

**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**

**AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY LIQUIDATOR,  
IN SUPPORT OF APPROVAL OF 2015 EMPLOYEE COMPENSATION PLANS**

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed Special Deputy Liquidator of The Home Insurance Company (“Home”), by the Commissioner of Insurance for the State of New Hampshire, as Liquidator (“Liquidator”) of the Companies. I submit this affidavit in support of the Liquidator’s Motion for Approval of 2015 Compensation Plans (“Motion”). The facts and information set forth below are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information and belief.

2. The Motion concerns the approval of integrated compensation plans for the employees of Home in 2015 (the “2015 Employee Compensation Plans”) and a compensation and incentive/retention plan for myself as Special Deputy Liquidator. The 2015 Employee Compensation Plans consist of annual base salary programs supplemented, in certain cases, by an Annual Incentive Plan (“Annual Plan”) and a Collection Incentive Plan (“Collection Plan”). Those plans are intended to reward performance and reinforce retention of essential employees in order to facilitate the successful, efficient and prompt completion of the liquidation process. The Motion reflects the recommendation of Ernst & Young LLP (“E & Y”), experienced

insurance industry compensation consultants, concerning the appropriate compensation structure for employees of Home.

3. 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 five others) to handle the liquidation of Home. The liquidation is presently staffed by 53 employees, 46 of whom are located in New York City, 6 in Manchester, New Hampshire, and one in Atlanta, Georgia.

4. Home's liquid assets have increased from the day the Order of Rehabilitation was entered, approximately \$12.7 million as of March 2003, to an estimated \$1.59 billion as of September 30, 2014. (These figures exclude USI Re and give credit for \$232 million of Class II early access distributions to guaranty associations to date, \$51.9 million in Class I distributions to guaranty associations, \$3.15 million in workers compensation advance payments to guaranty associations, and \$56.4 million in assets held by states to pay Home claims.)<sup>1</sup>

5. 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

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<sup>1</sup> Motions for approval of compensation plans filed in prior years have included USI Re assets in the calculation of liquid invested assets. Due to the completion of the USI Re liquidation proceeding in 2013, the \$1.59 billion figure referenced in this motion does not include USI Re.

50<sup>th</sup> percentile among comparable companies and recommended that total direct compensation (base salary and incentive bonuses) range between the 50<sup>th</sup> and 75<sup>th</sup> percentile.

6. To retain and compensate the necessary staff for Home, the Liquidator accordingly developed and requested approval for three integrated compensation plans for 2004: a Retention Incentive Plan for non-exempt full time employees, an Annual Incentive Plan for exempt full time employees including executives, and a Collection Incentive Plan for executives. 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<sup>th</sup> and 75<sup>th</sup> 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.

7. In 2006, after consulting with E & Y, the Liquidator proposed to eliminate the Retention Incentive Plan and continue the Annual Plan and Collection Incentive Plan on essentially the same terms as in 2005. The Court approved 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. The proposed 2015 Employee Compensation Plans are based on the 2006 Compensation Plans.

8. 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. The 2015 Employee Compensation Plans therefore consist of annual base salary programs supplemented, in certain cases, by the Annual Plan and the Collection Plan.

a. *Annual Plan.* 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. Eight full time employees as of January 1, 2015, would be eligible to participate in the Annual Plan.

i. The Annual Plan was a component of the 2004 Employee Compensation Plans. For 2011, the Liquidator proposed to reduce participation in the Annual Plan by eliminating participation for employees with base salaries less than \$75,000. In lieu of the Annual Plan, up to 70% of the amount that would otherwise be paid in incentive payments to these employees was used to increase their salaries and the remainder was applied toward the annual 401(k) safe harbor contribution. This change, which did not increase total expenses, was based on the conclusion that, in the prevailing circumstances, the nature of these positions was such that the affected employees had less ability to directly affect operating results. Compensation based solely on annual salary was therefore deemed most appropriate. The court approved this change in an order dated December 30, 2010.

ii. For 2012 the Liquidator proposed to further reduce participation in the Annual Plan by eliminating participation for employees with base salary at or less than \$150,000. This change was based on the conclusion that, in continuation of the trend underlying

the 2011 changes to the Annual Plan, the nature of these positions is such that they have less ability to directly affect operating results. As a result, compensation based solely on annual salary was therefore deemed most appropriate and, in lieu of the Annual Plan the Liquidator proposed that up to 60% of the amount that would otherwise be paid in incentive payments to these employees would be used to increase their salaries and the remainder would be applied toward the annual 401(k) safe harbor contribution. The court approved this change in an order dated January 25, 2012. For 2013 and 2014 the Annual Plan followed the same form as the 2012 Annual Plan.

iii. For 2015, the Liquidator proposes to further reduce participation in the Annual Plan by eliminating all participants except for seven senior executives and one other key employee. This proposed change is based on the conclusion that, in continuation of the trend underlying the 2011 and 2012 changes to the Annual Plan, the employees to be eliminated from participation have less ability to directly affect operating results. As a result, and in consultation with E & Y, compensation based solely on annual salary was deemed most appropriate and, in lieu of the Annual Plan, the Liquidator proposes that up to 60% of the amount that would otherwise be paid in incentive payments to these employees would be used to increase their salaries and the remainder would be applied toward the annual 401(k) safe harbor contribution. This change is not anticipated to affect Home's total expenses.

iv. The remaining eight Annual Plan participants have direct responsibility for each operating area, manage employees within such areas, and are held accountable for their respective results. As with the Annual Plan for preceding years, for 2015 the Liquidator would determine the annual goals, performance measures and payouts for these employees. The 2015 goals would include: operation within budget, accomplishment of

enumerated claim determination processing objectives and reaching asset marshaling targets. Annual cash payments would be made after the close of the performance year (no later than March 15, 2016). 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 would be entitled to a pro rata share of any Annual Plan payment. The estimated 2015 cost for the Annual Plan is approximately \$928,025.<sup>2</sup>

b. *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.

i. 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. 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 per the Plan document.

<sup>2</sup> This \$928,025 figure may be compared with payments for prior years:

Annual Plan Payments (millions)											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Payment	\$2.61	\$2.28	\$2.28	\$2.23	\$2.29	\$1.86	\$1.73	\$1.58	\$1.17	\$1.17	\$1.21 (anticipated)

ii. For 2014, the Liquidator reduced Collection Plan awards by 60% and amended the vesting period to a two year period (2014 awards will vest in 2016). The Court approved the reduction and amended vesting period on January 7, 2014.

iii. The Liquidator proposes to continue the Collection Plan on the same basis in 2015. The estimated 2015 cost for the Collection Plan is \$338,123 with any amounts awarded vesting in 2017. This figure includes a 2012 reduction of 5% in the awards for all but one executive plus an additional \$5,000 reduction for each of two executives whose compensation was considered to be highly competitive at the median market level.<sup>3</sup>

9. The Liquidator's consultant, E & Y, advises that the 2015 Employee 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 commonly 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.<sup>4</sup>

10. As described in the Liquidator's previous reports, pursuant to Internal Revenue Service rules Home adopted a safe harbor 401(k) plan effective January 1, 2005, so that all employees who wished to do so were able to contribute the maximum amount. Employers with such plans must make an annual contribution to employees' 401(k) accounts. For 2015, Home will contribute an amount equal to 4% of the employee's earnings up to the individual employee

<sup>3</sup> This \$338,123 figure may be compared with payments for prior years:

	Collection Plan Payments (thousands)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Payment	\$1,479	\$1,510	\$1,454	\$1,312	\$1,320	\$1,060	\$895	\$895	\$845	\$845	\$338 (anticipated)


<sup>4</sup> E & Y's analysis has historically been based on national data and E & Y continues to use such data in analyzing the market competitiveness of compensation for Home's seven senior executives. For Home's remaining key employees, however, E & Y determined to analyze 2012 compensation on the basis of data for the region in which these employees work. For 2015, E & Y has continued to compare compensation for the seven senior executives to national data and compensation for the remaining key employee to regional data. See Ex. C.

earnings cap set by the IRS. The contribution rate is equal to the 4% rate used in 2014 and approved by the Court on January 7, 2014.

11. The Liquidator's consultant, E & Y, advises that the 2015 Employee Compensation Plans are appropriate and consistent with general market practices and to insurance companies in liquidation. E & Y also concludes that the overall levels of pay provided by the individual incentive plans, as well as the overall total compensation, represent market competitive compensation levels.

12. I believe 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. For the reasons described above, I believe that the Plans are fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of Home.

Signed under the penalties of perjury this 4th day of December, 2014.

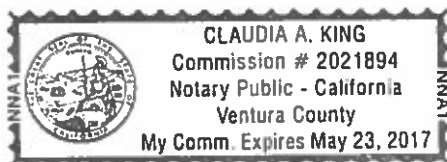
  
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Peter A. Bengelsdorf  
Special Deputy Liquidator of The Home Insurance  
Company

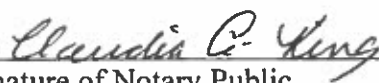
STATE OF CALIFORNIA  
COUNTY OF VENTURA

On Dec. 4, 2014, before me, CLAUDIA A. KING - NOTARY PUBLIC, personally appeared Peter A. Bengelsdorf, Special Deputy Liquidator of The Home Insurance Company, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS by my hand and official seal.



  
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Signature of Notary Public