offered to Home employees.
(2) Incumbent projected 2015 compensation as noted in (1) above compared to market consensus.
(3) The market consensus data is representative of a blend of CEO and COO positions from each of the various survey sources.
(4) Total Cash Compensation = Market Consensus Base Salary + Market Consensus Annual Incentive (Actual).
(5) For the survey data, the long-term incentive multiple is a blend of Black-Scholes multiples provided by William M. Mercer and Towers Watson.
(6) For the survey data, the long-term incentive value is derived by multiplying the median base salary by the applicable percentile LTI multiple.
(7) Total Direct Compensation = Market Consensus Total Cash Compensation + Market Consensus Long-term Incentive.

SCOPE FACTORS	SURVEY SOURCES
Industry: P&C Insurance Carriers, Insurance, All Organizations Geographic: National Data Trend Factor: 3.1% to January 1, 2015 Assets: $1.0 Billion, less than $25 Billion, less than $1.5 Billion	Economic Research Institute: Executive Compensation Assessor 2014 LOMA: Executive Compensation Survey Report, 2014 Towers Watson CSR Top Management Survey Report 2014 Mercer Executive Compensation Survey Report, 2014 WorldatWork 2014-15 Salary Budget Survey

Please note: Under EY's methodology, a competitive compensation level is defined as one which falls within an 85% to 115% range of the indicated market consensus level.

SUMMARY CONCLUSIONS

Overall, the TDC for the Special Deputy Liquidator represents a program that provides competitive base pay and a stay bonus that acknowledges Mr. Bengelsdorf's importance to the Liquidation and encourages a continuation of the existing relationship. His reduced performance based pay is Mr. Bengelsdorf's demonstration of his commitment to reduce the Liquidation's operating expenses. The TDC for the Special Deputy Liquidator is estimated to be $805,000 for 2015 (which reflects the fact that the Special Deputy Liquidator receives no employee benefits from Home; therefore, the base salary was adjusted downward by 25%).

Based on our review, we find that the Special Deputy Liquidator's estimated 2015 TDC is ***significantly less than competitive*** compared to the market median (50th percentile); however, we note that TCC is ***competitive*** compared to the market median (50th percentile).

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We sincerely appreciate the opportunity to continue to provide human resource advisory assistance to the Liquidator on this engagement. Please do not hesitate to call Martha Cook at 404.817.5734 or Ana Fluke at 216.583.4783 if you have any questions.

Very truly yours,

Ernst + Young LLP

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