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 2021 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 2021 (the "2021 Employee Compensation Plan") and for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") (the "2021 Special Deputy Plan") (collectively, the "Plans"). A summary of the incentive component of the 2021 Employee Compensation Plan is attached as Exhibit A as well as the related Ernst & Young LLP ("E & Y") advisory letter dated October 1, 2020 which is attached as Exhibit B. A summary of the Special Deputy Plan is provided in the Liquidator's Affidavit and in the E & Y advisory letter concerning the 2021 Special Deputy Plan dated October 1, 2020, which is attached as Exhibit C. The Plans are based on compensation plans originally proposed and approved in 2004 and, subject to changes over time, proposed and approved in each subsequent year. The Plans are intended to reward performance and reinforce retention of essential employees and the Special Deputy Liquidator in order to facilitate the successful, efficient and prompt completion of the liquidation process. In support hereof, the Liquidator respectfully represents as follows:

1. <u>The Retention of Experienced Employees and the Special Deputy Liquidator Benefits Creditors</u>. Home operated internationally and specialized in affording complex forms of insurance to large enterprises. The liquidation of Home, with total estimated undiscounted claims of $4 billion, is one of the largest and most complex insurer liquidations ever conducted. Due to the sophisticated nature of Home's insurance products, operations, and supporting reinsurance programs, an experienced and stable senior liquidation staff operating under the management of a well-qualified and competent Special Deputy Liquidator will materially contribute to the efficient collection of assets and adjudication of claims. The Liquidator believes that this objective can be facilitated through the alignment of compensation plans with the interests of creditors. Affidavit of Christopher R. Nicolopoulos, Liquidator, in Support of Approval of Approval of 2021 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 $799.4 million of unrestricted liquid assets as of September 30, 2020. (The September 30, 2020 figure is net of the $656.9 million of interim distributions to Home's policy-level creditors, $256.0 million of early access distributions to guaranty associations, and $94.7 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 2021 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 32 (full and part time) employees and 6 consultants. The employees and consultants are all located in New York City except for 1 part time employee in Washington State, and 4 employees located in Bedford, New Hampshire. Bengelsdorf Aff. ¶ 4.

4. The Special Deputy Liquidator was recruited from private industry and appointed to manage the operations of the liquidation.[1] The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of Home. E & Y categorizes his responsibilities as a combination of those performed in a "healthy" insurance company by a chief executive officer and chief operating officer. The terms of his engagement are described in a June 11, 2003 Consulting Agreement which was approved by the Court on June 30, 2003 (the "Consulting Agreement"). The Consulting Agreement remains in effect until terminated. 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 nationally recognized compensation consultants (E & Y) to assist in the design of the compensation plans. The consultants had experience in the design of such plans for

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

large insurers, like Home, in liquidation. The Liquidator has continued to consult with E & Y each year, as reflected in the annual compensation motions, regarding the continuing suitability of employee compensation. Bengelsdorf Aff. ¶ 5.

6. To retain and compensate the necessary staff for Home, the Liquidator accordingly developed and requested approval for base compensation as well as three integrated incentive plans for 2004: a Retention Incentive Plan for non-exempt full time employees, an Annual Incentive Plan for exempt full time employees including executives, and a Collection Incentive Plan for executives. The Court approved the compensation plans for 2004 by order issued April 21, 2004 and the similar 2005 compensation plans by order dated March 4, 2005. Bengelsdorf Aff. ¶ 6.

7. In 2006, after consulting with E & Y, the Liquidator proposed to eliminate the Retention Incentive Plan and continue the Annual Plan and Collection Incentive Plan on essentially the same terms as in 2005. The Court approved this proposal (and the 2006 compensation plans) by order dated February 8, 2006. Bengelsdorf Aff. ¶ 7.

8. A version of the Annual Plan has been approved each year of the liquidation though, over time, the number of employees eligible to participate has been reduced from 78 (in 2004) to 6 (in 2020). This plan is designed to provide additional cash compensation based on the overall performance of Home's liquidation and the individual employee during the annual plan cycle. (At the outset of the Plan Year, the Liquidator, upon consideration of the recommendations of the Special Deputy Liquidator, sets the annual corporate and individual performance goals. Payout of any amounts due pursuant to the Annual Plan is made thirty days following the release of unaudited financial results for the Plan Year.) With each reduction in the number of participants, a portion of the amounts otherwise payable as incentive payments

was used to increase base salaries with the remainder applied toward the annual 401(k) safe harbor contribution. These changes (which were not intended to decrease total expenses) were based on the conclusion that, in the prevailing circumstances, the nature of these positions was such that the affected employees had less ability to directly affect operating results. Compensation based solely on annual salary was therefore deemed most appropriate for those employees. Bengelsdorf Aff. ¶ 8.

9. The Collection Incentive Plan was designed to provide focused incentives for the collection of assets, determination of claims and management of the liquidation in an efficient manner. Awards under this plan were based on the accomplishment of annual corporate targets but also varied, at the discretion of the Liquidator, based on achievement of individual performance goals. The objective of the Collection Incentive Plan, through deferred compensation, was to retain senior and experienced executives as long as deemed necessary by the Liquidator. The Collection Incentive Plan was not continued beyond 2015. Bengelsdorf Aff. ¶ 9.

10. As described in the Liquidator's previous reports, pursuant to Internal Revenue Service rules Home adopted a safe harbor 401(k) plan effective January 1, 2005, so that all employees who wished to do so were able to contribute the maximum amount. Employers with such plans must make an annual contribution to employees' 401(k) accounts. For 2020, as in prior years, Home contributed an amount equal to 4% of the employee's earnings up to the individual employee earnings cap set by the IRS. Bengelsdorf Aff. ¶ 10.

11. <u>The Proposed 2021 Compensation Plan for Liquidation Staff</u>. The Liquidator seeks to continue to provide compensation consistent with best practices respecting compensation in insurance company liquidations. Accordingly, the Liquidator proposes to

continue the Annual Plan in 2021 at a total anticipated cost of $578,650. This figure may be compared with Annual Plan 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 (est.)	$ 0.58
2009	$ 1.86	2015	$ 0.93	2021 (est.)	$ 0.58

Five employees will be eligible for the Annual Plan in 2021, the same as in 2020. The Liquidator proposes to continue the 401(k) safe harbor plan with a contribution rate equal to the 4% rate used in prior years and approved by the Court most recently on December 7, 2018. Bengelsdorf Aff. ¶ 11.

12. Based upon their experience, E & Y notes that insurance companies in liquidation typically target base salaries at median (50th percentile) market level and total cash compensation (base salary plus bonuses) at or above median market levels of "healthy" companies in their industry segment. To evaluate the 2021 Employee Compensation Plan, E & Y has compared the proposed total cash compensation for liquidation staff to the competitive market 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 2021 Employee Compensation Plan is appropriate and consistent with general market practices for insurance companies in liquidation and that overall levels of pay represent market competitive compensation levels. Bengelsdorf Aff. ¶ 12.

13. History of Compensation Plans for the Special Deputy Liquidator. The Special Deputy Liquidator is engaged by the Liquidator pursuant to the June 11, 2003 Consulting Agreement. The Liquidator has consulted with E & Y to assist in devising and evaluating a compensation program for the Special Deputy Liquidator. The overall compensation framework

for the Special Deputy Liquidator has been designed to align incentives for the Special Deputy Liquidator with liquidation goals. Specifically, at various times since the beginning of Home's liquidation compensation to the Special Deputy Liquidator has included base compensation, an annual incentive bonus, and a "Stay Bonus". Nicolopoulos Aff. ¶ 6.

14. The Special Deputy Liquidator's base compensation was calculated on an hourly basis from 2003 through 2011 at the rate of $250 per hour. This structure was modified in 2012 such that the Special Deputy Liquidator's hourly rate was increased to $285 and subjected to a cap of $600,000. The $600,000 cap was maintained in 2013 but the program was further modified with the Special Deputy Liquidator receiving equal monthly payments of $50,000 throughout the year. In the event he worked fewer than 2,100 hours, the Special Deputy Liquidator's "Stay Bonus" was to be reduced in an amount equal to the shortfall in hours multiplied by a $325 hourly rate. The hourly target was reduced to 2,000 in 2014 and 1,850 in 2015. In all years, the Special Deputy Liquidator has worked for significantly more hours than the relevant annual target. The hourly rate for 2020 increased to $450 with an hourly target of 1,833. Because of the elimination of the $225,000 Stay bonus the Special Deputy Liquidator's estimated total 2020 compensation remained the same as in 2019. The Special Deputy Liquidator's estimated 2021 compensation should remain the same as in 2020. Nicolopoulos Aff. ¶ 7.

15. The Special Deputy Liquidator's annual incentive bonus was reduced in stages from $400,000 (2004) to $50,000 (2014) before being eliminated in 2015. Nicolopoulos Aff. ¶ 8.

16. The final portion of the Special Deputy Liquidator's compensation, the "Stay Bonus", provided a cash incentive to this senior and experienced insurance industry executive

and encourages him to remain with the liquidation. Pursuant to his compensation plans from 2004 through 2014, the Special Deputy Liquidator received a “Stay Bonus” of $400,000 (adjustable, since 2013, as discussed above in subparagraph 14). The “Stay Bonus” has since been reduced to $325,000 for 2015, $300,000 for 2016, $250,000 for 2017 and $225,000 for 2018 and 2019. The Stay Bonus was eliminated in 2020. Nicolopoulos Aff. ¶ 9.

17. 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 2021. Each of these reductions has been made at the request of the Special Deputy Liquidator. Nicolopoulos Aff. ¶ 10.

18. <u>The Proposed 2021 Special Deputy Plan</u>. The proposed 2021 Special Deputy Plan is described in the E & Y letter and has two primary objectives. See Exhibit C. First, it recognizes the Special Deputy Liquidator’s role as top executive of the Home liquidation operation. Although an independent contractor, the Special Deputy Liquidator works at least the hours of a full time employee and, because he is responsible for Home’s day-to-day operations he has more responsibility than any employee or other executive of Home. Second, the plan is intended to provide the Special Deputy Liquidator with compensation consistent with competitive market positioning in relation to Home’s current executive team. Nicolopoulos Aff. ¶ 11.

19. The Total Cash Compensation proposed in the 2021 Special Deputy Plan is capped at $825,000, the same as his 2020 compensation with a target of 1,833 hours worked. Nicolopoulos Aff. ¶ 12.

20. E & Y evaluated the 2021 Special Deputy Plan in comparison with market levels. Importantly, E & Y notes that the Special Deputy Liquidator is a consultant to the Liquidator and

not an employee of Home. Accordingly, the Special Deputy Liquidator does not participate in the incentive compensation plans for key employees of Home nor does he receive any health and welfare, retirement, or severance benefits from Home. As an independent contractor, he pays the full Social Security tax (employer and employee share) on his compensation. E & Y therefore estimates that the actual value of the $825,000 Total Cash Compensation available to the Special Deputy Liquidator is equivalent to an employee's salary of $660,000. E & Y advises that the Total Direct Compensation represented by the 2021 Special Deputy Plan is significantly less than competitive compared to the market median (50th percentile). Total Cash Compensation without adjustment, however, is competitive to the market median. In conclusion, E & Y reports that the proposed 2021 Special Deputy Plan acknowledges the importance of the Special Deputy Liquidator to the liquidation and encourages a continuation of that relationship. Nicolopoulos Aff. ¶ 13.

21. 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. ¶ 14; Bengelsdorf Aff. ¶ 13.

22. 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.

23. 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."

24. 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,

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December 10, 2020

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2021 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 10th day of December, 2020, by first class mail, postage prepaid to all persons on the attached service list.

____

J. David Leslie

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. SUPERIOR COURT

In the Matter of the Liquidation of
The Home Insurance Company
Docket No. 217-2003-EQ-00106

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The Home Insurance Company in Liquidation
2021

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, 2021 – December 31, 2021 (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
2021

Annual Incentive Plan

Component	
	Annually, at the outset of the Plan Cycle, the Liquidator will set the annual corporate goals for this Plan. Both a "threshold" (or minimum) and "target" (or expected) level of net cash collections will be defined 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 2022 the maximum 2021 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).

The Home Insurance Company in Liquidation
2021

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	
	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.

EY
Building a better working world

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01 October 2020

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

Re: The Home Insurance Company In Liquidation – Review of 2021 Compensation

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 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, 63 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 32 employees who are employed by Home of which three (3) are part-time employees and six (6) consultants. As Home approaches its eighteenth 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 17 years can be found in Exhibit 1.

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

- As of 9/1/2020, collected $1.78B of assets net of expenses available for class II claimants;
- As of 9/1/2020, resolved approximately 19,984 Proof of Claims (court approved Class II POCs) totaling $3.2B from an initial 20,819 POCs (with 835 POCs remaining for all classes of which 597 are policy related POCs, 59 Guaranty Fund related POCs and 179 Reinsurance & other POCs);
- Reduced initial employee head count from 95 employees and 15 consultants to 32 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 five (5) 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 two less than 2019 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 five 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.

2021 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 2021 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 not reflect the effects of the pandemic.

Recent pandemic-related flash survey data conducted shows a market trend of no changes to compensation levels compared to previous year. Thus, the market data for this year remains unchanged compared to our 2020 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 2020 compensation levels. The market competitiveness levels at an individual and aggregate level were recalculated at the market median (50th percentile) based on the changes described above.

The table below provides the summary of market competitiveness levels for Home employees for our 2021 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 2021 market analysis reflects 21 benchmark positions that cover 22 current Home incumbents. Values listed below in black are within a competitive range to market compensation levels.

Home Data[1] vs. Market	50th Percentile (Median)	
	Base	TCC
5 Senior Executives	92.1%	106.0%
Salary Grades 22[2]	94.8%	110.6%
Salary Grades 21-22[3]	92.3%	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 are still evolving and differ by geography and industry, but there are general market compensation trends that are starting to take 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.

Prior to reporting on the impact of the pandemic, according to the 2020-2021 WorldatWork Salary Budget Survey, the general trend was a forecasted decrease in salary budgets for 2021 relative to the prior year. U.S. total salary budgets in the insurance industry were projected to increase by an average of 3.0% in 2021, down from an actual average increase of 3.2% in 2020. A similar trend prior to reporting on the impact of the pandemic, was a forecasted decrease in merit budgets for 2021 relative to the prior year. U.S. total merit budgets in the insurance industry were projected to increase 2.8% in 2021, down from an actual average increase of 3.0% in 2020.

As noted above, while the expected increase in compensation for 2021 is 3.0% for the insurance industry, 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 42% of organizations are considering or implementing a salary freeze, while an additional 29% are considering salary cuts.

Although there is mixed trend in salary budget changes (remain same or increase), merit increases are likely to remain flat, be postponed, or eliminated. On the other hand, bonuses will still be paid out in 2021

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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 2021 as the economic environment has deteriorated significantly. US GDP declined 32.9% at an annualized rate in the second quarter of 2020, which equates to a 9.5% decrease from the first quarter of 2020; therefore, it is highly likely that employers will continue implementing either lower than normal salary increases or none at all. 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 2021 compensation levels relative to 2020 levels for Home's key employees, 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:

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If you have any questions regarding this information, please call Martha Cook at 404.817.5734.

Sincerely,

Ernst + Young LLP

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01 October 2020

PRIVATE AND CONFIDENTIAL

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

Re: The Home Insurance Company In Liquidation - Review of Special Deputy Liquidator's 2021 Compensation

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) 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 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.

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

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, 63 employees have terminated employment with Home, either voluntarily or due to reductions in force. Presently, there are 32 employees who are employed by Home of which three (3) are part-time employees and six (6) consultants. As Home approaches its eighteenth 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 techniques 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 employee's compensation, including the Special Deputy Liquidator's compensation.

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

- As of 9/1/2020, collected $1.78B of assets net of expenses available for class II claimants;

- As of 9/1/2020, resolved approximately 19,984 Proof of Claims (court approved class II POCs) totaling $3.2B from an initial 20,819 POCs (with 835 POCs remaining for all classes of which 597 are policy related POCs, 59 Guaranty Fund related POCs and 179 Reinsurance & other POCs);
- Reduced initial employee head count from 95 employees and 15 consultants to 32 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 operations. Currently, only the Annual Incentive Plan (AIP) remains active (please note that the AIP was approved by the State of New Hampshire Superior Court (Court) on April 21, 2004; Docket No. 03-E-0106). In addition, the Liquidator decided to submit the incentive plan for annual approval by the Court. The Special Deputy Liquidator position has never participated in Home's incentive compensation plans.

- 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 five (5).

2021 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.

Special Deputy Liquidator – role description: The Special Deputy Liquidator is the top executive of Home serving as an independent consultant to the State of New Hampshire and reporting directly to the Insurance Commissioner as Home's liquidator. We have reviewed the scope and duties of the Special Deputy Liquidator position and, based on our experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to develop a market competitive compensation benchmark. Similar to prior analyses, the comparable positions utilized to benchmark the Special Deputy Liquidator role include a blend of CEO and COO positions.

Special Deputy Liquidator – employment terms: The Special Deputy Liquidator is presently subject to a one-year compensation plan which expires on December 31, 2020. We understand that Mr. Bengelsdorf's compensation continues, as does his consulting agreement, unless terminated with thirty days' notice by either of the parties or if the Court does not approve its continuation. We also understand that you wish for us to continue providing annual assessments with respect to the competitiveness of the Special Deputy Liquidator's compensation plan since his plan will be submitted to the Court annually for review and approval of its continuation.

Special Deputy Liquidator – approach to compensation: The overall compensation framework for the Special Deputy Liquidator was developed based on the following primary objectives:

1. **Recognize Mr. Bengelsdorf's role as the top executive of Home; and**
   - Preserve the position's consultant status but recognize that, in terms of time spent, Mr. Bengelsdorf operates similarly to a full-time employee and is filling the role of the Home's top executive.
2. **Use available comparable market compensation data to determine reasonableness of compensation:**
   - Develop competitive market data consistent with methodology utilized for the Home's Senior Executive Market Analysis.
   - Remain consistent with competitive market positioning in relation to the current executive team.

Typically, an individual level market compensation analysis is completed for Home every year but given the pandemic and its impact on the market, it was determined that a market trend analysis will be more appropriate to determine compensation changes versus an individual analysis. Survey data at the position level typically lag by a year and current survey data will not reflect the effects of the pandemic.

Recent pandemic-related flash survey data conducted shows a market trend of no changes to compensation levels compared to previous year. Thus, the market data for this year remains unchanged compared to our 2020 analysis (completed in 2019). Therefore, the overall competitiveness to market for the 2021 analysis will not differ from the 2020 analysis for the Special Deputy Liquidator since neither his compensation nor the market data changed.

To highlight the 2021 analysis, the competitiveness of the Special Deputy Liquidator's estimated 2021 TDC, after adjusting the position's estimated Total Cash Compensation (or TCC) to account for the absence of participation in Home employee benefits (which are normally provided to persons occupying similar positions), to market compensation levels was as follows:

- ***50th Percentile:*** Total cash compensation is ***less than competitive*** and total direct compensation is ***significantly less than competitive*** to median market levels (or 77.5% and 41.3% of median market levels, respectively).

The implications of the pandemic are still evolving and differ by geography and industry, but there are general market compensation trends that are starting to take 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.

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organizations are considering or implementing a salary freeze, while an additional 29% are considering salary cuts.

Although there is mixed trend in salary budget changes (remain same or increase), merit increases are likely to remain flat, be postponed, or eliminated. On the other hand, bonuses will still be paid out in 2021 according to majority of organizations surveyed, but there is little to no increase in the number of organizations planning payouts compared to 2020 levels.

The impact of the pandemic on compensation levels will likely drag into 2021 as the economic environment has deteriorated significantly. US GDP declined 32.9% at an annualized rate in the second quarter of 2020 which equates to a 9.5% decrease from the first quarter of 2020; therefore, it is highly likely that employers will continue implementing either lower than normal salary increases or none at all. 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 2021 compensation levels relative to 2020 levels for Home's Special Deputy Liquidator is appropriate and consistent with general market practices and the insurance industry. We recommend, however, to 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.

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

Very truly yours,

Ernst + Young LLP

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