THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. SUPERIOR COURT

Docket No. 217-2003-EQ-00106

In the Matter of the Liquidation of
The Home Insurance Company

LIQUIDATOR'S MOTION FOR APPROVAL OF 2016 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 the compensation plans for Home's key employees in 2016 (the "2016 Employee Compensation Plan") and for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") (the "2016 Special Deputy Plan") (collectively, the "Plans"). A summary of the incentive component of the 2016 Employee Compensation Plan is attached as Exhibit A as well as the related Ernst & Young LLP ("E & Y") advisory letter dated October 7, 2015 which is attached as Exhibit B. A summary of the Special Deputy Plan is provided in the Liquidator's Affidavit and in the E & Y advisory letter concerning the 2016 Special Deputy Plan dated October 7, 2015, which is attached as Exhibit C. The Plans are based on compensation plans originally proposed and approved in 2004 and, subject to changes over time, proposed and approved in each subsequent year. 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 Plans and their estimated 2016 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. The Retention of Experienced Employees and the Special Deputy Liquidator Benefits Creditors. Home operated internationally and specialized in affording complex forms of insurance to large enterprises. The liquidation of Home, with total estimated discounted claims of $4 billion, is one of the largest and most complex insurer liquidations ever conducted. Due to the sophisticated nature of Home's insurance products, operations, and supporting reinsurance programs, an experienced and stable senior 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. The Liquidator believes that this objective can be facilitated through the alignment of compensation plans with the interests of creditors. Affidavit of Roger A. Sevigny, Liquidator, in Support of Approval of Approval of 2016 Compensation Plans ("Sevigny Aff.") ¶ 3.

2. 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 success of liquidation staff and the Special Deputy Liquidator in that regard 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 $1.7 billion as of September 30, 2015. (The September 30, 2015 figure gives credit for $298 million distributed to Home's policy-level creditors pursuant to the First Interim Distribution, $247 million of early access distributions to guaranty associations -- of which $47 million are no longer subject to "clawback" -- plus $71 million of Class I distributions to guaranty associations for their administration expenses.) 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. Sevigny

Aff. ¶ 4; Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Approval of 2016 Employee Compensation Plans ("Bengelsdorf Aff.") ¶ 3.

3. Home Employees and the Special Deputy Liquidator. Prior to liquidation, Risk Enterprise Management ("REM") effectively managed Home. 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 critical REM employees as liquidation staff. This permitted the Liquidator to benefit from the continued involvement of experienced employees having 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 46 (full and part time) employees and 6 consultants located in New York City and 5 employees located in Manchester, New Hampshire. Bengelsdorf Aff. ¶ 4.

4. 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. E & Y categorizes his responsibilities as a combination of those performed in a "healthy" insurance company by a chief executive officer and chief operating officer. 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. Sevigny Aff. ¶ 5.

5. Structure and History of Compensation Plans for Liquidation Staff. As set forth in the Liquidator's Motion for Approval of Compensation Plans dated April 5, 2004, the Liquidator engaged nationally recognized compensation consultants (E & Y) to assist in the design of the compensation plans. The consultants had experience in the design of such plans for

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

large insurers, like Home, in liquidation. They recommended that total direct compensation (base salary and incentive bonuses) range between the 50th and 75th percentile among comparable companies. The Liquidator has continued to consult with E & Y each year, as reflected in the annual compensation motions, regarding the continuing suitability of employee compensation. Bengelsdorf Aff. ¶ 5.

6. To retain and compensate the necessary staff for Home, the Liquidator accordingly developed and requested approval for base compensation as well as three integrated incentive 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. 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.

7. 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 this proposal (and the 2006 compensation plans) by order dated February 8, 2006. Bengelsdorf Aff. ¶ 7.

8. A version of the Annual Plan has been approved each year of the liquidation though, over time, the number of employees eligible to participate has been reduced from 78 (in 2004) to 8 (in 2015). 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. With each reduction in the number of participants, a portion of the amounts otherwise payable as incentive payments was used to increase base salaries with the remainder applied toward the annual 401(k) safe harbor contribution. These changes (which were not intended to

decrease total expenses) were 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 for those employees. Bengelsdorf Aff. ¶ 8.

9. The Collection Incentive Plan was 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 were based on the accomplishment of annual corporate targets but also varied, at the discretion of the Liquidator, based on achievement of individual performance goals. The objective of the Collection Incentive Plan, through deferred compensation, was to retain senior and experienced executives as long as deemed necessary by the Liquidator. For the reasons described below, the Liquidator does not propose to continue the Collection Incentive Plan in 2016. Bengelsdorf Aff. ¶ 9.

10. 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, as in prior years, Home contributed an amount equal to 4% of the employee's earnings up to the individual employee earnings cap set by the IRS. Bengelsdorf Aff. ¶ 10.

11. <u>The Proposed 2016 Compensation Plan for Liquidation Staff</u>. The Liquidator seeks to continue to provide compensation consistent with best practices respecting compensation in insurance company liquidations. Accordingly, the Liquidator proposes to

continue the Annual Plan in 2016 at a total anticipated cost of $912,950.[2] Seven employees will be eligible for the Annual Plan in 2016, one fewer than in 2015. The Liquidator proposes to continue the 401(k) safe harbor plan with a contribution rate equal to the 4% rate used in prior years and approved by the Court most recently on January 6, 2015. The Liquidator has concluded, however, that the need for an incentive program focusing on the collection of assets and determination of claims is diminished considering that a substantial portion of anticipated reinsurance collections have been collected while 17,271 proofs of claim (out of 20,709) have been resolved. Accordingly, the Liquidator does not propose to continue the Collection Incentive Plan in 2016.[3] Bengelsdorf Aff. ¶ 11.

12. Based upon their experience, E & Y notes that insurance companies in liquidation typically target base salaries at median (50th percentile) market level and total cash compensation (base salary plus bonuses) at or above median market levels of "healthy" companies in their industry segment. To evaluate the 2016 Employee Compensation Plan, E & Y has compared the proposed total cash compensation for liquidation staff in comparison with the competitive market in each region (New York and Manchester) where the relevant individual is based. As a result of this study, E & Y concludes that the proposed 2016 Employee Compensation Plan is appropriate and consistent with general market practices for insurance companies in liquidation and that overall levels of pay represent market competitive compensation levels. Bengelsdorf Aff. ¶ 12.

13. <u>History of Compensation Plans for the Special Deputy Liquidator.</u> The Special Deputy Liquidator is engaged by the Liquidator pursuant to the June 11, 2003 Consulting

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[2] This $912,950 figure may be compared with payments for prior years:

Annual Plan Payments (millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Payment	$2.61	$2.28	$2.28	$2.23	$2.29	$1.86	$1.73	$1.58	$1.17	$1.17	$1.31	$897,756 (est.)

[3] The elimination of the Collection Incentive Plan therefore represents a reduction in total liquidation expenses. By way of example, the Collection Incentive Plan will cost approximately $317,190 in 2015.

Agreement. The Liquidator has consulted with E & Y to assist in devising and evaluating a compensation program for the Special Deputy Liquidator. The overall compensation framework for the Special Deputy Liquidator has been designed to align incentives for the Special Deputy Liquidator with liquidation goals. Specifically, at various times since the beginning of Home's liquidation compensation to the Special Deputy Liquidator has included base compensation, an annual incentive bonus, and a "Stay Bonus". Sevigny Aff. ¶ 6.

14. The Special Deputy Liquidator's base compensation was calculated on an hourly basis from 2003 through 2011 at the rate of $250 per hour. This structure was modified in 2012 such that the Special Deputy Liquidator's hourly rate was increased to $285 and subjected to a cap of $600,000. The $600,000 cap was maintained in 2013 but the program was further modified with the Special Deputy Liquidator receiving equal monthly payments of $50,000 throughout the year. In the event he worked fewer than 2,100 hours, the Special Deputy Liquidator's "Stay Bonus" was to be reduced in an amount equal to the shortfall in hours multiplied by a $325 hourly rate. The hourly target was reduced to 2,000 in 2014 and 1,850 in 2015. In all years, the Special Deputy Liquidator has worked for significantly more hours than the relevant annual target. The hourly rate and target would be unchanged in 2016. Sevigny Aff. ¶ 7.

15. The annual incentive bonus was reduced in stages from $400,000 (2004) to $50,000 (2014) before being eliminated in 2015. Sevigny Aff. ¶ 8.

16. The final portion of the Special Deputy Liquidator's compensation, the "Stay Bonus", provides a cash incentive to this senior and experienced insurance industry executive and encourages him to remain with the liquidation. Pursuant to his compensation plans from 2004 through 2014, the Special Deputy Liquidator received a "Stay Bonus" of $400,000

(adjustable, since 2013, as discussed above in subparagraph 14). For 2015, the "Stay Bonus" was reduced to $325,000. It would be reduced to $300,000 in 2016. Sevigny Aff. ¶ 9.

17. Prior to 2008, the annual incentive bonus and "Stay Bonus" had been annual. Though negotiated and agreed upon each year, they 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 the Special Deputy Liquidator and his estate in the event of his death or disability during the interim. In order to avoid such unintended consequences, after 2008 the annual incentive bonus and "Stay Bonus" remained in effect, subject to annual review and approval, until termination or disapproval by the Court. Sevigny Aff. ¶ 10.

18. Consistent with the objective of minimizing costs as the liquidation process continues, the Special Deputy Liquidator's total compensation has been reduced by more than one third from inception through 2015. Each of these reductions has been made at the request of the Special Deputy Liquidator. Sevigny Aff. ¶ 11.

19. The Proposed 2016 Special Deputy Plan. The proposed 2016 Special Deputy Plan is described in the E & Y letter and has two primary objectives. See Exhibit C. 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. Second, the 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. ¶ 12.

20. The base compensation proposed in the 2016 Special Deputy Plan is unchanged from 2015 -- $600,000 payable in equal monthly installments with a target of 1,850 hours worked. The 2016 Special Deputy Plan also includes a Stay Bonus of $300,000 (down, at the Special Deputy Liquidator's request, from $325,000 in 2015). As in prior years, any shortfall in hours would be deducted at the rate of $325/hour from the "Stay Bonus" otherwise payable to the Special Deputy Liquidator. Sevigny Aff. ¶ 13.

21. E & Y evaluated the 2016 Special Deputy Plan in comparison with market levels. Importantly, E & Y notes that the Special Deputy Liquidator is a consultant to the Liquidator and not an employee of Home. Accordingly, the Special Deputy Liquidator does not participate in the incentive compensation plans for key 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. E & Y therefore estimates that the actual value of the $600,000 base compensation available to the Special Deputy Liquidator is equivalent to an employee's salary of $480,000. E & Y advises that the total direct compensation (adjusted base compensation plus "Stay Bonus") represented by the 2016 Special Deputy Plan is significantly less than competitive with median market levels. Total cash compensation without adjustment, however, is competitive of market median. In conclusion, E & Y reports that the proposed 2016 Special Deputy Plan acknowledges the importance of the Special Deputy Liquidator to the liquidation and encourages a continuation of that relationship. Sevigny Aff. ¶ 14.

22. <u>The Plans Are Necessary</u>. 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. ¶ 15; Bengelsdorf Aff. ¶ 13.

23. <u>The Liquidator's Authority to Set the Terms of Employment</u>. 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.

24. <u>The Liquidator's Authority to Appoint a Special Deputy Liquidator</u>. 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."

25. <u>The Plans are Fair and Reasonable</u>. 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,

JOSEPH A. FOSTER
ATTORNEY GENERAL

J. Christopher Marshall
NH Bar ID No. 1619
Civil Bureau
New Hampshire Department of Justice
33 Capitol Street
Concord, N.H. 03301-6397
(603) 271-3650

J. David Leslie
NH Bar ID No. 16859
Eric A. Smith
NH Bar ID No. 16952
Rackemann, Sawyer & Brewster
160 Federal St.
Boston, MA 02110
(617) 542-2300

December 16, 2015

<u>Certificate of Service</u>

I hereby certify that a copy of the foregoing Motion for Approval of 2016 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 16th day of December, 2015, 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

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The Home Insurance Company
Docket No. 217-2003-EQ-00106

SERVICE LIST

Lisa Snow Wade, Esq.
Orr & Reno
One Eagle Square
P.O. Box 3550
Concord, New Hampshire 03302-3550

Gary S. Lee, Esq.
James J. DeCristofaro, Esq.
Kathleen E. Schaaf, Esq.
Morrison & Foerster
1290 Avenue of the Americas
New York, New York 10104-0050

Robert A. Stein, Esq.
The Stein Law Firm, PLLC
One Barberry Lane
P.O. Box 2159
Concord, New Hampshire 03302-2159

David M. Spector, Esq.
Dennis G. LaGory, Esq.
Schiff Hardin LLP
6600 Sears Tower
Chicago, Illinois 60606

Michael Cohen, Esq.
Cohen & Buckley, LLP
1301 York Road
Baltimore, Maryland 21093

David H. Simmons, Esq.
Mary Ann Etzler, Esq.
Daniel J. O'Malley, Esq.
deBeaubien, Knight, Simmons,
Mantzaris & Neal, LLP
332 North Magnolia Avenue
P.O. Box 87
Orlando, Florida 32801

Martin P. Honigberg, Esq.
Sulloway & Hollis, P.L.L.C.
9 Capitol Street
P.O. Box 1256
Concord, New Hampshire 03302-1256

Richard Mancino, Esq.
Willkie Farr & Gallagher, LLP
787 Seventh Avenue
New York, New York 10019

Joseph G. Davis, Esq.
Willkie Farr & Gallagher, LLP
1875 K Street, N.W.
Washington, DC 20006

Albert P. Bedecarre, Esq.
Quinn Emanuel Urguhart Oliver & Hedges LLP
50 California Street, 22nd Floor
San Francisco, California 94111

Jeffrey W. Moss, Esq.
Morgan Lewis & Bockius, LLP
225 Franklin Street
16th Floor
Boston, Massachusetts 02110

Gerald J. Petros, Esq.
Hinckley, Allen & Snyder LLP
50 Kennedy Plaza, Suite 1500
Providence, Rhode Island 02903

Christopher H.M. Carter, Esq.
Hinckley, Allen & Snyder LLP
11 South Main Street, Suite 400
Concord, New Hampshire 03301

Robert M. Horkovich, Esq.
Robert Y. Chung, Esq.
Anderson Kill & Olick, P.C.
1251 Avenue of the Americas
New York, New York 10020

Andrew B. Livernois, Esq.
Ransmeier & Spellman, P.C.
One Capitol Street
P.O. Box 600
Concord, New Hampshire 03302-0600

John A. Hubbard
615 7th Avenue South
Great Falls, Montana 59405

Paul W. Kalish, Esq.
Ellen M. Farrell, Esq.
Timothy E. Curley, Esq.
Crowell & Moring
1001 Pennsylvania Avenue, N.W.
Washington, DC 20004-2595

Harry L. Bowles
306 Big Hollow Lane
Houston, Texas 77042

Gregory T. LoCasale, Esq.
White and Williams, LLP
One Liberty Place, Suite 1800
Philadelphia, Pennsylvania 19103-7395

Kyle A. Forsyth, Esq.
Commercial Litigation Branch/Civil Division
United States Department of Justice
P.O. Box 875
Washington, D.C. 20044-0875

W. Daniel Deane, Esq.
Nixon Peabody LLP
900 Elm Street, 14th Floor
Manchester, New Hampshire 03861

Joseph C. Tanski, Esq.
John S. Stadler, Esq.
Nixon Peabody LLP
100 Summer Street
Boston, Massachusetts 02110

Steven J. Lauwers, Esq.
Michael S. Lewis, Esq.
Rath Young Pignatelli
One Capital Plaza
Concord, New Hampshire 03302-1500

Robert E. Murphy, Esq.
Michael J. Tierney, Esq.
Wadleigh, Starr & Peters, PLLC
95 Market Street
Manchester, New Hampshire 03101

Steven E. Sigalow, Esq.
Mark J. Andreini, Esq.
Jones Day
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114-1190

Exhibit A

The Home Insurance Company in Liquidation
2016

Annual Incentive Plan ("AIP")

Component	Plan Design
Administration	The Plan will 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, 2016 – December 31, 2016
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. 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 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. In order to be eligible for participation in this Plan, the employee must be employed full time for no less than 90 days prior to the beginning of the Plan Year. 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.
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	
	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 2016 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 for the Plan Year.
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	**Death** - A pro rata share of the current Plan Year's AIP payment will be paid to the employee's estate, subject to receiving written notice of the employee's death, at the next regular year end payout date after death. **Disability** - Award accrual ceases when the employee has been disabled from performing his/her usual and customary job duties for more than 30 calendar days; a pro rata share of the Plan Year's AIP payment (based on the period during the Plan Year when any accrual occurred) will be paid to the employee at the next regular year end payout date. Participation and accrual will resume upon the employee's return to full time employment and performance of his/her usual and customary job duties.

Annual Incentive Plan

Component	
	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. **Involuntary termination "for cause"** - No payments will be made to employees who are terminated "for cause".

Exhibit B

EY
Building a better working world

Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel +1 404 874 8300
Fax +1 866 305 5660
ey.com

7 October 2015

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.

Last year, EY performed a comprehensive market analysis, or the FY 2015 Market Competitive Compensation Analysis (2015 Analysis), with respect to employee compensation levels. Over the past year, our experience indicates that overall market compensation levels for key employees and executives have not changed significantly within Home's broader industry segment. Additionally, the Liquidator made no significant changes to Home's employee compensation levels in the past year. Accordingly, our FY 2016 Market Competitive Compensation Analysis (or 2016 Analysis) conducted on behalf of Home reflects the forward trending of published survey data gathered in the 2015 Analysis to January 1, 2016 at a trend factor of 3.1% (based on the WorldatWork Total Salary Increase Budget Survey's 2016 projected increases for all employees in the insurance carrier and related actuarial industry).

As part of updating our analysis, EY collected and reviewed information from Home that has changed since the 2015 Analysis in terms of organizational structure, key employee position descriptions and executive compensation arrangements.

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

- Collected $1.62B of the projected $1.9B in potential domestic and foreign reinsurance collections;
- Resolved approximately 17,271 Proof of Claims (POCs), from an initial 20,709 POCs (or approximate 3,438 POCs remaining);
- Reduced initial employee head count from 95 employees and 15 consultants to 51 employees and six 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 2015 Analysis should also be reduced. Accordingly, for 2015 we agreed to reduce Home's asset size from $1.9B to $1.0B for all benchmark positions analyzed. Additionally, EY incorporated the Liquidator's proposal to further reduce participation in Home's 2016 AIP program to include six (6) 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 Home's industry segment and companies in liquidation. In identifying the competitive market, companies in liquidation typically focus on "healthy" company pay levels as 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 broader industry segments.

Home Insurance Company in Liquidation

Background
As Home approaches its thirteenth 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, 44 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 51 employees who are employed by 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.

While there were no program changes for FY 2013, the Liquidator reduced 2014 CIP awards by 60% for the seven (7) Senior Executives.

In 2014 (effective for FY 2015), the Liquidator proposed to further reduce participation in the 2015 AIP program to include 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 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. Under the new approach, Home would not incur any additional compensation cost in 2015.

In 2015 (effective for FY 2016), one Senior Executive retired and one additional position (Senior Manager, Casualty Management) was added to the list of positions reviewed as part of the compensation benchmarking analysis. Additionally, the Liquidator discontinued CIP participation for all of Home's executives in the 2016 plan year.

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 to market levels. 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 and target TCC (calculated for the Top 6 Senior Executives and 1 other key employee – the Environmental Claims VP) 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

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.

<u>2015 Analysis Results (for FY 2016 Planning)</u>

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**.

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Home Data vs. Market	25th Percentile		50th Percentile (Median)		75th Percentile	
	Base	TCC	Base	TCC	Base	TCC
6 Senior Executives	128.4%	164.0%	100.4%	121.9%	81.9%	87.6%
Salary Grades 22[1]	133.5%	161.7%	98.3%	118.4%	78.9%	79.6%
Salary Grades 21-22[2]	120.6%	n/a	106.8%	n/a	84.3%	n/a
Salary Grades 18-21[3]	118.4%	n/a	104.2%	n/a	89.9%	n/a
Salary Grades 16-17	112.7%	n/a	101.8%	n/a	90.0%	n/a

Top 6 Senior Executives:
For Home's Senior Executives, target TCC levels, which represent base salaries and annual incentive awards, are compared to national published survey analysis results. Overall, Home's Senior Executives' base salary (100.4%) is competitive, and target TCC (121.9%) compensation level is highly competitive compared to the median (50th percentile) of the competitive market.

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

- ***25th Percentile:*** Target TCC for Top 6 is 64.0% above the 25th percentile (or 164.0% of 25th percentile market levels), or is **highly competitive** to 25th percentile market compensation levels.
- ***50th Percentile:*** Target TCC for Top 6 is 21.9% above the market median (or 121.9% of median market levels), or is **highly competitive** to median market compensation levels.
- ***75th Percentile:*** Target TCC for the Top 6 is 12.4% below the 75th percentile (or 87.6% of 75th percentile market levels), or is **competitive** to 75th percentile market compensation levels.

18 Key Employee Benchmarked Positions (20 incumbents):
For the key employees, Home's compensation data (which represents base salaries and actual 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 (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 61.7% above the 25th percentile.
  - **Salary grades 21 – 22[2]**: Target base is **highly competitive** at 20.6% above the 25th percentile.
  - **Salary grades 18 – 21[3]**: Target base is **highly competitive** at 18.4% above the 25th percentile.
  - **Salary grades 16 – 17:** Target base is **competitive** at 12.7% above the 25th percentile.

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[1] Includes incumbent in job grade 22 that participate in the AIP (only one key employee)
[2] Includes incumbents in job grades 21 and 22 that do not participate in the AIP
[3] Includes incumbents in job grades 18-21 that do not participate in the AIP

- ***50th Percentile:***
  - **Salary grade 22 w/ AIP[1]**: Target TCC is **highly competitive** at 18.4% above the median.
  - **Salary grades 21 – 22[2]:** Target base is **competitive** at 6.8% above the median.
  - **Salary grades 18 – 21[3]:** Target base is **competitive** at 4.2% above the median.
  - **Salary grades 16 – 17:** Target base is **competitive** at 1.8% above the median.

- ***75th Percentile:***
  - **Salary grade 22 w/ AIP[1]**: Target TCC is **less than competitive** at 20.4% below the 75th percentile.
  - **Salary grades 21 – 22[2]:** Target base is **less than competitive** at 15.7 % below the 75th percentile.
  - **Salary grades 18 – 21[3]:** Target base is **competitive** at 10.1% below the 75th percentile.
  - **Salary grades 16 – 17:** Target base is **competitive** at 10% below the 75th percentile.

SUMMARY CONCLUSION

Based upon our experience, the estimated 2016 compensation levels for Home's employees, 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 12¼ 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 (6 positions)	10
Exhibit 3	Published survey exhibit with market pricing data for the Other Key Employees (18 positions)	12

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If you have any questions regarding this information please call Martha Cook at 404.817.5734.

Sincerely,

Ernst + Young LLP

Copies to: Peter Bengelsdorf – The Home Insurance Company in Liquidation
Martha Cook, EY – Atlanta
Marsha Smith, EY – Atlanta

Exhibit C

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Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 404 874 8300
Fax: +1 866 305 5660
ey.com

7 October 2015

PRIVATE AND CONFIDENTIAL

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:

At your request, as Liquidator of The Home Insurance Company (Home or the Company), the Ernst & Young LLP's (EY) Human Capital Practice has reviewed the competitiveness of Home's current compensation levels to typical market levels. As 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 24 benchmarked positions (for 26 incumbents, detailed under separate cover), including a reduction in Home's asset size from \$1.9B to \$1.0B

Over the past year, our experience indicates that overall market compensation levels for key employees and executives have not significantly changed within Home's broader industry segment. Accordingly, our FY 2016 Market Competitive Compensation Analysis (or 2016 Analysis) conducted on behalf of Home reflects the forward trending of published survey data gathered in the 2015 Analysis to January 1, 2016 at a trend factor of 3.1% (based on the WorldatWork Total Salary Increase Budget Survey's 2016 projected increases for all employees in the insurance carrier and related actuarial industry).

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 has never participated 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.

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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 2012-2015 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, 2015. 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 2016, payable at $50,000/month with a minimum of 1,850 hours worked, a "Stay" Bonus of $300,000, down from $325,000 in 2015, and no performance bonus for 2016. The summary below includes an assessment of the competitiveness of Mr. Bengelsdorf's proposed compensation plan for 2016.

<u>Compensation Program Objectives</u>
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. **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.

<u>Compensation Components (please see Exhibit I for details)</u>
The estimated Total Direct Compensation (TDC) for the Special Deputy Liquidator position consists of the following two (2) components:

1. **Base Compensation:**
   - **Estimated 2016 Base Compensation Level:** Mr. Bengelsdorf's estimated 2016 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.

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- o The estimated 2016 Base Compensation of $600,000 has been adjusted downward to reflect the absence of this typical benefit load/cost to Mr. Bengelsdorf.
- o This adjustment results in an estimated 2016 Base Compensation of $480,000.

2. **"Stay" Bonus**
   - **Estimated 2016 Stay Bonus Compensation Level:** Mr. Bengelsdorf's estimated "Stay" Bonus opportunity is $300,000 (which would cover the twelve month period from January 1, 2016 to December 31, 2016) payable on or after December 18, 2016.
   - **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 "Stay" Bonus. Generally, under EY's methodology, a level of pay that is 85% to 115% of targeted benchmark levels (e.g., 50th percentile) is considered competitive to market levels.

Mr. Bengelsdorf's estimated 2016 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 58.0%) of median market levels and is ***significantly less than competitive*** (or 38.7%) of 75th percentile market levels. Please note that Mr. Bengelsdorf's estimated 2016 Total Cash Compensation (TCC, which is base salary plus the "Stay" Bonus) is ***competitive*** (or 103.8%) of median market levels and is **significantly *less than competitive*** (or 71.7%) of 75th percentile market levels.

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Exhibit I
Estimated 2016 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	$338.9	$473.4	$660.8	141.6%	101.4%	72.6%
Performance Bonus (as a % of Base)	0.0%	42.5%	58.7%	64.6%			
Performance Bonus (amount)	$0.0	$143.9	$278.0	$426.8			
"Stay" Bonus (amount)	$300.0	$0.0	$0.0	$0.0			
Total Cash Compensation (4)	$780.0	$482.8	$751.4	$1,087.6	161.6%	103.8%	71.7%
Long-term Incentive (as a % of Base) (5)	0.0%	67.0%	125.5%	196.0%			
Long-term Incentive (amount) (6)	$0.0	$317.2	$594.2	$927.9			
Total Direct Compensation (7)	$780.0	$800.0	$1,345.6	$2,015.5	97.5%	58.0%	38.7%
Overall Competitiveness							
Base Salary					141.6%	101.4%	72.6%
Total Cash Compensation					161.6%	103.8%	71.7%
Total Direct Compensation					97.5%	58.0%	38.7%

(1) Assumes 2016 base salary and achievement of conditions to earn the stay bonus amount. 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 2016 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, 2016 Assets: $1.0 Billion, less than $25 Billon, 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 2015-16 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. The TDC for the Special Deputy Liquidator is estimated to be $780,000 for 2016 (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 2016 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 if you have any questions.

Very truly yours,

Ernst + Young LLP

Copies to: Martha Cook, EY - Atlanta
Marsha Smith, EY – Atlanta