

necessary.

3. Thereafter, the parties submitted additional documents for review by the Referee.
4. By writings dated April 29, 2005, Objector, Gregory L. Wade, ("Objector"), acting pro se, and counsel for the Liquidator notified the Referee that testimony need not be taken in this matter.
5. A second telephone conference was conducted with the parties on May 3, 2005, during which the parties agreed that there were no further documents to be submitted and that testimony need not be taken. A subsequent deadline was set for the submission of written arguments by the parties.
6. All documents and written arguments by the parties have been received by the Referee and this matter is now ripe for review and recommendation.

Findings of Fact

Claim No. 1408933

7. On or about February 20, 2002, Objector filed a Proof of Claim, which was assigned Claim Number 1408933, in which he sought payment in the amount of \$44,040.00, representing the loss of the

value of stocks in his 401(k) matching fund.

8. On July 14, 2004, the Liquidator issued a Notice of Determination assigning Priority Level (e) to Claim Number 1408933 finding that the claim for loss of value of Reliance Group Holdings stock was not a claim against the Estate of Reliance in Liquidation.
9. On September 27, 2004, Objector filed an objection to the assignment of Priority Level (e) on grounds that (1) he was employed to assist in the closing of the normal business operations of Reliance Insurance Company ("Reliance"), (2) was involved in the act of preserving or recovering the assets of the insurer, and (3) was part of the costs and expenses of administration. As such, Objector avers that his Proof of Claim should be assigned Priority Level (a).
10. On October 15, 2004, the Liquidator filed a response to Objector's objections averring that Objector's claim was for the loss of value of 4,408.806 shares of stock in Reliance Group Holdings, Reliance's parent company, held in Objector's Reliance Savings Incentive Plan Account which is comprised of shares purchased by Reliance representing the matching of Objector's contribution to his 401(k) Plan. As such, the Liquidator maintains that Objector's claim is for

breach of contract and constitutes a Priority Level (e) claim.

Claim No. 1919558

11. On or about February 20, 2002, Objector filed a Proof of Claim, which was assigned Claim Number 1919558, in which he sought payment in the amount of \$32,307.66 representing payment on an employee severance agreement for a term of fourteen weeks.
12. On July 14, 2004, the Liquidator issued a Notice of Determination in which it assigned Priority Level (e) to Objector's Proof of Claim at Number 1919558 on grounds that the Proof of Claim applied to an unpaid severance.
13. On September 22, 2004, Objector filed an objection to the assignment of Priority Level (e) on grounds that (1) he was involved in preserving or recovering the assets of Reliance, (2) he was promised one year of severance pay, and (3) was the subject of discrimination in that other workforce members were paid a severance. As such, Objector avers that his Proof of Claim should be assigned Priority Level (a).
14. On October 15, 2004, the Liquidator filed a response to Objector's objections stating that the Objector sought severance pay to which

Reliance was contractually obligated to provide under an Agreement and General Release dated October 31, 2000, which payments ceased on July 15, 2001, after Reliance was placed in Rehabilitation by this Honorable Court. As such, the Liquidator maintains that Objector's claim is for breach of contract and constitutes a Priority Level (e) claim.

Claim No. 1919559

15. On or about February 20, 2002, Objector filed a Proof of Claim, which was assigned Claim Number 1919559, in which he sought recovery in the estimated amount of \$10,000.00 representing the loss of value of 3,000 shares of stock issued on November 17, 1999, and an award of 10,700 shares in a stock option on June 14, 2000.
16. On August 4, 2004, the Liquidator issued a Notice of Determination in which it assigned Priority Level (e) to Objector's Proof of Claim at Number 1919559 on grounds that the loss of value of Reliance Group Holding's stock was not a claim against the Estate of Reliance in Liquidation since the estate did not issue the stock.
17. On September 27, 2004, Objector filed an objection to the assignment of Priority Level (e) on grounds that Objector was asked

to stay employed with Reliance to assist in closing down facilities and was, therefore, involved in acts of preserving or recovering the insurer's assets and was part of the costs and expenses of administration. As such, Objector avers that his Proof of Claim should be assigned Priority Level (a).

18. On October 15, 2004, the Liquidator filed a response to Objector's objections averring that Objector sought to recover (1) the loss of value of a stock grant of 10,700 shares in Reliance Group Holdings, Reliance's parent company, awarded to Objector in 2000 by Reliance Group Holdings and (2) stock options to purchase 3,000 shares of Reliance Group Holdings in 1999 which options were issued by Reliance Group Holdings. As such, the Liquidator maintains that Objector's claim is for a tort or a breach of contract and constitutes a Priority Level (e) claim.

General Findings of Fact

19. Objector was employed by Reliance.
20. By letter dated September 22, 2000, Objector was informed by Reliance that his employment with Reliance would terminate on October 31, 2000.

21. On October 31, 2000, Reliance and Objector entered into an Agreement and General Release which provided, in pertinent part, for the payment of severance pay commencing November 15, 2000, and comprised of twenty-four (24) semi-monthly payments of the Objector's then current salary.
22. By Order dated May 29, 2001, this Honorable Court placed Reliance into Rehabilitation.
23. By letter dated July 12, 2001, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her Capacity as Rehabilitator of Reliance Insurance Company, informed Objector that effective July 15, 2001, the severance plan of Reliance was terminated and that no further payments would be made to Objector.
24. By letter dated September 5, 2001, the Rehabilitator confirmed that the termination of the severance plan of Reliance included Objector's Agreement and General Release with Reliance.
25. By Order dated October 3, 2001, this Honorable Court terminated the Rehabilitation and placed Reliance in Liquidation.

Recommended Decision

It is the recommendation of the Referee that the objections of the Objector at Claim Numbers 1408933, 1919558, and 1919559 be denied.

The liquidation of an insolvent insurance company in Pennsylvania must occur in accordance with The Insurance Department Act of 1921 which provides, in pertinent part, for an order of distribution. 40 P.S. §221.44. There are nine classes of claims set forth in priority form and every claim in each class must be paid in full or adequate funds retained for such payment before the members of the next class receive any payment. Id.

Class (a), to which the Objector contends that his three claims belong, includes the following:

(a) The costs and expenses of administration, including but not limited to the following; the actual and necessary costs of preserving or recovering the assets of the insurer; compensation for all services rendered in the liquidation; any necessary filing fees; the fees and mileage payable to witnesses; reasonable attorney's fees; the expenses of a guaranty association in handling claims.

40 P.S. §221.44(a).

The uncontradicted evidence establishes that the Objector's employment with Reliance ended on October 31, 2000. This event was

prior to Reliance having been placed into Rehabilitation on May 29, 2001, and was prior to Reliance having been placed into Liquidation on October 3, 2001. As such, the claims by the Objector could not have been within the ambit of Priority Level (a) which provides for services rendered as part of the administration of the estate.

Although the Objector avers that his claims are the result of efforts to assist in closing the business operations of Reliance, that he was involved in the act of preserving or recovering the assets of the insurer, and that his actions were part of the costs and expenses of administration, such services were rendered prior to Reliance having been placed into Rehabilitation and Liquidation and cannot, therefore, be said to constitute costs and expenses of administration.

A plain reading of Section 221.44(a) is that claims constituting costs and expenses of administration of the insurer's estate are to first be paid. It is the law of this Commonwealth that the object of all interpretation and construction of laws is to ascertain and give effect to the General Assembly's intention and when the words of a statute are clear and free from all ambiguity, the letter of it is to be followed. 1 Pa.C.S.A. §1921(a),(b). This Referee cannot discern any intent in Section 221.44(a)

other than that the payment of costs and expenses of administration are to be made in this class.

Claim No. 1408933 seeks payment in the amount of \$44,040.00 representing the loss of the value of stock in Objector's 401(k) matching fund. In examining the classes of claims set forth in Section 221.44, Objector's claim constitutes a claim of a general creditor as Objector seeks to recover for losses occasioned by Reliance's insolvency.

Objector recognizes as much in his submission to the Referee dated April 8, 2005, in which he acknowledges that there does not appear to be recovery above Priority Level (e).¹

Claim No. 1919559 seeks payment in the amount of \$32,307.66 representing payment on an employee severance agreement for a term of fourteen weeks. Objector contends not only that he was involved in preserving or recovering the assets of Reliance and is thus entitled to a Priority Level (a) designation, but that the Rehabilitator of Reliance improperly terminated Objector's severance plan in violation of Reliance's promise to pay the same and with discriminatory impact in that other

¹Objector's submissions to the Referee were misnumbered with respect to the Proof of Claims. However, the Referee was able to identify the claims to which the submissions pertained.

workforce members received a full severance.

Objector's contention are beyond the scope of this Referee's charge by this Honorable Court which is to hear the objections to the notices of determination, submit findings of fact where appropriate and necessary, and issue recommended decisions. Thus, it is the assignment of the priority level which is before the Referee.

Even assuming arguendo that this Referee's charge included a review of the merits of Objector's claim of breach of a promise and discriminatory impact, Objector's argument must still fail. This Honorable Court's Order of May 29, 2001, placing Reliance into Rehabilitation specifically authorized the Rehabilitator, in her discretion, to affirm or disavow any executory contracts to which Reliance is a party, except for policies and contracts of insurance. Therefore, the Rehabilitator's termination of Objector's agreement with Reliance was within the scope of authority given the Rehabilitator by this Honorable Court.

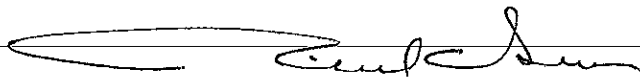
In examining the class of claims set forth in Section 221.44, Objector's claim at Number 1919558 sounds in breach of contract (failure of a promise to pay) and in tort (discriminatory impact) and, therefore,

constitutes a claim of a general creditor.²

Claim No. 1919559 seeks the payment of an estimated \$10,000.00 representing the loss of value of 3,000 shares of stock issued on November 17, 1999, and an award of 10,700 shares in a stock option on June 14, 2000. Based upon the law and reasoning set forth above with respect to Claim No. 1408933, Objector's claim is not for the costs and expenses of administration but is an attempt to recover a loss occasioned by the financial distress of Reliance. In examining the class of claims set forth in Section 221.44, Objector's claim constitutes a claim of a general creditor.

It is, therefore, the recommendation of the Referee that the objections of Objector at Claim Numbers 1408933, 1919558 and 1919559 be denied.

Respectfully submitted,



Richard C. Seneca, Esquire
Referee

Date: January 24, 2006

²In his submission, Objector cites the introduction of House Bill 2053 as a remedy for the averred injustice resulting in his loss of a full severance. This bill, however, has not been enacted into law.

CERTIFICATE OF SERVICE


I hereby certify that I am this day serving a copy of the foregoing document upon the person and in the manner indicated below:

Service by First Class Mail addressed as follows:

Gregory L. Wade
113 Century Oak Drive
Franklin, TN 37069

E. Parry Warner, Esquire
Obermayer Rebmann Maxwell & Hippel, LLP
1617 JFK Boulevard, 19th Floor
Philadelphia, PA 19103-1895

Dated: January 24, 2006



Richard C. Seneca, Esquire
Referee