DOCKET NO.: X06-UWY-CV-24-6085274-S	:	SUPERIOR COURT
INSURANCE COMMISSIONER OF THE STATE OF CONNECTICUT	:	COMPLEX LITIGATION DOCKET
v.	:	AT WATERBURY
PHL VARIABLE INSURANCE COMPANY, ET AL.	:	DECEMBER 31, 2025

REPORT OF THE REHABILITATOR

Joshua Hershman, Interim Insurance Commissioner of the State of Connecticut, as Rehabilitator of PHL Variable Insurance Company ("PHL") and its subsidiaries, Concord Re, Inc. ("Concord") and Palisado Re, Inc. ("Palisado" and, together with PHL and Concord, the "Companies"), submits this Report to the Court regarding the ongoing rehabilitation of the Companies.

I. Introduction

In the Third Accounting and Status Report (Dkt. 226.00), the Rehabilitator reported that he expected to file an outline of the terms of a rehabilitation plan by year-end 2025. This Report contains the high-level terms of two different transaction structures. For the reasons described below, neither is a standalone rehabilitation plan. In order to complete a transaction that would maximize the value that can be delivered to policyholders and provide more to policyholders than would be received in a conventional liquidation of the Companies, contributions from state guaranty associations will be required. The last section of this Report contains an update on the Rehabilitator's investigation and evaluation of third-party claims.

II. Rehabilitation Efforts

The Rehabilitator and his advisors have completed the marketing component of the marketing and sale process described in the Second and Third Accounting and Status Reports, as well as a thorough analysis of the Companies' riskier assets, including their realizable value in a sale, reinsurance transaction or liquidation. The high face amount universal life ("UL") insurance policies have long been known to be problematic and highly unprofitable for PHL. *See generally* Affidavit of Donna Claire in Support of Motion for Moratorium ¶¶ 17-20 (Dkt. 108.00) (describing the primary UL policy block). Initially, the Rehabilitator and his team believed that other blocks of PHL business were profitable, or at least at or close to break-even, and had sufficient reinsurance and available assets backing reserves to be attractive to buyers. The initial feedback from prospective buyers in the marketing and sale process run by the Rehabilitator's advisors supported this. A basic structure for a rehabilitation plan based on this set of facts would have been a sale of PHL's business combined with a restructuring of certain policy blocks such that policyholders with restructured policies may have received less than their existing coverage but would have received more than they would have in liquidation. Surplus profits from the inclusion of the profitable blocks of business would have been used to maximize the coverage to those policies that required restructuring, thereby delivering more overall value to policyholders than would be received in a liquidation of the Companies.

After receiving refined bids from the parties engaged in the marketing and sale process and the completion of additional due diligence by the Rehabilitator and his advisors, it has become clear that all of PHL's blocks of business are materially impaired (although none as significantly as the UL block). As a result, the rehabilitation plan structure described above is not feasible. The Companies do not have the assets that would be necessary to transfer to a buyer or reinsurer any blocks of business without causing other policyholders to receive less than what they would receive from the guaranty associations in a conventional liquidation. As the Rehabilitator has consistently stated, he will not pursue a transaction that will deliver less value than a liquidation of the Companies.

As a result, the Rehabilitator has determined that completing any transaction will require funds from state guaranty associations. This will require that the guaranty associations be "triggered" under their enabling statutes. The Rehabilitator understands that the guaranty associations will require an order of liquidation with a finding of insolvency to trigger their coverage.

This means that a pure rehabilitation plan—one without any funding from outside of the Companies' assets—is not feasible. Instead, the Rehabilitator believes that any plan for a resolution of PHL's liabilities must include a liquidation order for the Companies. Under Connecticut law, thirty days after the entry of a liquidation order, all policies terminate except to the extent they are covered by a guaranty association. Conn. Gen. Stat. § 38a-921. A claim against the receivership estate for the loss of such coverage would be junior in priority to the claims of the guaranty associations and existing claims for death benefits or surrender value that have not been paid as a result of the moratorium. As a result, claims for loss of coverage or loss of the policy itself would not ordinarily be paid in a liquidation where the insolvency is as deep as PHL's insolvency. However, the Rehabilitator believes that a liquidation order can be combined with a transaction that will enable active policyholders to receive some level of ongoing benefits in excess of what they would receive solely under guaranty association coverage. The Rehabilitator is now focused on pursuing a transaction of this type in order to maximize the value of the Companies' assets and coverage for policyholders. The amount of such coverage will depend on the outcome of negotiations with the guaranty associations and prospective buyers of PHL that may provide such coverage or an alternative additional benefit.

The Rehabilitator is in active negotiations with the National Organization of Life and Health Insurance Guaranty Associations to determine what assets may be available for use in providing limited ongoing benefits or other additional benefits to active policyholders whose policies would otherwise terminate by operation of law thirty days following a liquidation order.

In addition, the Rehabilitator continues to be engaged in negotiations with two prospective buyers that are willing and able to provide limited ongoing coverage or benefits above the guaranty associations' limits, provided that they can reach agreement with the guaranty associations on also providing coverage on the portion of policies within the guaranty associations' limits. These prospective counterparties have each provided a non-binding proposal to PHL that would provide limited ongoing coverage or benefits in excess of guaranty association limits. The first proposal is structured as an acquisition of PHL and would include the involvement of a highly rated insurance company partner. A portion of the existing unpaid death claims would be paid at closing based on the amount those claims would receive in a full liquidation of PHL. All active policies would be undertaken by the buyer. The buyer and its insurance company partner would provide coverage up to guaranty association limits plus a defined percentage of benefits in excess of those limits.

The second proposal is structured as an assumption reinsurance transaction. A portion of the existing unpaid death claims would be paid at closing based on the amount those claims would receive in a full liquidation of PHL. All active policies would be reinsured to a highly-rated licensed reinsurer. The reinsurer would provide coverage for the portion of the policies below guaranty associations limits as well as defined coverage amounts in excess of those limits.

Under both proposals, the amount of coverage that can be provided above guaranty association limits will depend on the Companies' available assets and multi-party negotiations with the prospective counterparties and the guaranty associations. As a result, the Rehabilitator cannot now predict when these negotiations will conclude or their ultimate outcome. In either transaction structure, the guiding tenet is that policyholders will receive at least as much coverage as they would in a liquidation. The Rehabilitator believes that a liquidation order in combination with a transaction will deliver the most value to policyholders while complying with Connecticut law governing policies in liquidation.

The Rehabilitator recognizes that the passage of time in the rehabilitation proceeding creates hardship for certain policyholders. The modifications to the Moratorium Order recently approved by the Court are intended to address some of that hardship. The Rehabilitator and his team are working diligently to reach a definitive path forward as quickly as possible and deliver the most value possible to the policyholders. As negotiations proceed, the Rehabilitator expects to provide an update to the Court with a definitive term sheet for a transaction or, if a transaction proves infeasible, a plan for an orderly liquidation of the Companies.

III. Update Regarding the Investigation and Evaluation of Third Party Claims

In the Second and Third Accounting and Status Reports, the Rehabilitator reported that the Companies have viable claims against third parties. The potential claims identified by the Rehabilitator include claims that the estate may have against various entities within the Nassau Group (PHL's former parent) and its parent, Golden Gate Capital, including claims for breach of fiduciary duty, breach of contract and avoidable transfers. The Rehabilitator has taken appropriate steps to preserve such claims from the expiration of any statutes of limitations while the Rehabilitator is engaged in negotiations with respect to those claims. Any settlement of such claims must be in the best interests of policyholders and will be subject to the approval of the Court after a hearing and notice to policyholders and creditors. If an acceptable settlement that would be in the best interests of policyholders cannot be achieved, the Rehabilitator intends to file a lawsuit against the applicable entities. The Nassau Group and Golden Gate dispute the validity of any claims.

Respectfully submitted,

Joshua Hershman

Rehabilitator of PHL Variable Insurance
Company, Concord Re, Inc., and Palisado Re, Inc.

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