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 2018 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 2018 (the "2018 Employee Compensation Plan") and for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") (the "2018 Special Deputy Plan") (collectively, the "Plans"). A summary of the incentive component of the 2018 Employee Compensation Plan is attached as Exhibit A as well as the related Ernst & Young LLP ("E & Y") advisory letter dated October 13, 2017 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 2018 Special Deputy Plan dated October 13, 2017 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 2018 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. <u>The Retention of Experienced Employees and the Special Deputy Liquidator Benefits Creditors</u>. Home operated internationally and specialized in affording complex forms of insurance to large enterprises. The liquidation of Home, with total estimated undiscounted 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 2018 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 $917 million of unrestricted liquid assets as of September 30, 2017. (The September 30, 2017 figure is net of the $483.5 million of interim distributions to Home's policy-level creditors, $256.0 million of early access distributions to guaranty associations, and $72.5 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 2018 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 42 (full and part time) employees and 5 consultants located in New York City, 1 part time employee in Florida, and 4 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

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

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 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 7 (in 2016). 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. The Collection Incentive Plan was not continued beyond 2015. 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 2017, 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 2018 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 2018 at a total anticipated cost of $912,950.[2] Seven employees will be eligible for the Annual Plan in 2018, the same number as in 2017. 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 November 2, 2016. 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 2018 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 2018 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 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

[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	2016	2017
Payment	$2.61	$2.28	$2.28	$2.23	$2.29	$1.86	$1.73	$1.58	$1.17	$1.17	$1.31	$0.93	$0.91	$0.91 (est.)

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 2018. 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). The "Stay Bonus" has since been reduced to $325,000 for 2015, $300,000 for 2016, and $250,000 for 2017. It would be further reduced to $225,000 for 2018. 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.[3] 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 approximately forty percent from inception through 2017. Each of these reductions has been made at the request of the Special Deputy Liquidator. Sevigny Aff. ¶ 11.

19. <u>The Proposed 2018 Special Deputy Plan</u>. The proposed 2018 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.

[3] In the event of the Special Deputy Liquidator's death or disability, the Stay Bonus will be paid in full. In the event the Special Deputy Liquidator is terminated without cause or the Special Deputy Plan is terminated or not renewed, the Stay Bonus will be pro-rated.

20. The base compensation proposed in the 2018 Special Deputy Plan is unchanged from 2017 -- $600,000 payable in equal monthly installments with a target of 1,850 hours worked. The 2018 Special Deputy Plan also includes a Stay Bonus of $225,000 (down, at the Special Deputy Liquidator's request, from $250,000 in 2017). 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 2018 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 2018 Special Deputy Plan is significantly less than competitive compared to the market median (50th percentile). Total cash compensation without adjustment, however, is competitive to the market median. In conclusion, E & Y reports that the proposed 2018 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. 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.

24. 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."

25. 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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November 29, 2017

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2018 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 29th day of November, 2017, 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. 217-2003-EQ-00106

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The Home Insurance Company in Liquidation
2018

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, 2018 – December 31, 2018
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 and employed at the end 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 2018 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".

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13 October 2017

Roger Sevigny
Insurance Commissioner in his sole capacity as Liquidator of The Home Insurance Company
State of New Hampshire Insurance Department
21 South Fruit Street, Suite 14
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Dear Commissioner Sevigny:

As a part of our engagement with Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (EY) People Advisory Services (PAS) Practice has been asked to review the competitiveness of Home's compensation levels provided to its employees relative to current market levels and provide a letter summarizing our findings. The information included in this letter is based upon information provided by Home and 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.

Please note, Home's Special Deputy Liquidator is the top executive of Home, serves as an independent consultant to the State of New Hampshire and reports directly to the Insurance Commissioner as Home's Liquidator. Consistent with prior years, the competitiveness of Home's Special Deputy Liquidator's compensation is described and analyzed under separate letter.

HOME INSURANCE COMPANY IN LIQUIDATION

Background: As Home initially 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 2003, 53 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 42 employees who are employed by Home of which seven are part-time. As Home approaches its fifteen year in liquidation, it is critical to retain certain individuals in key positions.

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. A snapshot of Home's change in structure and approach to total rewards over the past 14 years can be found in Exhibit 1.

Liquidation Update: Significant progress has been made over the years as evidenced by the following:

- As of 6/30/2017, collected $1.72B of the projected $1.9B in potential domestic and foreign reinsurance collections;
- As of 9/2017, issued 22,482 determinations resolving approximately 18,758 Proof of Claims (court approved POCs) from an initial 20,764 POCs (with 2,006 POCs remaining for all classes);
- Reduced initial employee head count from 95 employees and 15 consultants to 42 employees and five remaining consultants, with additional reductions anticipated.
  - Reassigned two employees (one of which is a benchmark position included in this study) from full time positions to part-time / reduced hour roles.
  - While significant business needs exist in critical functional areas, not all roles are required on full-time schedules.

Home employee trends – Severance considerations: As Home continues to transition employees from full time to part-time employee status throughout the liquidation process, it is imperative that it retains key employees who are now in part-time roles. Home currently has a severance plan in effect, which excludes Home's top six executives that provides severance amounts equal to 26 weeks of base pay to employees who are involuntarily terminated due to of the elimination of their positions. A termination that occurs for any other reason does not trigger benefits under the plan.

Incentive plan background: Beginning in the fall of 2003, EY developed various incentive compensation programs for executives and other employees of Home to meet the needs of the liquidation operations. Currently, only the Annual Incentive Plan (AIP) remains active (please note that the AIP was approved by the State of New Hampshire Superior Court (Court) on April 21, 2004; Docket No. 03-E-0106). In addition, the Liquidator decided to submit the incentive plan for annual approval by the Court.

- Over the course of the liquidation process Home has reduced participation in its Annual Incentive Plan (or AIP) and currently has seven executive participants.
- The Liquidator is the administrator of the AIP plan and the Special Deputy Liquidator, by delegation, is responsible for monitoring the operation of the plans.
- The Special Deputy Liquidator has never participated in Home's historical or current incentive plans and his compensation has been independent from these incentive plans.

Home employee trends – Full time to part time transition: As Home transitions more full-time employee positions to part-time positions, it will need to consider potential ways to retain and motivate key employees who are in part-time roles. While part-time employees typically have reduced work hours and cash compensation levels, they typically receive the same benefit costs as full time employees. As a result, as Home completes its liquidation journey, it may start to record an increase in employee benefit costs compared to aggregate total cash compensation paid to all employees (full-time and part-time). Home will also need to identify key functions within the organization and test if these positions are appropriately incentivized after considering for each position: the revised position scope and responsibilities, part-time vs. full-time status and strategic importance to the organization. Currently, Home's key employees include seven part-time employees.

2018 Compensation Analysis – Methodology Overview: 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 segment. 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. For 2018 there is no plan to implement a long-term incentive replacement. Home will continue to monitor competitive market trends and business needs to understand the need for a long-term incentive plan.

As part of updating our analysis, EY collected and reviewed information from Home that has changed since the 2017 Analysis in terms of organizational structure, key employee position descriptions and executive compensation arrangements.

Last year, EY's 2017 Analysis was developed by trending forward our FY 2016 Market Competitive Compensation Analysis (2016 Analysis) using a 2017 industry-specific compensation adjustment factor typically utilized to project compensation data forward to a common date in time. This year, EY will follow a similar approach and trend our 2017 Analysis forward to reflect 2018 market competitive compensation levels, based on the rationale described in the following paragraph.

Combining the facts that overall market compensation levels for key employees and executives have not changed significantly within Home's broader industry segment and that the Liquidator has not made any significant changes to Home's employee compensation levels in the past year, we recommend employing a similar approach to determine 2018 compensation levels. Accordingly, our FY 2018 Market Competitive Compensation Analysis (or 2018 Analysis) reflects the forward trending of published survey data gathered in the 2017 Analysis to January 1, 2018 at a trend factor of 3.2% (based on the WorldatWork Total Salary Increase Budget Survey's 2018 projected increases for all employees within the insurance carrier - and related actuarial - industry).

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 50th, and 75th percentiles. The published survey sources provide actual base salary and actual TCC data points for specific positions based on factors including industry, asset size, etc. (trended to a specific date). The resulting percentages are 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 position.

2017 Analysis Results (for FY 2018 Planning)

Our current market analysis reflects 22 benchmark positions that cover 23 current Home incumbents. Values listed below in black are considered to be competitive, while values listed in red are considered to be **less than competitive** or **significantly less than competitive** and values in blue are considered to be **highly competitive** to market compensation levels.

Home Data vs. Market	50th Percentile (Median)		75th Percentile	
	Base	TCC	Base	TCC
6 Senior Executives	95.7%	115.7%	78.4%	81.7%
Salary Grades 22[1]	92.7%	110.5%	77.9%	80.5%
Salary Grades 21-22[2]	99.9%	n/a	77.7%	n/a
Salary Grades 18-20[3]	99.4%	n/a	84.3%	n/a
Salary Grades 16-17	97.3%	n/a	81.1%	n/a

(1) Includes incumbents in job grade 22 that participate in the AIP

(2) Includes incumbents in job grades 21-22 that do not participate in the AIP

(3) Includes incumbents in job grades 18-20 that do not participate in the AIP

Top 6 Senior Executives:
For Home's Senior Executives, target TCC levels, which represent base salaries and target annual incentive awards, are compared to national published survey analysis results. Overall, Home's Senior Executives' base salary (95.7%) and target TCC (115.7%) compensation levels are competitive or more than competitive compared to median (50th percentile) market competitive levels.

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

> ***50th Percentile:*** Target TCC for Top 6 is 15.7% above the market median (or 115.7% of median market levels), which is **considered to be above a *competitive*** range to median market compensation levels.
>
> ***75th Percentile:*** Target TCC for the Top 6 is 18.3% below the 75th percentile (or 81.7% of 75th percentile market levels), which is considered to be ***less than competitive*** to 75th percentile market compensation levels.

16 Key Employee Benchmarked Positions (16 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 110.0% to 125.0% based on the median market consensus base salary rounded to the nearest thousand using standard rounding rules), and Manchester, New Hampshire (102%).

Competitiveness to Market: Overall, the competitiveness of target TCC, for one salary grade 22 key employee, and base salaries for all other key employees fall within a competitive range to median (50th percentile) market levels and fall below a competitive range to 75th percentile market levels. Market competitiveness findings, by category, are is as follows:

50th Percentile:

Salary grade 22 w/ AIP[1]: Target TCC is ***competitive*** at 110.5% of market median, or 10.5% above median market levels.

Salary grades 21 – 22[2]: Target base is ***competitive*** at 99.9% of market median, or 0.1% below median market levels.

Salary grades 18 – 20[3]: Target base is ***competitive*** at 99.4% of market median, or 0.6% below median market levels.

Salary grades 16 – 17: Target base is ***competitive*** at 97.3% of market median, or 2.7% below median market levels.

75th Percentile:

Salary grade 22 w/ AIP[1]: Target TCC is ***significantly less than competitive*** at 80.5% of 75th percentile market levels, or 19.5% below 75th percentile market levels.

Salary grades 21 – 22[2]: Target base is ***less than competitive*** at 77.7% of 75th percentile market levels, or 22.3% below 75th percentile market levels.

Salary grades 18 – 20[3]: Target base is ***less than competitive*** at 84.3% of 75th percentile market levels, or 15.7% below 75th percentile market levels.

Salary grades 16 – 17: Target base is ***less than competitive*** at 81.1% of 75th percentile market levels, or 18.9% below 75th percentile market levels.

(1) Includes incumbents in job grade 22 that participate in the AIP

(2) Includes incumbents in job grades 21-22 that do not participate in the AIP

(3) Includes incumbents in job grades 18-20 that do not participate in the AIP

SUMMARY CONCLUSION

Overall, and based on the analysis described herein, the estimated 2018 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.

Further, Homes' individual plan designs and mechanics that it has employed over the years are based upon commonly accepted compensation practices for insurance companies in liquidation and 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		
Exhibits	**Title**	**Page #**
Exhibit 1	Home Insurance historical benchmarking	6
Exhibit 2	Competitive Benchmark Matches	7
Exhibit 3	Published survey exhibit with market pricing data for the Senior Executives (6 positions)	9
Exhibit 4	Published survey exhibit with market pricing data for the Other Key Employees (18 positions)	11

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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, GA
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13 October 2017

PRIVATE AND CONFIDENTIAL

Roger Sevigny
Insurance Commissioner in his sole capacity as 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:

As a part of our engagement with Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (EY) People Advisory Services (PAS) Practice has been asked to review the competitiveness of Home's compensation levels provided to its Special Deputy Liquidator (Peter Bengelsdorf) relative to current market levels and provide a letter summarizing our findings. The information included in this letter is based upon information provided by Home and 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. The purpose of this letter is to provide you with our findings using the same methodology employed for our update of Home's 24 benchmarked positions (detailed under separate cover).

Please note, Home's Special Deputy Liquidator is the top executive of Home, serves as an independent consultant to the State of New Hampshire and reports directly to the Insurance Commissioner as Home's Liquidator. Consistent with prior years, the competitiveness of Home's key employee compensation is described and analyzed under separate letter.

HOME INSURANCE COMPANY IN LIQUIDATION

Background: As Home initially 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 2003, 53 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 42 employees who are employed by Home of which seven are part-time. As Home approaches its fifteen year in liquidation, it is critical to retain certain individuals in key positions.

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 to all employees compensation evaluated, as well as the Special Deputy Liquidator's compensation.

Liquidation Update: Significant progress has been made over the years as evidenced by the following:

- As of 6/30/2017, collected $1.72B of the projected $1.9B in potential domestic and foreign reinsurance collections;
- As of 9/2017, issued 22,482 determinations resolving approximately 18,758 Proof of Claims (court approved POCs) from an initial 20,764 POCs (with 2,006 POCs remaining for all classes);
- Reduced initial employee head count from 95 employees and 15 consultants to 42 employees and five remaining consultants, with additional reductions anticipated.
  - Reassigned two employees (one of which is a benchmark position included in this study) from full time positions to part-time / reduced hour roles.
  - While significant business needs exist in critical functional areas, not all roles are required on full-time schedules.

Incentive plan background: Beginning in the fall of 2003, EY developed various incentive compensation programs for executives and other employees of Home to meet the needs of the liquidation operations. Currently, only the Annual Incentive Plan (AIP) remains active (please note that the AIP was approved by the State of New Hampshire Superior Court (Court) on April 21, 2004; Docket No. 03-E-0106). In addition, the Liquidator decided to submit the incentive plan for annual approval by the Court. The Special Deputy Liquidator position has never participated in Home's incentive compensation plans.

- Over the course of the liquidation process Home has reduced participation in its Annual Incentive Plan (or AIP) and currently has seven executive participants.
- The Liquidator is the administrator of the AIP plan and the Special Deputy Liquidator, by delegation, is responsible for monitoring the operation of the plan.
- As such, it is appropriate for the Special Deputy Liquidator's compensation to be independent of this plan.

2018 Compensation Analysis – Methodology Overview: 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 segment. 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.

As part of updating our analysis, EY collected and reviewed information from Home that has changed since the 2017 Analysis in terms of organizational structure, key employee position descriptions and executive compensation arrangements.

Last year, EY's 2017 Analysis was developed by trending forward our FY 2016 Market Competitive Compensation Analysis (2016 Analysis) using a 2017 industry-specific compensation adjustment factor typically utilized to project compensation data forward to a common date in time. This year, EY will follow a similar approach and trend our 2017 Analysis forward to reflect 2018 market compensation levels.

Combining the facts that overall market compensation levels for executives have not changed significantly within Home's broader industry segment and that the Liquidator has not made any significant changes to Home's employee compensation levels in the past year, we recommend employing a similar approach to determine 2018 compensation levels. Accordingly, our FY 2018 Market Competitive Compensation Analysis (or 2018 Analysis) reflects the forward trending of published survey data gathered in the 2017 Analysis to January 1, 2018 at a trend factor of 3.2% (based on the WorldatWork Total Salary Increase

Budget Survey's 2018 projected increases for all employees within the insurance carrier - and related actuarial - industry).

Special Deputy Liquidator – Role description: 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 benchmark. Similar to prior analyses, the comparable positions utilized to benchmark the Special Deputy Liquidator role include a blend of CEO and COO positions.

Special Deputy Liquidator – Employment & compensation terms: The Special Deputy Liquidator is presently subject to a one year compensation plan which expires on December 31, 2017. 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 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.

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

1. **Base Compensation:**

   Estimated 2018 Base Compensation Level: Mr. Bengelsdorf's estimated 2018 Base Compensation will be $600,000 payable in twelve monthly installments of $50,000 conditioned upon a minimum of 1,850 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 1,850 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 and he does not receive any health, welfare, vacation, paid holidays, and 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 2018 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 2018 Base Compensation of $480,000 (or $600,000 / 1.25 = $480,000).

2. **"Stay" Bonus**

   Estimated 2018 Stay Bonus Compensation Level: Mr. Bengelsdorf's estimated "Stay" Bonus opportunity is $225,000 (which is intended to cover the twelve month period from January 1, 2018 to December 31, 2018) payable on or after December 18, 2018.

   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.

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.

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 50th, and 75th percentiles. The published survey sources provide actual base salary and actual TCC data points for specific positions based on factors including industry, asset size, etc. (trended to a specific date). The resulting percentages are 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

<u>2017 Analysis Results (for FY 2018 Planning)</u>

Overall, the competitiveness of the Special Deputy Liquidator's estimated 2018 TDC, after adjusting the estimated Base Compensation to account for the absence of participation in Home employee benefits (and normally provided to persons occupying similar positions), to market compensation levels is as follows:

50th Percentile: Base salary and total cash compensation are considered to be within a ***competitive*** range to median market levels (or 95.3% and 88.2%, respectively, of median market), while total direct compensation is ***significantly less than competitive*** to median market levels (or 47.0% of median market).

75th Percentile: Base salary, total cash and total direct compensation are considered to be within a ***significantly less than competitive*** range to 75th percentile market levels (or 68.3%, 59.1% and 31.0%, respectively, of 75th percentile market).

SUMMARY CONCLUSION

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 $705,000 for 2018 (which reflects the fact that the Special Deputy Liquidator receives no employee benefits from Home).

Based on our review, we find that the Special Deputy Liquidator's estimated 2018 TCC is ***competitive*** compared to the market median (50th percentile) and that 2018 TDC is ***significantly less than 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

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