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 2022 COMPENSATION PLANS

Christopher R. Nicolopoulos, 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 2022 (the "2022 Employee Compensation Plan") and for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") (the "2022 Special Deputy Plan") (collectively, the "Plans"). A summary of the incentive component of the 2022 Employee Compensation Plan is attached as Exhibit A as well as the related Ernst & Young LLP ("E&Y") advisory letter dated October 6, 2021 which is attached as Exhibit B. A summary of the Special Deputy Plan is provided in the Liquidator's Affidavit. 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. 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. Affidavit of Christopher R. Nicolopoulos, Liquidator, in Support of Approval of Approval of 2022 Compensation Plans ("Nicolopoulos 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 $784.0 million of unrestricted liquid assets as of September 30, 2021. (The September 30, 2021 figure is net of the $671.8 million of interim distributions to Home's policy-level creditors, $256.1 million of early access distributions to guaranty associations, and $107.6 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. Nicolopoulos Aff. ¶ 4; Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Approval of 2022 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 30 (full and part time) employees and 6 consultants. All employees and consultants are located in New York City except for 1 part time employee in Massachusetts, 1 employee in Maryland, and 3 full and 1 part time employees in Bedford, NH. 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 has categorized 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. Nicolopoulos Aff. ¶ 5.

5. Structure and History of Compensation Plans for Liquidation Staff. As set forth in the Liquidator's Motion for Approval of Compensation Plans dated April 5, 2004, the Liquidator engaged E&Y to assist in the design of the compensation plans. E&Y had experience in the design of such plans for large insurers, like Home, in liquidation. The Liquidator has

---

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

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 ("AIP") for exempt full time employees including executives, and a Collection Incentive Plan for executives. The Court approved those compensation plans by an order issued April 21, 2004. Of those three incentive plans, only the AIP currently remains in effect. Bengelsdorf Aff. ¶ 6.

7. A version of the AIP has been approved each year since 2004 although, over time, the number of employees eligible to participate has been reduced from 78 (in 2004) to 4 (in 2022). 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 AIP is made thirty days following the release of unaudited financial results for the Plan Year.) Bengelsdorf Aff. ¶ 7.

8. <u>The Proposed 2022 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 AIP in 2022 at a total anticipated cost of $514,900. This figure may be compared

with AIP payments (in millions) for prior years:

Year	Payment	Year	Payment	Year	Payment
2004	$ 2.61	2010	$ 1.73	2016	$ 0.91
2005	$ 2.28	2011	$ 1.58	2017	$ 0.91
2006	$ 2.28	2012	$ 1.17	2018	$ 0.86
2007	$ 2.23	2013	$ 1.17	2019	$ 0.75
2008	$ 2.29	2014	$ 1.31	2020	$ 0.58
2009	$ 1.86	2015	$ 0.93	2021	$ 0.49
				2022 (est.)	$ 0.51

Four employees will be eligible for the AIP in 2022, one less than in 2021. Bengelsdorf Aff. ¶ 8.

9. 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 2022 Employee Compensation Plan, E&Y, for the reasons described in its October 6, 2021 letter, relied on the same market data as in 2021 to compare the proposed total cash compensation for liquidation staff in each region (New York and Bedford) where the relevant individual is based. As a result of this study, E&Y concludes that the proposed 2022 Employee Compensation Plan, in aggregate, is appropriate and consistent with general market practices and the insurance industry. Bengelsdorf Aff. ¶ 9.

10. The Compensation Plan for the Special Deputy Liquidator. 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. 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" but, currently, he is compensated at an hourly rate of $450 capped at 1,833 hours per year and total compensation of $825,000. Nicolopoulos Aff. ¶ 6.

11. Consistent with the objective of minimizing costs as the liquidation process continues, the Special Deputy Liquidator's total compensation has been reduced by 39.5% from inception through 2022. Each of these reductions has been made at the request of the Special Deputy Liquidator. Nicolopoulos Aff. ¶ 7.

12. The Proposed 2022 Special Deputy Plan. The proposed 2022 Special Deputy Plan is unchanged from 2021. 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 fulltime 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. Nicolopoulos Aff. ¶ 8.

13. The Total Cash Compensation proposed in the 2022 Special Deputy Plan is capped at $825,000, the same as his 2020 and 2021 compensation, with a target of 1,833 hours worked. Nicolopoulos Aff. ¶ 9.

14. E&Y evaluated the 2022 Special Deputy Plan in comparison with market levels. 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 has therefore estimated that the actual value of the $825,000 Total Cash Compensation available to the Special Deputy Liquidator is equivalent to an employee's salary of $660,000. E&Y advises in its

October 6, 2021 letter that it continues to assess the Special Deputy's total compensation to be below the market median (50th percentile). Nicolopoulos Aff. ¶ 10.

15. The Plans Are Necessary. The Liquidator believes that without the adoption of these plans the liquidation effort would be harmed because key employees would seek better, more long-term career opportunities elsewhere while the services and experience of the Special Deputy Liquidator might be lost. See Nicolopoulos Aff. ¶ 11; Bengelsdorf Aff. ¶ 10.

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

17. The Liquidator's Authority to Appoint a Special Deputy Liquidator. The Liquidator has authority under RSA 402-C: 25, I and paragraph (t) of the Liquidation Order entered June 13, 2003, to appoint a special deputy and determine his or her compensation "subject to the court's control."

18. The Plans are Fair and Reasonable. For the reasons described above, in the Nicolopoulos 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,

CHRISTOPHER R. NICOLOPOULOS,
COMMISSIONER OF INSURANCE FOR THE STATE OF NEW HAMPSHIRE, AS LIQUIDATOR OF THE HOME INSURANCE COMPANY,

By his attorneys,

JOHN M. FORMELLA
ATTORNEY GENERAL

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

____

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

December 27, 2021

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2022 Compensation Plans, the Affidavit of Christopher R. Nicolopoulos, Liquidator, the Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, and the proposed form of order will be sent, the 27th day of December, 2021, 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

SERVICE LIST

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

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

Gary S. Lee, Esq.
James J. DeCristofaro, Esq.
Kathleen E. Schaaf, Esq.
Morrison & Foerster
250 West 55th Street
New York, NY 10019-9601

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

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

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

Thomas J. Ladd, Esq.
McCarter & English, LLP
Four Gateway Center
100 Mulberry Street
Newark, NJ 07102

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

Harry Cohen, Esq.
Crowell & Moring
590 Madison Avenue
20th Floor
New York, New York 10022-2544

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

Stephanie V. Corrao, Esq.
Crowell & Moring
1001 Pennsylvania Avenue, N.W.
Washington, DC 20004-2595

Jeffrey W. Moss, Esq.
Morgan Lewis & Bockius, LLP
One Federal Street
Boston, Massachusetts 02110

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

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

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

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

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

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

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

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

Paul A. Zevnik, Esq.
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Keith Dotseth, Esq.
Larson King
2800 Wells Fargo Place
30 East Seventh Street, Suite 2800
Saint Paul, Minnesota 55101

Tred R. Eyerly, Esq.
Damon Key Leon Kupchak Hastert
1003 Bishop Street, Suite 1600
Honolulu, HI 96813

Michel Y. Horton, Esq.
Morgan, Lewis & Bockius LLP
300 South Grand Avenue, 22nd Floor
Los Angeles, California 90071

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

Terri L. Pastori, Esq.
Ashley Taylor, Esq.
Pastori | Krans, PLLC
82 North Main Street, Suite B
Concord, NH 03301

Joseph C. Safar
Jessica L.G. Moran
K&L Gates LLP
210 Sixth Ave.
Pittsburgh, PA 15222

Michael P. Mullins, Esq.
Day Pitney LLP
One International Place
Boston, MA 02110

Doreen F. Connor, Esq.
Primmer Piper Eggleston & PC
P.O. Box 3600
Manchester, NH 03105

Christopher J. Valente, Esq.
K&L Gates LLP
State Street Financial Center
One Lincoln Street
Boston, MA 02111

Mr. Edward Crosby
P.O. Box 155
Crowell, TX 79227

Mr. Howard Campbell
10011 Mosher Hollow Road
Cattaraugus, NY 14719

Ms. Patricia Erway
16604 Rialto Dr.
Winter Garden, FL 34787

Linda Faye Peeples
P.O. Box 974
Fresno, TX 77545

Mark C. Rouvalis, Esq.
Steven J. Dutton, Esq.
Viggo C. Fish, Esq.
McLane Middleton, P.A.
900 Elm Street, 10th Floor
Manchester, NH 03101

Roland Jackson
Chief Executive Officer, Director
Catalina Services, UK Limited
1 Alie Street, 1st Floor
London, England E1 8DE

Mark R. Goodman, Esq.
Joseph T. McCullough IV, Esq.
Peter B. Steffen, Esq.
Freeborn & Peters LLP
311 South Wacker Dr., Suite 3000
Chicago, IL 60606

David Himelfarb, Esq.
McCarter & English, LLP
265 Franklin Street, 14th Fl.
Boston, MA 02110

The Home Insurance Company in Liquidation
2022 Exhibit A

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, 2022 – December 31, 2022 (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.
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.

The Home Insurance Company in Liquidation
2022

Annual Incentive Plan

Component	Plan 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 2023 the maximum 2022 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).
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.

Annual Incentive Plan

Component	Plan Design
	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.

Ernst & Young LLP
55 Ivan Allen Blvd.
Suite 1000
Atlanta, GA 30308

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

6 October 2021

Mr. Christopher R. Nicolopoulos
Insurance Commissioner in his sole capacity as Liquidator of The Home Insurance Company in Liquidation
State of New Hampshire Insurance Department
21 South Fruit Street, Suite 14
Concord NH 03301-7317

Re: The Home Insurance Company In Liquidation – Review of 2022 Compensation – Key Employees and Special Deputy Liquidator

Dear Commissioner Nicolopoulos:

As a part of our engagement with The Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (EY's) People Advisory Services (PAS) Practice has been asked to provide market compensation insights and provide a letter summarizing our findings, in which EY will outline current market compensation trends including any expected merit increases in this global pandemic situation. We understand that you will be taking our findings into consideration as you determine 2022 compensation levels for Home's key employees and the Special Deputy Liquidator. A similar market trend summary was completed last year when we issued separate letters for key employees and the Special Deputy, and we leveraged similar approach to determine if there is any change in compensation trends in the market compared to what was observed last year in the midst of the global pandemic.

We have leveraged data from flash surveys, market observations and real-time market data (where available) to understand how and if the pandemic has had any effect on compensation trends in the insurance industry.

The supporting 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 HOME INSURANCE COMPANY IN LIQUIDATION

Background: As Home initially entered liquidation, the Company hired 95 executives and employees and 15 consultants 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, 65 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 30 employees who are employed by Home of which three (3) are part-time employees and six (6) consultants. As Home approaches its nineteenth 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 continues 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 to evaluate all employees. A snapshot of Home's change in structure and approach to total rewards over the past 18 years can be found in Exhibit 1.

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

- As of 9/1/2021, collected $1.77B of assets net of expenses available for class II claimants;

- As of 9/1/2021, resolved approximately 20,103 Proof of Claims (court approved Class II POCs) totaling $3.3B from an initial 20,911 POCs (with 808 POCs remaining for all classes of which 574 are policy related POCs, 59 Guaranty Fund related POCs and 175 Reinsurance & other POCs);
- Reduced initial employee head count from 95 employees and 15 consultants to 30 employees and six (6) remaining consultants, with additional reductions anticipated.

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.

- 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.
- Over the course of the liquidation process Home has reduced participation in its AIP from seven (7) executive participants to four (4) executive participants.

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 continue to monitor potential ways to retain and motivate key employees who fulfill critical part-time roles. While part-time employees typically have reduced work hours and cash compensation levels, they typically receive similar benefit levels (and related costs) as full-time employees. Accordingly, Home may observe an increase in overall employee benefit costs compared to aggregate total cash compensation paid to all employees (full-time and part-time) as it completes its liquidation journey. In recognition of this, Home will continue to monitor key functions across the organization to assess whether its employees are 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), market compensation trends and part-time vs. full-time employment status.
    - Currently, Home's key employee group includes three (3) part-time employees, which is the same as 2021 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 employment elsewhere.
    - ***Severance:*** To mitigate these potential concerns for certain key individuals, Home began deploying severance arrangements for its employees in 2004. Employees (excluding Home's top three 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.

2022 Compensation Analysis – Background: In identifying the competitive market, companies in liquidation typically focus on "healthy" company pay levels as they will continue to compete with healthy companies for talent during the liquidation process. Based upon our experience, companies in liquidation typically target base salaries at median (50th percentile) market levels and total cash compensation (or "TCC", defined as base salary plus annual incentives) at or above median market levels of healthy companies within their specific and broader industry segments

In addition to TCC, companies typically provide their Senior Management Group with long-term incentives ("LTI") that are designed to provide additional performance-based incentives that can result in total direct compensation (or "TDC", defined as TCC plus LTI) levels between 50th and 75th percentile market levels of healthy companies within their specific and broader industry segments.

- For 2022 there is no plan to implement a long-term incentive replacement.
- Home will continue to monitor competitive market trends and business needs to determine the extent to which the potential need for a long-term incentive plan should be revisited.

Typically, a market compensation analysis is completed for certain key incumbents every year but given the pandemic and its impact on the economy, it was determined that a market trend analysis will be more appropriate to determine compensation changes. Survey data at the position level typically lag by a year and current survey data will reflect limited change in compensation levels compared to previous years due to prevalence of compensation freeze in the market last year. Market trend analysis will provide insights into the direction the market is moving related to compensation and other total reward changes.

Recent pandemic-related flash survey data as well as budget survey reports conducted shows a market trend of moving back to salary increases around 3% for 2022. This move by the market to implement salary increases are driven by a lot of companies trying to retain talent after providing very little compensation changes last year. In addition, there is an increase in attrition rates across various industries. A lot of companies are now trying to implement their usual salary increases to avoid some of these attritions.

While there is a growing trend toward salary adjustments similar to pre-pandemic era, there are still a lot of companies who are keeping compensation same as they recover from the effects of the pandemic. In addition to compensation changes, there is a growing interest in remote / hybrid work arrangements and companies are offering this flexibility to counterbalance any pay stagnation.

Home is in its last years of business, and while it is important to be market competitive, at this stage in their journey Home does not need to be market leading with salary adjustments. As we continue to recover from the pandemic, Home can assume market to be relatively same as last year. Thus, the market data for this year remains unchanged compared to our 2021 analysis (completed in 2019). Two individuals who are no longer with Home Insurance were removed from the analysis this year, and base salaries were updated to reflect current 2021 compensation levels. The market competitiveness levels at an individual and aggregate level were recalculated at the market median (50^{th} percentile) based on the changes described above.

The table below provides the summary of market competitiveness levels for Home employees for our 2022 compensation analysis. This is provided as a reference point to highlight that Home insurance is within market competitive range (85% - 115%) for all their employees. Our 2022 market analysis reflects 19 benchmark positions that cover 20 current Home incumbents. Values listed below in black are within a competitive range to market compensation levels. Salary Grades 22 is slightly above market competitive range at the TCC level. We continue to assess the Special Deputy's total compensation to be below the market median.

Home Data[1] vs. Market	50th Percentile (Median)	
	Base	TCC
4 Senior Executives	94.1%	109.5%
Salary Grades 22[2]	94.8%	**117.8%**
Salary Grades 21-22[3]	98.2%	n/a
Salary Grades 18-20[4]	93.7%	n/a
Salary Grades 16-17	86.7%	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

The implications of the pandemic continue to evolve and differ by geography and industry, but there are general market compensation trends that have taken shape. Most organizations rely on national and industry specific survey data to help direct their compensation decisions. Therefore, available survey data from both scopes are considered in determining overall market trends.

As noted above, while the expected increase in compensation for 2022 is 3.0% for the insurance industry and marginally higher than last year, it is important to note that many of the hardest hit organizations will remain flat in light of the current pandemic. National published pulse surveys conducted since the pandemic report that a significant portion are considering salary freezes and small adjustments.

Although there is mixed trend in salary budget changes (remain same or increase), on the other hand, bonuses will still be paid out in 2022 according to majority of organizations surveyed, but there is little to no increase in the number of organizations planning payouts compared to 2020 level. The impact of the pandemic on compensation levels will likely drag into 2022 as the economic environment work to recover from it. With a growing inflation rate, we are also seeing a decrease in real wage (inflation adjusted) and salaries are trailing the increased inflation rate. The entirety of the pandemic's impact on compensation trends may not be fully realized yet, so it will be important to continue tracking the market to ensure market competitive practices.

SUMMARY CONCLUSION

Based on the market data described herein, no change in 2022 compensation levels relative to 2021 levels for Home's key employees and the Special Deputy, in aggregate, is appropriate and consistent with general market practices and the insurance industry.

- We suggest that the Liquidator evaluate the competitiveness of each incumbent's compensation level to its market level on a case by case basis relative to Home's assessment of (a) the criticality of the role's function to Home's continued operations and (b) the expected necessity of the role over time.
- We also recommend that the Liquidator continue to monitor the market as COVID-19 will continue to impact organizations in unpredictable ways. As data becomes available and organizations make decisions, the current trends may likely change.

For additional supporting documentation and analyses conducted in 2019 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 re-cap	5
Exhibit 2	Competitive Benchmark Position Matches	6
Exhibit 3	Published survey exhibit with market pricing data for the Senior Executives (4 positions)	8
Exhibit 4	Published survey exhibit with market pricing data for the Other Key Employees (15 positions, 16 incumbents)	10

****

If you have any questions regarding this information, please call Bill Murphy at 440.666.1602.

Sincerely,

Ernst + Young LLP

Copies to: Peter Bengelsdorf – The Home Insurance Company in Liquidation
Bill Murphy, EY – Cleveland, OH
Evana Afreen, EY – Atlanta, GA