THE STATE OF NEW HAMPSHIRE

**MERRIMACK, SS.** **SUPERIOR COURT**

**Docket No. 03-E-0106**

**In the Matter of the Liquidation of**
**The Home Insurance Company**

# LIQUIDATOR'S MOTION FOR APPROVAL OF 2011 COMPENSATION PLANS

Roger A. Sevigny, Commissioner of Insurance for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home"), hereby moves that the Court enter an order approving integrated compensation plans for the employees of Home in 2011 (the "2011 Employee Compensation Plans") and a compensation and incentive/retention plan in 2011 (the "Special Deputy Plan") for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator) (collectively, the "Plans"). Summaries of the incentive components of the 2011 Employee Compensation Plans are attached as Exhibits A and B and a summary of the Special Deputy Plan is provided in the Liquidator's Affidavit and the Ernst & Young LLP ("E&Y") advisory letter dated October 22, 2010 and attached as Exhibit C. The 2011 Employee Compensation Plans consist of annual salary programs supplemented by an Annual Incentive Plan ("Annual Plan") (Exhibit A) and a Collection Incentive Plan ("Collection Plan") (Exhibit B). The Special Deputy Plan provides compensation for services rendered on an hourly basis as well as an incentive/retention program. The Plans are intended to reward performance and reinforce retention of essential employees and the Special Deputy Liquidator in order to facilitate the successful, efficient, and prompt completion of the liquidation process. The structure of the Plans is substantially the same as originally proposed and approved in 2004 and each year thereafter, although for 2011 the Liquidator proposes to reduce (as described below) the number of employees who would be eligible to participate in the Annual Plan. The Plans and their estimated 2011 cost have been reviewed with the National Conference of Insurance Guaranty Fund's Subcommittee on Home which has advised that it has no objection to this Court's approval of the Plans. In support hereof, the Liquidator respectfully represents as follows:

1. Liquidation Staff for Home. As described in the Liquidator's reports and the Liquidator's Motion for Approval of Compensation Plans dated April 5, 2004 (concerning the 2004 compensation plans) (the "2004 Compensation Motion"), shortly after the liquidation proceeding began in June 2003, the Liquidator determined that the most efficient way to organize the liquidation process was to hire the most critical Risk Enterprise Management ("REM") employees. This permitted the Liquidator to benefit from the continued involvement of experienced employees with prior involvement with the Home runoff. The Liquidator initially hired 98 employees (93 from REM and 5 others) to handle the liquidation of Home. The liquidation is presently staffed by 68 employees, 57 of whom are located in New York City and 11 in Manchester, New Hampshire. Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Approval of 2011 Compensation Plans ("Bengelsdorf Aff.") ¶ 3.

2. The Special Deputy Liquidator. Shortly after the liquidation proceeding began in June 2003, the Special Deputy Liquidator was recruited from private industry

and appointed to manage the operations of the liquidation.[1] The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of Home. The terms of his engagement are described in a June 11, 2003 Consulting Agreement which was approved by the Court on June 30, 2003 (the "Consulting Agreement"). The Consulting Agreement remains in effect until terminated. According to the Consulting Agreement, the Special Deputy Liquidator will be paid at an hourly rate of $250. (The Special Deputy Liquidator's hourly rate has not changed since his engagement began in 2003.) He does not participate in the incentive compensation plans for employees of Home, nor does he receive any health and welfare, retirement or severance benefits from Home. As an independent contractor, he pays the full Social Security tax (employer and employee share) on his compensation. The Special Deputy Liquidator has been eligible to receive an annual incentive award of $400,000 during 2004 and 2005; $300,000 during 2006, 2007 and 2008; and $200,000 during 2009 and 2010 as well as an annual "Stay Bonus" of $400,000 during each such year. The reductions in potential annual incentive bonus amounts were at the Special Deputy Liquidator's request. Affidavit of Roger A. Sevigny, Liquidator, in Support of Approval of Compensation Plan for the Special Deputy Liquidator ("Sevigny Aff.") ¶¶ 4.

3. <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. Due to the sophisticated nature of Home's insurance products, operations and supporting reinsurance programs, an experienced and stable liquidation staff operating under the management of a well-

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[1] The Special Deputy Liquidator also served as Home's Special Deputy Commissioner prior to liquidation.

qualified and competent Special Deputy Liquidator will materially contribute to the efficient collection of assets and adjudication of claims. This is illustrated by the increase in Home's liquid invested assets from the day the Order of Rehabilitation was entered, approximately $12.7 million as of March 2003, to an estimated $1.3 billion as of September 30, 2010. (These figures include USI Re, $204 million of early access distributions to guaranty associations to date, $17.2 million in Class I distributions to Guaranty Funds, and $3.2 million of workers compensation advance payments to Guaranty Funds.) Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated by the Special Deputy Liquidator and Home's experienced staff. Maximizing the prompt collection of assets advantages Home's creditors and is one of the principal statutory goals of the liquidation. RSA 402-C:25, VI. The Liquidator believes that this objective can be facilitated through an alignment of creditor interests with the interests of Home's employees. Sevigny Aff. ¶ 5; Bengelsdorf Aff. ¶ 4.

4. Performance Based Compensation Plans are Appropriate for Large Insurer Receiverships. The Liquidator seeks to continue to provide compensation consistent with best practices with respect to compensation in insurance company liquidations, provide competitive annual and long-term earnings opportunities and balance performance-based rewards with short term and long-term retention. As set forth in the 2004 Compensation Motion, the Liquidator engaged nationally recognized compensation consultants to assist in the design of employee compensation plans for 2004. The consultants had experience in the design of compensation plans for large insurers, like Home, in liquidation. They concluded that Home's base salaries were approximately at the $50^{th}$ percentile among

comparable companies and recommended that total direct compensation (base salary and incentive bonuses) range between the $50^{th}$ and $75^{th}$ percentile. Bengelsdorf Aff. ¶ 5 E&Y also reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to evaluate market competitiveness of the 2011 Special Deputy Plan. E&Y developed an overall compensation framework which included compensation and incentive/retention components designed to align incentives to the Special Deputy Liquidator with liquidation goals. Sevigny Aff. ¶¶ 2, 6.

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

the compensation plans for 2004 by order issued April 21, 2004 and the similar 2005 compensation plans by order dated March 4, 2005. Bengelsdorf Aff. ¶ 6.

6. The Proposed 2011 Employee Compensation Plans are Based on the 2006 Compensation Plans. After consulting with E&Y in 2006, the Liquidator proposed to eliminate the Retention Plan and continue the Annual Plan and Collection Incentive Plan on essentially the same terms as in 2005. The Court approved the 2006 Compensation Plans, including the elimination of the Retention Incentive Plan, by order dated February 8, 2006. During 2004 and 2005 the Retention Incentive Plan applied to Home's 15 non-exempt (Federal Wage and Hour Law) employees. Beginning in 2006 those employees had individual performance goals and were included in the Annual Plan. Bengelsdorf Aff. ¶ 7.

a. Annual Plan. Forty-two full time employees as of January 1, 2011, would be eligible to participate in the Annual Plan. (Pursuant to proposed changes to the Annual Plan, discussed below, twenty-five fewer employees would be eligible to participate in the Annual Plan in 2011.) 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. The Liquidator will determine the annual goals, performance measures and payouts. The 2011 goals will include: operation within budget, accomplishment of enumerated claim determination processing objectives and reaching asset marshalling targets. Annual cash payments will be made after the close of the performance year (no later than March 15, 2012). If an employee voluntarily leaves or is terminated for cause, then no Annual Plan payment would be made. In the event of death, disability or an involuntary termination, the employee will be entitled to a pro rata share of any Annual Plan payment. The estimated 2011 cost for the Annual Plan is approximately $1.52 million (compared with $1.72 million estimated to be paid for 2010, $1.86 million paid for 2009, $2.29 million paid for 2008, $2.23 million paid for 2007, $2.28 million paid for 2006, $2.28 million paid for 2005, and $2.61 million paid for 2004). Bengelsdorf Aff. ¶ 8.

b. Proposed Changes to the Annual Plan. The Liquidator proposes that the twenty-five employees who have annual salaries under $75,000 no longer be eligible for the Annual Plan. In lieu of the Annual Plan, up to 70% of the amount that would otherwise be paid in incentive payments to these employees (approximately $140,000) would be used to increase their salaries and the remainder (approximately $60,000) would be applied toward the annual 401(k) safe harbor contribution. This change, which will not increase total expenses, is based on the conclusion that, as things presently stand, the nature of these positions is such that they have less ability to directly affect operating results. Compensation based solely on annual salary is therefore deemed most appropriate. Bengelsdorf Aff. ¶ 10.

c. Collection Plan. At the discretion of the Liquidator, the seven senior executives of Home would be eligible to participate in the Collection Plan. The Collection Plan is designed to provide focused incentives for the collection of assets, determination of claims and management of the liquidation in an efficient manner. Awards under this plan will be based on the accomplishment of annual corporate targets but may also vary, at the discretion of the Liquidator, based on achievement of individual performance goals. The objective of the Collection Plan, through deferred compensation, is to retain senior and experienced executives as long as deemed necessary by the

Liquidator. Therefore, any Collection Plan award will be deferred and funded into a trust account. The employee will actually receive those funds only upon the involuntary termination of employment other than for cause, or at the dates established by the Liquidator (e.g., an interim 40% payout at July 1, 2013 and 60% payout at July 1, 2015). If an employee voluntarily terminates or is terminated for cause, then all Collection Plan amounts are forfeited. In the event of death or disability, the Collection Plan amounts will be distributed. The estimated 2011 cost for the Collection Plan is approximately $895,145 (the same amount estimated to be paid for 2010), compared with $1.06 million paid for 2009, $1.32 million paid for 2008, $1.31 million paid for 2007, $1.45 million paid for 2006, $1.51 million paid for 2005, and $1.48 million paid for 2004). Bengelsdorf Aff. ¶ 9.

7. Market Comparability of Home's 2011 Employee Compensation Plans. The Liquidator's consultant, E&Y, advises that the 2011 compensation plans are appropriate and consistent with general market practices and to insurance companies in liquidation. It further advises that the individual plan designs and mechanics are based upon accepted compensation practices for insurance companies in liquidation, and that the levels of pay provided by the individual plans, as well as the overall total compensation, represent market competitive compensation levels. Bengelsdorf Aff. ¶ 12.

8. Home's Non-Contributory 401(k) Plan Safe Harbor Payment. The total incentive compensation budget (assuming performance goals are met) for 2011 has been reduced to reflect a safe harbor payment to permit full participation by employees in Home's 401(k) plan. As described in the Liquidator's reports, Home adopted a non-contributory 401(k) plan effective October 1, 2004. Further, effective January 1, 2005,

Home adopted the safe harbor provision under Internal Revenue Service rules so that all employees who wish to do so may contribute the maximum amount to the 401(k) plan. The cost of adopting the safe harbor provision is three percent of employees' earnings (up to an individual employee earnings cap of $225,000). The cost for 2011 is estimated to be approximately $264,000, which has been applied to reduce the budget for the Annual and Collection Plans to the amounts set forth above. Bengelsdorf Aff. ¶ 11.

9. Purposes of the Proposed Special Deputy Plan. The proposed 2011 Special Deputy Plan is described in the E&Y letter and has four primary objectives. First, it recognizes the Special Deputy Liquidator's role as top executive of the Home liquidation operation. Although an independent contractor, the Special Deputy Liquidator works at least the hours of a full time employee and, because he is responsible for Home's day-to-day operations he has more responsibility than any other employee of Home. He provides similar services, at no cost to Home, respecting certain other pending New Hampshire insurer receiverships. Second, the Plan acknowledges the Special Deputy Liquidator's significant accomplishments to date as evidenced by the large increase in Home's cash and liquid invested assets and the resolution of numerous business issues as described in the Liquidator's quarterly reports. Third, the Special Deputy Plan aligns the Special Deputy Liquidator's incentives with those of Home's creditors and the Liquidator's goals for Home. Specifically, the Special Deputy Liquidator must marshal assets of Home; hire and maintain Home's staff; prepare and file timely and accurate reports for the Liquidator (and ultimately with the Court); and operate Home in a cost-effective manner. Fourth, the Special Deputy Plan is intended to

provide the Special Deputy Liquidator with compensation consistent with competitive market positioning in relation to Home's current executive team. Sevigny Aff. ¶ 7.

10. The Proposed 2011 Special Deputy Plan. The Special Deputy Plan consists of three components. First, the Special Deputy Liquidator's present base compensation will remain at its 2003 level -- $250 per hour. Second, the Plan provides an annual incentive bonus structure ("AI"). As with the AI component of the Special Deputy Liquidator's 2004, 2005, 2006, 2007, 2008, 2009, and 2010 compensation plans, the Liquidator will set annual goals for the Special Deputy Liquidator (e.g., success in marshalling assets, organization performance within budget, implementation of an effective claim determination operation, extent of early access distributions, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year). After the end of the year, the Liquidator will evaluate the Special Deputy Liquidator's performance with respect to each of those goals and determine the AI bonus based upon those accomplishments. The 2011 AI provides the Special Deputy Liquidator with an opportunity to earn an AI bonus of $175,000 (down from the AI bonus of $400,000 in 2005, $300,000 in 2006, 2007 and 2008, and $200,000 in 2009 and 2010). E&Y determined that this target dollar amount falls between the amounts available to other Home executives under the 2011 Employee Compensation Plans. Third, a "Stay Bonus" covering a twelve month period from January 1, 2011 through December 31, 2011 of $400,000 is payable on December 24, 2011. The 2010 "Stay Bonus" was also $400,000.[2] The "Stay Bonus" provides a cash

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

incentive to this senior and experienced insurance industry executive and encourages him to remain with Home. Assuming the Special Deputy Liquidator stays until December 24, 2011 and achieves all the AI goals, the estimated 2011 cost for the incentive/retention portions of the Plan would be $575,000. Estimated 2011 payments to the Special Deputy Liquidator under the Consulting Agreement are an additional $550,000 (at 2,200 billable hours). Total compensation would be approximately equal to that anticipated for 2010. Sevigny Aff. ¶ 8.

11. Annual Renewal of the AI and "Stay Bonus". Prior to 2008, the term of the Consulting Agreement between the Liquidator and Mr. Bengelsdorf had been continuous until terminated but the term of the AI and "Stay Bonus" was annual. The AI and "Stay Bonus" had been negotiated and agreed upon each year but were not always submitted and approved before January 1 of the applicable year. This left a gap between the end of the performance year and the effective date of the next year's plan, creating substantial risk to Mr. Bengelsdorf and his estate in the event of his death or disability during the interim. In order to avoid such unintended consequences from a gap in entitlement to the AI and "Stay Bonus," in 2008 the Special Deputy Plan provided for the AI and "Stay Bonus" to remain in effect but be subject to annual review by the Liquidator and approval by the Court. If the Special Deputy Plan were to be terminated by the Liquidator or not approved for continuation by the Court, Mr. Bengelsdorf would receive a pro rata benefit. Sevigny Aff. ¶ 9.

12. Market Competitiveness of the Proposed Special Deputy Plan. E&Y reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as

well as "healthy" companies, identified comparable positions against which to evaluate market competitiveness of the 2011 Special Deputy Plan. E&Y advises that a competitive compensation level is one that approximates 85%-115% of the targeted market level (typically a range between the $50^{th}$ and $75^{th}$ percentile). E&Y found that the Special Deputy Liquidator's proposed 2011 total direct compensation (or TDC, defined as base salary plus annual incentive and "Stay Bonus") after adjustment for the absence of benefits is significantly below the market median ($50^{th}$ percentile) and less competitive than the total direct compensation for Home's other top executives, which is between the $50^{th}$ and $75^{th}$ percentiles. E&Y further advises that the proposed Special Deputy Plan is properly weighted toward variable or performance-based compensation, and encourages a continuation of the existing working relationship. Sevigny Aff. ¶¶ 6 and 10.

13. The Liquidator's Consultant Advises that the Proposed Plans are Appropriate. The Liquidator's consultant, E&Y, advises that the 2011 Employee Compensation Plans and the Special Deputy Plan are appropriate and consistent with general market practices and to insurance companies in liquidation. It further advises that the individual plan designs and mechanics are based upon commonly accepted compensation practices for insurance companies in liquidation. Finally, it advises that the levels of pay provided by the individual plans, as well as the overall total compensation, represent market competitive compensation levels, and that the 2011 Special Deputy Plan compensation represents total direct compensation significantly below the competitive range of median market levels. Bengelsdorf Aff. ¶ 13; Sevigny Aff. ¶ 10.

14. The Plans Are Necessary. The Liquidator believes that without the adoption of these plans the liquidation effort would be harmed because key employees would seek better, more long-term career opportunities elsewhere while the services and experience of the Special Deputy Liquidator might be lost. See Sevigny Aff. ¶ 12; Bengelsdorf Aff. ¶ 13.

15. 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.

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

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

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

Respectfully submitted,

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

By his attorneys,

MICHAEL A. DELANEY
ATTORNEY GENERAL

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

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

December 8, 2010

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2011 Compensation Plans, the Affidavit of Roger A. Sevigny, Liquidator, the Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, and the proposed form of order were sent, this 8th day of December, 2010, by first class mail, postage prepaid to all persons on the attached service list.

J. David Leslie

J. David Leslie

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. SUPERIOR COURT

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

SERVICE LIST

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

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

Pieter Van Tol, Esq.
Lovells
590 Madison Avenue
New York, New York 10022

Peter G. Callaghan, Esq.
Preti, Flaherty, Beliveau, Pachos
& Haley, PLLP
57 North Main Street
P.O. Box 1318
Concord, New Hampshire 03302-1318

George T. Campbell, III, Esq.
Robert A. Stein, Esq.
Robert A. Stein & Associates, PLLC
One Barberry Lane
P.O. Box 2159
Concord, New Hampshire 03302-2159

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

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

David H. Simmons, Esq.
Mary Ann Etzler, Esq.
de Beaubien, Knight, Simmons,
Mantzaris & Neal, LLP
332 North Magnolia Avenue
P.O. Box 87
Orlando, Florida 32801

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

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

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

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

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

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

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

Robert M. Horkoviceh
Robert Y. Chung
Anderson Kill & Olick, P.C.
1251 Avenue of the Americans
New York, New York 10020

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

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

Adebowale O. Osijo
2015 East Pontiac Way, Suite 209
Fresno, California 93726

Jim Darnell, Esq.
Jim Darnell, P.C.
310 N. Mesa Street, Suite 212
El Paso, Texas 79901

Edmond J. Ford, Esq.
Ford & Weaver, P.A.
10 Pleasant Street, Suite 400
Portsmouth, New Hampshire 03801

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

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

Michael S. Olsan, Esq.
Christine G. Russell, Esq.
Brendan D. McQuiggan, Esq.
White and Williams, LLP
One Liberty Place, Suite 1800
Philadelphia, Pennsylvania 19103-7395

Exhibit A

The Home Insurance Company in Liquidation
2011

## Annual Incentive Plan

| Component | Plan Design |
|---|---|
| Administration | Plan to be administered by the Liquidator who retains the authority to interpret the Plan, to establish or revise the Plan rules and policies, and to make any determinations necessary to administer the Plan including individual award determinations, funding, and distributions/payouts. |
| Term | Annual plan, renewable at the discretion of the Liquidator. |
| Effective Date | January 1, 2011 - December 31, 2011 |
| Eligibility | Employees whose base salaries are at $75,000 or higher and who are employed full time as of January 1, 2011. In the case of a new hire, participation will be prorated for the plan year. All participants will be informed of their participation at the beginning of the plan year in writing.<br><br>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.<br>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.<br><br>Employees must be employed full time as of the date checks are issued to receive payment under the plan. |
| General Design | The plan is designed to provide additional annual cash compensation based on the overall performance of The Home Insurance Company in Liquidation and the individual eligible employee during the annual plan cycle. Performance will be assessed in relation to annual goals as determined by the Liquidator. The Liquidator retains sole authority to determine annual goals, performance measures, and payouts. |

## Annual Plan

| Component | |
|---|---|
| | Eligible positions/employees will have the opportunity to earn an additional annual cash incentive payment under this plan. Individual earnings opportunities will be based on position level as determined by the Liquidator.<br><br>Annually, at the outset of the plan cycle, the Liquidator will set the annual corporate goals for this plan. Both a "threshold" (or minimum) and "target" (or expected) level of net cash collections will be defined. When the "threshold" level is attained, Annual Plan payments will be triggered at 50% of the "target" payout defined for each participating position. Achievement of "target" results will trigger the "target" payout. Results above "target" will be prorated.<br><br>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 |
| Payout Frequency | Payouts are annual and will be made no later than 30 days following the release of unaudited annual financial results. |
| Coordination with employment offer letters | Payouts under this plan will be coordinated with any annual bonus/incentive payments provided in individual employment offer letters. Annual payments under this plan to any eligible participating employees will be computed as the greater of either the Annual Plan payment or the payment specified in the individual employment offer letter. |
| Payout Decision Rules | If employment is terminated due to:<br><br>Death - a pro rata share of any Annual Plan payment will be paid to the employee's estate at the next regular year-end payout date.<br><br>Disability - accrual ceases when the employee enters disability; a pro rata share of any partial year Annual Plan payment will |

**Annual Plan**

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

Exhibit B

The Home Insurance Company in Liquidation
2011

**Collection Incentive Plan**

| Component | Plan Design |
|---|---|
| Administration | Plan to be administered by the Liquidator who retains the authority to interpret the Plan, to establish or revise the Plan rules and policies, and to make any determinations necessary to administer the Plan including individual award determinations, funding, and distributions/payouts. |
| Term | Annual plan, renewable at the discretion of the Liquidator. |
| Effective Date | January 1, 2011 - December 31, 2011 |
| Eligibility | Senior executive employees of The Home Insurance Company in Liquidation will be eligible for participation in this plan at the sole discretion of the Liquidator.<br>Except in the case of a newly hired senior executive, eligibility will be determined on or about the beginning of the plan cycle and all participants will be informed in writing of their participation, potential payouts (including interim payouts) under the plan, performance goals and payout formula(s), and plan administration protocols no later than 30 days after the start of the plan cycle.<br>Eligible employees must be employed full time for no less than 90 days to participate in the annual plan cycle. Payments will be pro rated in the event of a partial year of service.<br>Eligibility and/or participation in this plan is not intended as a commitment by The Home Insurance Company in Liquidation for continued employment for the duration of the plan year. Participation is not to be construed as a guarantee of employment or of any payments under the plan. |
| Payment Currency | All annual awards made under this plan will be funded into individual trust accounts for eligible participants no later than 30 days following the release of unaudited annual financial results.<br>Trust accounts will be held by the Trustee in the name of The Home Insurance Company in Liquidation and will be administered as follows: |

**Collection Plan**

| Component | Plan |
|---|---|
| | The Trustee shall invest Trust assets so as to preserve principal. Capital appreciation of Trust assets is not an investment objective. The Liquidator, may agree however, to the establishment of a procedure which allows for individual informal and non-binding suggestions with respect to the manner in which their awards may be invested prior to payment. This is not currently in place but if the Liquidator or trustee chooses to implement this option, he will provide appropriate notice to Participants.<br>Funded accounts will be distributed to participants at the close of the liquidation, or at a predetermined date set in the individual's employment offer letter or plan agreement.<br>Funds will be distributed or forfeited according to the Distribution Decision Rules noted below.<br>Participants must take all distributions from Trust accounts at the time of distribution (assets cannot be held in the trusts or rolled over to IRA or other qualified pension plans). Distributions will be made in cash and will be subject to all normal tax withholding and reporting; the Trustee will be directed to file all necessary tax reporting upon distribution. |

**Collection Plan**

| **Component** | |
|---|---|
| General Design | The Plan is designed to serve as a retention incentive for senior executives to remain at The Home Insurance Company in Liquidation through the successful close of the estate and to focus their energies on achieving the Liquidation's goals.<br>Awards under this plan will be based on annual financial results as determined by the Liquidator. For this plan cycle (January 1, 2011 through December 2011), the corporate goals are defined as net cash collected, expense control, determination activity and records management. Goals may vary in different plan cycles/years. Annual goal(s) will be announced by the Liquidator at the outset of the plan year and communicated in writing to all eligible participants. Final results will be determined based on unaudited annual financial results at the end of the plan cycle.<br>Target award levels will be defined and communicated at the outset of the plan year for all eligible participants. Target awards will be paid (i.e., funded into participants' trust accounts as described herein) when the annual financial target(s) is achieved. Target awards for any participant may vary from plan year to year.<br>Target awards will be defined in terms of a "percentage of base salary" and may vary from the target payout level based on company and individual performance.<br>Annual awards may vary from the target amount based on the sole discretion of the Liquidator in assessing annual performance under the plan.<br>Annual performance goals for participating individuals may also include, at the discretion of the Liquidator, an individual component. Any individual performance goals will be defined at the outset of the plan year in the individual confirmation (of participation) letters. The relative weighting of these individual goals in relation to the total company financial goals will also be specified. Evaluation of results in relation to these individual goals will be made at year-end and integrated with the calculation of AIP payouts. |
| Payout Frequency | Funding of trust accounts for participants will be annual. Distributions of funds in accounts will be administered by the Trustee according to the decision rules below. |

## Collection Plan

| Component | |
|---|---|
| Distribution Decision Rules | Funds in individual's trust accounts will be distributed as follows based on the conditions of the employee's termination from The Home Insurance Company in Liquidation. If employment is terminated due to:<br>Death - all funds in the participant's trust account will be paid to the individual's estate within 30 days of the Trustee receiving written notice of the employee's death. A pro rata share of the deceased employee's partial plan year participation will be given to the estate at as soon as reasonably possible following the conclusion of the Plan Cycle.<br>Disability -accrual of benefits under this plan ceases when the employee enters disability; a pro rata share of any annual CIP award payment will be funded to the individual's trust account at the next regular annual funding date. Employees can re-enter the plan upon return to full time employment; a pro rata share of the annual CIP award will be funded to the employee's trust account in a partial year if an employee returns to full participation.<br>Voluntary resignation - funds in trust accounts will be forfeited with respect to employees who resign their employment with The Home Insurance Company in Liquidation prior to the close of the liquidation or other predetermined final payout date as specified in the plan documents, employment offer letter, or plan agreement. The Trustee will return all funds in such ex-employees' accounts to The Home Insurance Company in Liquidation.<br>Involuntary termination "not for cause" or position elimination - if an employee is terminated "not for cause" or his/her position is eliminated during the course of the Liquidation all funds in the employee's trust account will be distributed to the participant by the Trustee as soon as reasonably possible. In the case of any Plan Cycle which is not yet completed, payment shall be made as soon as reasonably possible following the conclusion of the Plan Cycle.<br>Involuntary termination "for cause" – funds in trust accounts will be forfeited with respect to employees who are terminated "for cause".<br>Close of the estate/liquidation - at the termination of The Home Insurance Company liquidation Proceeding, the Liquidator will direct the Trustee to distribute all remaining funds in participants' accounts according to the procedures described above. |

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October 22, 2010

PRIVATE AND CONFIDENTIAL

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

Dear Commissioner Sevigny:

At your request, as Liquidator of The Home Insurance Company ("Home" or "the Company"), Ernst & Young LLP's (EY) Performance & Reward Practice has reviewed the competitiveness of Home's current compensation levels to typical market levels. As a part of this engagement, you also asked that we review, as we have done for the past several years, the Special Deputy Liquidator's (Peter Bengelsdorf's) existing compensation arrangements relative to typical market levels. The purpose of this letter is to provide you with our findings concerning the competitiveness of the Special Deputy Liquidator's estimated compensation levels to comparative market levels using the same methodology employed for our review of Home's 28 benchmarked positions (detailed under separate cover).

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

BACKGROUND

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

The Special Deputy Liquidator is the top executive of Home serving as an independent consultant to the State of New Hampshire and reporting directly to the Insurance

Commissioner as Home's liquidator. We have reviewed the scope and duties of the Special Deputy Liquidator position and, based on our experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to develop a market competitive compensation program for the Special Deputy Liquidator position.

The Special Deputy Liquidator is presently subject to a one year compensation plan which expires on December 31, 2010. His compensation plan will continue, as does Mr. Bengelsdorf's consulting agreement, unless terminated on 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 current and proposed compensation plan for the Special Deputy Liquidator consists of Base Compensation, which is estimated to be $550,000 for 2011, a Performance Bonus of $175,000 and a "Stay" Bonus of $400,000. The summary below includes an assessment of the competitiveness of Mr. Bengelsdorf's proposed compensation plan for 2011.

<u>Compensation Program Objectives</u>
In 2003, an overall compensation framework for the Special Deputy Liquidator was developed based on four (4) primary objectives:

1. **Recognize Mr. Bengelsdorf's role as the top executive of Home;**
   - Preserve the position's consultant status but recognize that, in terms of time spent, Mr. Bengelsdorf is more than a full-time employee and is filling the role of the top executive;
2. **Acknowledge significant contributions that have already occurred;**
   - Acknowledge the significant amount of value that had already been contributed to the liquidation process by the Special Deputy Liquidator with liquid assets at March 5, 2003 of $12.7 million rising to approximately $1.275 billion (including early access payments of approximately $203.8 million and Class I guaranty fund administration expenses of $17.2 million) as of September 30, 2010.
3. **Align incentives with the Liquidation's goals;**
   - Provide Mr. Bengelsdorf with a structured incentive plan of performance objectives that aligns his objectives with Home's creditors.
   - Mr. Bengelsdorf's primary responsibilities are to: (1) effectively marshal assets of the estate, (2) hire and maintain an adequate staff, (3) file timely and appropriate reports on the Liquidation's status and (4) operate the Liquidation in a cost effective manner;
4. **Use available comparable market compensation data;**
   - Develop competitive market data consistent with Published Survey Analysis;
   - Remain consistent with competitive market positioning in relation to the current executive team.

Compensation Components (please see Exhibit I for details)
The current and estimated total direct compensation (TDC) for the Special Deputy Liquidator position consists of three (3) components:

1. Base Compensation:
   - **Estimated 2011 Base Compensation Level:** Mr. Bengelsdorf's estimated 2011 Base Compensation will be approximately $550,000 based on 2,200 hours billed and 2,500 hours worked (which is the same as the 2010 Base Compensation level).
   - ***Please Note:*** In order to present Base Compensation in the same manner as other Home employees and to develop an "apples-to-apples" comparison with market data, we have adjusted the Base Compensation to reflect the fact that Mr. Bengelsdorf does not receive employee benefits from Home. As an independent consultant, Mr. Bengelsdorf, pays the full Social Security tax (employer and employee share) on his compensation. He does not receive any health and welfare, vacation, paid holidays, retirement or severance benefits from Home.)
     - Specifically, the cost of typical employee benefits offered to Home employees is approximately 25% of employee base salary.
     - The estimated 2011 Base Compensation of $550,000 (assumes minimal non-Home related activities), has been adjusted to reflect the absence of this typical benefit load.
     - This adjustment results in estimated 2011 Base Compensation of $440,000 (or $550,000/1.25).

2. Performance Bonus or Annual Incentive ("AI") Bonus Structure
   The current and estimated Performance Bonus is established and determined by the Liquidator in accordance with the process described below.
   - Annually, at the outset of the plan cycle, the Liquidator sets the annual goals for this plan (*e.g.* success in marshalling assets, organization performance within budget, implementation of an effective claim determination operation, extent of early access distributions, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year).
   - After the end of the plan cycle, the Liquidator evaluates Mr. Bengelsdorf's performance with respect to each of those goals and determines the AI bonus based upon those accomplishments.
   - **Estimated 2011 Performance Bonus "AI" Target Level:** In 2009, Mr. Bengelsdorf asked to lower his targeted Performance Bonus amount from a target dollar amount of $300,000 to $200,000 and now to $175,000 for 2011.
   - ***Please Note:*** The 2011 AI bonus will be decreased to $175,000 down from $200,000 which is equal to the 2010 and 2009 bonus and down from $400,000 in 2005 and $300,000 in 2006, 2007 and 2008. The $175,000 target Performance Bonus opportunity falls between the amounts available to other Home executives.

Any AI Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, the AI Bonus will be paid in full.

3. "Stay" Bonus
   - **Estimated 2011 Stay Bonus Compensation Level:** Mr. Bengelsdorf's estimated "Stay" Bonus opportunity is $400,000 (which would cover the twelve month period from January 1, 2011 to December 31, 2011) payable on or after December 24, 2011.
   - ***Please Note:*** Such "Stay" Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, such amount will be paid in full.

FINDINGS - COMPETITIVENESS OF COMPENSATION TO MARKET LEVELS

Among healthy companies, Total Direct Compensation (or 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 plus AI Bonus and "Stay" Bonus. Generally, under EY's methodology, a level of pay that is 85% to 115% of the market consensus at the desired market position (typically 50th percentile, to 75th percentile) is considered competitive.

Mr. Bengelsdorf's estimated 2011 TDC after adjusting the estimated Base Compensation by 25% to account for the absence of the employee benefits currently provided to Home employees (and normally provided to persons occupying similar positions), is significantly **less than competitive** (or 44.1%) of median market levels and is **significantly** less than **competitive** (or 28.2%) of 75th percentile market levels.

**Exhibit I**

Estimated 2011 Compensation

| Position | 2010 Current Compensation | Competitive Market 25th Percentile | 50th Percentile | 75th Percentile | Overall Competitiveness 25th Percentile | 50th Percentile | 75th Percentile |
|---|---|---|---|---|---|---|---|
| Chief Executive Officer | Peter Bengelsdorf | | | | | | |
| Base Salary Adjusted | $440.0 | $473.2 | $645.6 | $844.6 | 93.0% | 68.2% | 52.1% |
| Performance (AI) Bonus | $175.0 | $168.5 | $344.0 | $730.1 | | | |
| "Stay" Bonus | $400.0 | $0.0 | $0.0 | $0.0 | | | |
| Target Total Cash Compensation | $1,015.0 | $641.6 | $989.5 | $1,574.7 | 158.2% | 102.6% | 64.5% |
| Long-term Incentive | $0.0 | $593.9 | $1,310.5 | $2,027.0 | | | |
| Total Direct Compensation | $1,015.0 | $1,235.6 | $2,300.0 | $3,601.8 | 82.1% | 44.1% | 28.2% |

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

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**Summary Conclusions**

Overall, the TDC for the Special Deputy Liquidator represents a program that provides variable or performance-based compensation while also encouraging a continuation of the existing relationship. The TDC for the Special Deputy Liquidator, if performance objectives are achieved, is estimated to be $1.015 million for 2011 (note, the Special Deputy Liquidator receives no employee benefits from Home; therefore, the base salary was adjusted by 25%). Based on our review, we find that the Special Deputy Liquidator's estimated 2011 TDC is **significantly less than competitive** compared to the market median ($50^{th}$ percentile) while the TDC for Home's other top executives is generally **competitive** compared to the respective market median ($50^{th}$ percentile).

*********

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

Very truly yours,

Ernst + Young LLP

Copy to: Martha Cook, EY - Atlanta
Ana Fluke, EY - Cleveland

ERNST & YOUNG

Ernst & Young LLP
55 Ivan Allen Jr Blvd
Suite 1000
Atlanta, GA 30308
Tel: +1 404 874 3300
Fax: +1 404 817 5583
www.ey.com

October 22, 2010

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

Dear Commissioner Sevigny:

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

The current compensation levels in place for Home's employees as a whole are consistent with market practices and our experience working with companies in liquidation. Benchmark positions representing employees in the base salary range of $55,000 - $80,000 (salary grades 16-18); however, are generally below market competitive levels.

In identifying the competitive market, companies in liquidation typically focus on "healthy company" pay levels because they will continue to compete with healthy companies for talent during the liquidation process. Based upon our experience, companies in liquidation typically target base salaries at median ($50^{th}$ 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 $50^{th}$ and $75^{th}$ percentile market levels of "healthy" companies within their specific and/or broader industry segment.

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HOME INSURANCE COMPANY IN LIQUIDATION

**Background**

As Home approaches the eighth year of liquidation, it is critical to retain the individuals who hold key positions. Once Home entered liquidation, the Company hired 95 executives and employees that were considered to be critical to the success of the liquidation and valuable to the Company due to their significant industry and Company experience. Since 2004, 26 employees terminated employment with Home, either voluntarily or due to a reduction in force. Presently, there are 69 employees who remain with Home.

Beginning in the fall of 2003, Ernst & Young performed a market competitiveness study by reviewing executive and employee compensation in healthy insurance companies of similar size and scope to Home. This study approach and methodology employed the most prevalent techniques for assessing market competitiveness for companies in liquidation. The results of this study showed that, overall, Home's proposed 2004 base salaries approximated the market median ($50^{th}$ percentile). As a result, in 2004, Home's liquidation employees were provided with additional incentive opportunities so that compensation levels were sufficient to retain individuals and keep them focused on the goals and objectives of the Company's liquidation process.

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

As is typical among companies in restructuring and liquidation, Home's top executives currently participate in the AIP and the CIP programs. Exempt employees participate in the AIP. Non-exempt employees only participated in the RIP because they had the most limited ability to influence overall performance. However, in 2006 Home eliminated the RIP and moved the 13 non-exempt employees into the AIP. Because Home has implemented specific goals and a measurements assessment process, the Company believes all employees have the opportunity to contribute in specific and measurable ways.

In 2007 EY was asked to review the competiveness of Home's compensation practices for 38 key employees. Based off of the market competitiveness study performed, EY found that the compensation levels provided to Home's employees as a whole was generally competitive, while the compensation practices for employees in salary grades 15-19 were less than competitive. As a result, Home addressed this issue in 2007.

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## Compensation Analysis & Findings

Generally, under EY's methodology, a level of pay that is 85% to 115% of the market consensus at the desired market position is considered competitive. This assumes that the incumbent has a moderate level of experience and is performing as expected. EY calculated the competitiveness of each incumbent's base salary, target TCC, and target TDC (**Note**: TDC was calculated for the Top 7 Senior Executives only) by dividing each component of pay by the market consensus at the 25th, 50th, and 75th percentiles. The resulting percentage is used to categorize the competitiveness of compensation, as described by the following table:

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

Overall, Home's base salary (94.8%), target TCC (106.3%) and target TDC (111.1%) compensation levels are competitive compared to the median (50th percentile) of the competitive market. We suggest that the Company individually evaluate each incumbent relative to their indicated market compensation level to confirm that each individual's relative positioning to market is appropriate given the responsibility level, tenure and impact potential on Home's performance by the individual.

## 2010 Detailed Results (for FY 2011 Planning)

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

| Home Data vs. Market | 25th Percentile | | | 50th Percentile (Median) | | | 75th Percentile | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base | TCC | TDC | Base | TCC | TDC | Base | TCC | TDC |
| 7 Senior Executives | <u>121.5%</u> | <u>157.7%</u> | <u>161.8%</u> | 96.9% | <u>118.4%</u> | 111.1% | <u>77.2%</u> | 89.8% | <u>77.9%</u> |
| Salary Grades 19-22 | 113.8% | <u>126.1%</u> | N/A | 97.2% | 106.3% | N/A | <u>83.6%</u> | 90.0% | N/A |
| Salary grades 16-18 | 90.2% | 96.3% | N/A | <u>79.8%</u> | <u>84.7%</u> | N/A | <u>70.6%</u> | <u>74.6%</u> | N/A |
| Salary Grades 6-7 | <u>115.5%</u> | <u>126.0%</u> | N/A | 107.9% | <u>117.4%</u> | N/A | 99.6% | 107.9% | N/A |

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

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

- ***25th Percentile:*** Target TDC for Top 7 is 62% above the 25th percentile, or is highly competitive compared to the 25th percentile market compensation levels.
- ***50th Percentile:*** Target TDC for Top 7 is 11% above the market median, or is competitive compared to median market compensation levels.
- ***75th Percentile:*** Target TDC for the Top 7 is 22% below the 75th percentile, or is less than competitive compared to the 75th percentile market compensation levels.

*20 Key Employee Benchmarked Positions:*
In light of the increasing levels of competitive pay in the New York market, the competitive market for Home's purposes, while historically based on National data, has been redefined to reflect regional data. Home's target data, which represents base salaries and incentive awards, are compared to regional published survey analysis results.

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

- ***25th Percentile:***
  - **Salary grades 19 - 22:** Target TCC is highly competitive at 26% above the 25th percentile.
  - **Salary grades 16 - 18:** Target TCC is competitive at 4% below the 25th percentile.
  - **Salary grades 6 - 7:** Target TCC is highly competitive at 26% above the 25th percentile.

- ***50th Percentile:***
  - **Salary grades 19 - 22:** Target TCC is competitive at 6% above the median.
  - **Salary grades 16 - 18:** Target TCC is less than competitive at 15% below the median.
  - **Salary grades 6 - 7:** Target TCC is highly competitive at 17% above the median.

- ***75th Percentile:***
  - **Salary grades 19 - 22:** Target TCC is competitive at 10% below the 75th percentile.

- **Salary grades 16 - 18:** Target TCC is significantly less than competitive at 25% below the 75th percentile.
- **Salary grades 6 - 7:** Target TCC is competitive at 8% above the 75th percentile.

**Proposed Program Changes**

Home's AIP is a performance-based incentive program. All AIP participants are evaluated against their achievement of stated goals. In 2009, Home made a budget decision to decrease the bonus opportunity for all employees, except for the lowest compensated group. Outside of the more highly compensated employees who received a 5% decrease to their AIP opportunity most employees received a 2% decrease.

For 2011, Home is recommending a change to the participants in its AIP. For employees with base salaries below $75,000, Home is recommending that they no longer participate in the AIP, but rather receive a portion of their target AIP as base salary increases. The rationale for this recommended change is threefold. First, the base salaries of this group (Salary Grades 16-18) is less than competitive to median market compensation levels. Second, AIPs for this group have historically been paid out near target AIP levels. Third, Home believes this group of employees does not directly influence annual operating results. Therefore, Home believes that re-allocating up to 70% of the targeted annual AIP for each employee within this group towards increases in their base salaries is warranted and aligned with the Company's compensation philosophy. The remaining 30% of the target AIP will be used to fund annual 401(k) safe harbor contributions that Home typically makes each year. Under the new approach, Home is not incurring any additional cost in 2011.

**SUMMARY CONCLUSION**

Based upon our experience, the estimated 2011 compensation levels (TDC for the Top 7 senior executives and TCC for the key employees in salary grades 6-7 and 19-22) are appropriate and consistent with general market practices and to insurance companies in liquidation. The estimated 2011 TCC compensation levels for the benchmark positions representing employees within the $55,000 - $80,000 range (salary grades 16-18) are less than competitive. We suggest that the Company individually evaluate each incumbent relative to their indicated market compensation level to determine the appropriateness of individual variation from market.

The individual plan designs and mechanics that Home has employed over the last 7½ years are based upon commonly accepted compensation practices for insurance companies in liquidation. Overall, the levels of pay provided by the individual incentive plans, as well as the overall total compensation, represent market competitive compensation levels.

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

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We appreciate the opportunity to continue to serve The Home Insurance Company in Liquidation. If you have any questions regarding this information please call Martha Cook at 404.817.5734 or Ana Fluke 216.583.4783.

Sincerely,

Ernst + Young LLP

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