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 2019 COMPENSATION PLANS

John R. Elias, 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 2019 (the "2019 Employee Compensation Plan") and for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") (the "2019 Special Deputy Plan") (collectively, the "Plans"). A summary of the incentive component of the 2019 Employee Compensation Plan is attached as Exhibit A as well as the related Ernst & Young LLP ("E & Y") advisory letter dated September 24, 2018 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 2019 Special Deputy Plan dated September 24, 2018 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 2019 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 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 John R. Elias, Liquidator, in Support of Approval of Approval of 2019 Compensation Plans ("Elias 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 $902 million of unrestricted liquid assets as of August 31, 2018. (The August 31, 2018 figure is net of the $513.6 million of interim distributions to Home's policy-level creditors, $256.0 million of early access distributions to guaranty associations, and $80.6 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. Elias Aff. ¶ 4; Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Approval of 2019 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 40 (full and part time) employees and 5 consultants. The employees and consultants are all located in New York City except for 1 part time employee in Florida, 1 full time employee in Washington State, 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. Elias Aff. ¶ 5.

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

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 large insurers, like Home, in liquidation. 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 2018). 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. (At the outset of the Plan Year, the Liquidator, upon consideration of the

recommendations of the Special Deputy Liquidator, sets the annual corporate and individual performance goals. Payout of any amounts due pursuant to the Annual Plan is made thirty days following the release of unaudited financial results for the Plan Year.) 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 2018, 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. The Proposed 2019 Compensation Plan for Liquidation Staff. 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 2019 at a total anticipated cost of $706,700.[2] Six employees will be eligible for the Annual Plan in 2019, one less than in 2018. 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, 2018. 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 2019 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 2019 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. History of Compensation Plans for the Special Deputy Liquidator. The Special Deputy Liquidator is engaged by the Liquidator pursuant to the June 11, 2003 Consulting

[2] This $706.700 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	2018
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	$0.86 (est)

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". Elias 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 hours target would be unchanged in 2019. Elias Aff. ¶ 7.

15. The Special Deputy Liquidator's annual incentive bonus was reduced in stages from $400,000 (2004) to $50,000 (2014) before being eliminated in 2015. Elias 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. The "Stay Bonus" is payable on or after December 18, 2019 contingent upon his staying through 2019. 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, $250,000 for 2017 and $225,000 for 2018. It is unchanged for 2019. Elias 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] Elias 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 2018. Each of these reductions has been made at the request of the Special Deputy Liquidator. Elias Aff. ¶ 11.

19. <u>The Proposed 2019 Special Deputy Plan</u>. The proposed 2019 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

[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.

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. Elias Aff. ¶ 12.

20. The base compensation proposed in the 2019 Special Deputy Plan is unchanged from 2018 -- $600,000 payable in equal monthly installments with a target of 1,850 hours worked. The 2019 Special Deputy Plan also includes a Stay Bonus of $225,000 (the same amount as in 2018). 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. Elias Aff. ¶ 13.

21. E & Y evaluated the 2019 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 2019 Special Deputy Plan is significantly less than competitive compared to the market median (50^{th} percentile). Total cash compensation without adjustment, however, is competitive to the market median. In conclusion, E & Y reports that the proposed 2019 Special Deputy Plan acknowledges the importance of the Special Deputy Liquidator to the liquidation and encourages a continuation of that relationship. Elias Aff. ¶ 14.

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

JOHN R. ELIAS, COMMISSIONER OF INSURANCE
FOR THE STATE OF NEW HAMPSHIRE, AS
LIQUIDATOR OF THE HOME INSURANCE
COMPANY,

By his attorneys,

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December 3, 2018

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2019 Compensation Plans, the Affidavit of John R. Elias, Liquidator, the Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, and the proposed form of order will be sent, the 3rd day of December, 2018, 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 - 2019

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 sole discretion of the Liquidator.
Effective Date	January 1, 2019 – December 31, 2019 (the "Plan Cycle" or "Plan Year")
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 the ninety day period immediately preceding the beginning of the Plan Year and, except in the case of death, disability, involuntary termination without cause, or reduction in hours, employed full time 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. participation at the beginning of the Plan Year in writing. Eligible employees must be employed full time for no less than 90 days to fully participate in the Annual Plan Cycle. Payments will be pro rated in the event of a partial year of service. Eligibility and/or participation in this plan is not intended as a commitment by The Home Insurance Company in Liquidation for continued employment for the duration of the Plan Year. Participation is not to be construed as a guarantee of employment or 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.

Component	**Plan Design**
General Design	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 as a corporate goal. When the "threshold" level is attained, AIP payments will be triggered at up to 50% of the "target" payout defined for each participating position, depending on achievement of personal goals. Achievement of "target" results will trigger up to the "target" payout, depending on achievement of personal goals. 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 2019 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, and any eligible participating employees will receive the greater of either the AIP payment or the payment specified in the individual employment offer letter (but not both).

Component	Plan Design
Payout Decision Rules	**Death** Award accrual ceases as of the date of death. A pro rata share of the current Plan Year's AIP payment (based on the period during the Plan Year when any accrual occurred) 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 full time for more than 30 consecutive calendar days. Participation and accrual will resume upon the employee's return to full time employment and performance of his/her usual and customary job duties. A pro rata share of the current 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. **Voluntary resignation** - No payments will be made to employees who voluntarily resign their employment prior to payout. **Involuntary termination "not for cause" or position elimination** – Accrual ceases upon termination. A pro rata payment of the current Plan Year's AIP Payment (based on the period during the Plan Year when any accrual occurred) will be made to employees who are terminated involuntarily without cause at the next regular year end payout date. **Involuntary termination "for cause"** - No payments will be made to employees who are terminated "for cause" prior to payout. **Reduction in Hours.** Award accrual will cease if an employee's hours are reduced below full-time; a pro rata share of the current 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.

Building a better working world

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24 September 2018

Mr. John R. Elias
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

Re: Home 2018 Liquidator Letter

Dear Commissioner Elias:

As a part of our engagement with Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (EY's) 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 that we have completed on behalf of Home.

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, 55 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 40 employees who are employed by Home of which five are part-time employees. As Home approaches its sixteenth 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 remains to be the most prevalent technique 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 15 years can be found in Exhibit 1.

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

- As of 9/1/2018, collected $1.8B of the projected $1.9B in potential domestic and foreign reinsurance collections;
- As of 9/01/2018, issued 23,893 determinations resolving approximately 19,453 Proof of Claims (court approved POCs) from an initial 20,774 POCs (with 1,321 POCs remaining for all classes of which 1,070 are policy related POCs, 60 Guaranty Fund related POCs and 191 Reinsurance & other POCs);
- Reduced initial employee head count from 95 employees and 15 consultants to 40 employees and five remaining consultants, with additional reductions anticipated.
    - During 2018, one employees was reassigned from full time positions to part-time / reduced hour roles.

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 operation. 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 (7) 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.
- The Special Deputy Liquidator has never participated in Home's historical incentive plans or the current AIP and his compensation has been, and currently is, independent from these incentive plans.

Home employee & retention trends:

- ***Employee transitions from full time to part time status:*** As Home transitions more full-time employee positions to part-time positions in the coming years, it will need to consider potential ways to retain and motivate key employees who are in critical 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 observe an increase in overall employee benefit costs compared to aggregate total cash compensation paid to all employees (full-time and part-time). Accordingly, Home will continue to monitor key functions across the organization to test if its employee population is appropriately incentivized after considering the following for each position: the strategic importance of the role to the organization, the current position scope and responsibilities (adjusted annually for changes to the organization) and part-time vs. full-time employment status.
  - Currently, Home's key employee group includes five (5) part-time employees, which is unchanged from 2017 levels.
- ***Key employee retention considerations during final liquidation phase:*** As Home enters the final stages of its liquidation process, it is imperative that it continues to retain its key employees that are critical to the operation of the business. Employees working for companies in liquidation or distress typically worry about being terminated without cause and needing to find new employment elsewhere.
  - ***Severance:*** To mitigate these potential concerns for certain key individuals, Home began deploying severance arrangements for its key employees in 2004. Key employees (excluding Home's top six executives) participate in a severance plan that provides severance 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.

2019 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 (or 50th percentile) 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 2019 there is no plan to implement a long-term incentive replacement. Home will continue to monitor competitive market trends and business needs to monitor the extent to which the potential need for the introduction of a long-term incentive plan should be revisited.

As part of updating our analysis, EY collected and reviewed information from Home that has changed since the 2018 Analysis in terms of organizational structure, key employee position descriptions and executive compensation arrangements.

Last year, EY's 2018 Analysis was developed by trending forward our FY 2017 Market Competitive Compensation Analysis (2017 Analysis) using a 2018 industry-specific compensation adjustment factor typically utilized to project published survey data forward to a common date in time. This year, EY will follow a similar approach and trend our 2018 Analysis forward to reflect 2019 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 2019 compensation levels as was used to determine 2018 compensation levels. Accordingly, our FY 2019 Market Competitive Compensation Analysis (or 2019 Analysis) reflects trending forward the published survey data gathered in the 2018 Analysis to a trend date of January 1, 2019 using a trend factor of 3.2% (based on the WorldatWork Total Salary Increase Budget Survey's 2019 projected increases for all employees within the Insurance Carrier (and Related Actuarial) industry).

Compensation Analysis & Findings

Market competitiveness is typically expressed as a percentage and reflects current incumbent pay divided by its corresponding market consensus level. EY's methodology, which is consistent with compensation theory and general practice, deems compensation to be competitive when it falls within a 85% to 115% range of the indicated market consensus level, while compensation below 85% of the indicated market consensus level would be deemed to be less than competitive and compensation over 115% of the market consensus level would be considered highly competitive to market levels. The resulting percentages have been used to categorize the competitiveness of compensation in this report:

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

Most companies strive to pay their key employees competitively to market practices, assuming 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 compensation levels at the 50th percentile. The published survey sources provide actual base salary and actual TCC data points for benchmarked positions based on factors including industry, asset size, etc. (trended forward to January 1, 2019).

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.

2018 Analysis Results (for FY 2019 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.

Home Data[1] vs. Market	50th Percentile (Median)	
	Base	TCC
6 Senior Executives	94.2%	113.3%
Salary Grades 22[2]	89.8%	107.1%
Salary Grades 21-22[3]	96.8%	n/a
Salary Grades 18-20[4]	99.2%	n/a
Salary Grades 16-17	94.8%	n/a

(1) All Home full time employees fall within salary grades 16-22.

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

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

(4) 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 (94.2%) and target TCC (113.3%) compensation levels are 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 13.3% above the market median (or 113.3% of median market levels), which is **considered to be at *competitive*** range to median market compensation levels.

16 Key Employee Benchmarked Positions (17 incumbents):
For Home's key employees, 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. Specifically, geographic differentials for key employees based in New York City ranged from 110.0% to 125.0% based on the median market consensus base salary rounded to the nearest thousand using standard rounding rules), while the geographic differential used for key employees based in Manchester, New Hampshire was 102% of median market consensus base salary levels, using the same rounding convention described above.

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. Market competitiveness findings, by category, are is as follows:

- ***50th Percentile:***
  - **Salary grade 22 w/ AIP[1]**: Target TCC is ***competitive*** at 107.1% of market median, or 7.1% above median market levels.
  - **Salary grades 21 – 22[2]:** Target base is ***competitive*** at 96.8% of market median, or 3.2% below median market levels.

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- ❑ **Salary grades 18 – 20[3]:** Target base is ***competitive*** at 99.2% of market median, or 0.8% below median market levels.
- ❑ **Salary grades 16 – 17:** Target base is ***competitive*** at 94.8% of market median, or 5.2% below median 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 2019 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	7
Exhibit 2	Competitive Benchmark Matches	8
Exhibit 3	Published survey exhibit with market pricing data for the Senior Executives (6 positions)	10
Exhibit 4	Published survey exhibit with market pricing data for the Other Key Employees (16 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, GA
Evana Afreen, EY – Atlanta, GA
Lucas Golliet, EY – Minneapolis, MN

Exhibit C

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Building a better working world

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24 September 2018

PRIVATE AND CONFIDENTIAL

Mr. John R. Elias
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

Re: Home 2018 Special Deputy Letter

Dear Commissioner Elias:

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 that we have 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 22 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, 55 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 40 employees who are employed by Home of which five are part-time employees. As Home approaches its sixteenth 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 remains to be 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 9/1/2018, collected $1.8B of the projected $1.9B in potential domestic and foreign reinsurance collections;
- As of 9/01/2018, issued 23,893 determinations resolving approximately 19,453 Proof of Claims (court approved POCs) from an initial 20,774 POCs (with 1,321 POCs remaining for all classes of which 1,070 are policy related POCs, 60 Guaranty Fund related POCs and 191 Reinsurance & other POCs);
- Reduced initial employee head count from 95 employees and 15 consultants to 40 employees and five remaining consultants, with additional reductions anticipated.
  - During 2018, one employees was reassigned from full time positions to part-time / reduced hour roles.

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 (7) 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.

2019 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 (or 50th percentile) 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 2018 Analysis in terms of organizational structure, key employee position descriptions and executive compensation arrangements.

Last year, EY's 2018 Analysis was developed by trending forward our FY 2017 Market Competitive Compensation Analysis (2017 Analysis) using a 2018 industry-specific compensation adjustment factor typically utilized to project published survey data forward to a common date in time. This year, EY will follow a similar approach and trend our 2018 Analysis forward to reflect 2019 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 2019 compensation levels as was used to determine 2018 compensation levels. Accordingly, our FY 2019 Market Competitive Compensation Analysis (or 2019 Analysis) reflects trending forward the published survey data gathered in the 2018 Analysis to a trend date of January 1, 2019 using a trend factor of 3.2% (based on the WorldatWork Total Salary Increase Budget Survey's 2019 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 dutiès 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, 2018. 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 (or TDC) for the Special Deputy Liquidator position consists of the following two (2) components:

1. **Base Compensation:**
   - **Estimated 2019 Base Compensation Level:** Mr. Bengelsdorf's estimated 2019 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 Special Deputy Liquidator's 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 2019 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 2019 Base Compensation of $480,000 (or $600,000 / 1.25 = $480,000).

2. **"Stay" Bonus**
   - **Estimated 2019 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, 2019 to December 31, 2019) payable on or after December 18, 2019.
   - **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

Market competitiveness is typically expressed as a percentage and reflects current incumbent pay divided by its corresponding market consensus level. EY's methodology, which is consistent with compensation theory and general practice, deems compensation to be competitive when it falls within a 85% to 115% range of the indicated market consensus level, while compensation below 85% of the indicated market consensus level would be deemed to be less than competitive and compensation over 115% of the market consensus level would be considered highly competitive to market levels. The resulting percentages have been used to categorize the competitiveness of compensation in this report:

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

Most companies strive to pay their key employees competitively to market practices, assuming that the incumbent has a moderate level of experience and is performing as expected.

EY calculated the competitiveness of the Special Deputy Liquidator's compensation by dividing each component of pay by the market consensus compensation levels at the 50th percentile. The published survey sources provide actual base salary and actual TCC data points for benchmarked positions based on factors including industry, asset size, etc. (trended forward to January 1, 2019).

<u>**2018 Analysis Results (for FY 2019 Planning)**</u>

Overall, the competitiveness of the Special Deputy Liquidator's estimated 2019 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 92.3% and 85.4%, respectively, of median market), while total direct compensation is ***significantly less than competitive*** to median market levels (or 45.6% of median 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 2019 (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 2019 TCC is ***competitive*** compared to the market median (50th percentile) and that 2019 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

Copies to: Martha Cook, EY – Atlanta, GA
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Lucas Golliet, EY – Minneapolis, MN