

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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**IN RE:  
Reliance Insurance Company  
In Liquidation**

**NO. 1 REL 2001**

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***IN RE: Amended Application for Approval of Transfer of Ownership  
of the Remaining Structured Settlement Annuity Contracts***

**ORDER**

This matter having come before the Court on the Amended Application for Approval of Transfer of Ownership of the Remaining Structured Settlement Annuity Contracts submitted by the Statutory Liquidator (“Liquidator”) of Reliance Insurance Company (“Reliance” or “Estate”),

The Court concludes that the transfer of ownership of the remaining structured settlement annuity contracts from Reliance to the payees, who are receiving payments under such annuity contracts, in exchange for the discharge of Reliance's obligation to pay future amounts remaining due under the structured settlement agreements related to the annuity contracts is in the best interests of the Estate as the transfer allows for an orderly and timely closure of the Estate and discharge of the Liquidator in accordance with 40 P.S. § 221.48(a).

Accordingly, it is on the \_\_\_\_\_ day of \_\_\_\_\_, 2014 hereby

**ORDERED** that:

1. The Amended Application is GRANTED.
2. Effective as of the date of this Order, ownership of the remaining structured settlement annuity contracts is immediately transferred from Reliance to the payees receiving periodic payments under such annuity contracts and Reliance is directed to provide written notice of such transfer to the Annuity Issuers as identified in the Amended Application.
3. Effective as of the date of this Order, Reliance's obligation to pay future amounts remaining due under the remaining structured settlement agreements related to the remaining structured settlement annuity contracts is discharged.
4. Effective as of the date of this Order, Reliance and the Liquidator are discharged and released from any and all further liability or responsibility with respect to any remaining structured settlement agreements and the corresponding structured settlement annuity contracts funding such settlements.
5. It is confirmed that the Annuity Issuers of the remaining annuity contracts will not be released from any obligation under their respective remaining annuity contracts.

6. The Annuity Issuers of each of the remaining annuity contracts are directed to provide written notice to the payees thereunder of the transfer of ownership.

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**BONNIE BRIGANCE LEADBETTER, Judge**



broad powers on the Liquidator and vest the Liquidator with title to all the property and contracts of the insolvent insurer.

2. The Act authorizes the Liquidator to “transfer, abandon or otherwise dispose of or deal with, any property of the insurer at its market value or upon such terms and conditions as are fair and reasonable”. See 40 P.S. § 221.23(9).

3. In accordance with the authority granted by § 221.23(9) of the Act and in order to allow for an orderly and timely closure of the Estate and discharge of the Liquidator in accordance with 40 P.S. § 221.48(a), the Liquidator seeks approval of the transfer of ownership of the remaining structured settlement annuity contracts (the “Remaining Contracts”)<sup>1</sup> that the Liquidator has been unable to dispose of through

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<sup>1</sup> The Remaining Contracts do not include any annuities identified in separate Applications previously filed with the Court, as follows: (1) 3,093 Genworth annuity contracts that were the subject of an Application, filed on November 6, 2013 and approved by the Court in December 2013, to transfer ownership of all Reliance-owned Genworth annuity contracts and corresponding payment obligations funded by such contracts to a new corporation to be formed on the terms and conditions set forth in that Application; (2) 51 non-Genworth annuities that were the subject of two Applications filed on January 8, 2014, seeking Court approval: (i) for Reliance to qualify assign 35 annuities to assignment companies designated by nine annuity issuers pursuant to Section 130(c) of the Internal Revenue Code of 1986, as amended (the “Code”) and to discharge Reliance from any further responsibility regarding 12 structured settlements funded through payments to payees pursuant to reinsurance agreements between Reliance and three reinsurers (approved by the Court on February 28, 2014) and (ii) for Reliance to enter into Administration Agreements with six annuity issuers pursuant to which 16 annuities will be administered by different issuers and ownership transferred to the payees at a future date certain (approved by the Court on June 6, 2014); (3) 40 Aurora annuities that were the subject of two Applications filed on March 8, 2014 seeking Court approval: (i) for Reliance to qualify assign 37 annuities to an assignment company designated by Aurora pursuant to Section 130(c) of the Code (approved by the Court on April 24, 2014) and (ii) for Reliance to enter into an Administration Agreement with Aurora pursuant to which 3 annuities will be administered by Aurora and ownership transferred to the payees at a future date certain (pending); (4) 27 John Hancock Life Insurance Company (U.S.A.) f/k/a Manufacturers Life Insurance Company (“John Hancock”) annuities for Reliance to qualify assign the annuities to an assignment company designated by John Hancock pursuant to Section 130(c) of the Code (approved by the Court on June 23, 2014); (5) 1 AXA Equitable Life Insurance Company annuity (“AXA Equitable”) that was the subject of an Application filed on June 16, 2014, seeking Court approval for Reliance to qualify assign 1 annuity to an assignment company designated by AXA Equitable pursuant to Section 130(c) of the Code (approved by the Court on July 17, 2014); and (6) 3 annuities that were the subject of two Applications filed on July 14, 2014, seeking Court approval : (i) to qualify assign 2 annuities to assignment companies designated by two annuity issuers pursuant to Section 130(c) of the Code (approved by the Court on August 15, 2014) and (ii) for Reliance to enter into an Administration Agreement with one annuity issuer pursuant to which 1 annuity will be administered by the issuer and ownership transferred to the payee at a future date certain (pending).

agreements with annuity issuers of the Remaining Contracts. The Liquidator proposes the immediate transfer of ownership of the Remaining Contracts from the Estate to payees thereunder upon entry of this Court's Order approving the transfer. Further, the Liquidator seeks discharge and release of Reliance's obligations under the structured settlement agreements funded by the Remaining Contracts (the "Settlements"). All of Reliance's obligations, including making periodic payments under the Settlements, will be discharged as of the date of the Order approving this Application and the transfer of ownership to the payees.<sup>2</sup>

#### **The Remaining Contracts Are Property of the Estate**

4. Based on available data, the Liquidator believes that Reliance is the obligor (i.e., the party directly responsible for making periodic payments) under 11 Settlements for which it funded its periodic payment obligations through the purchase of the Remaining Contracts. The annuity issuers for the Remaining Contracts ("Annuity Issuers") and the annuity contract numbers are listed in the Schedule of Annuity Issuers and Remaining Contracts attached to this Application.<sup>3</sup>

5. Structured settlements are used in settlement agreements involving personal physical injury or sickness claims or workers' compensation claims and allow the claimant to receive damages or compensation in the form of payments made over a period of time rather than in one lump sum. Because of the time value of money, the claimant will receive more, in total, over time than in a single up-front payment.

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<sup>2</sup> As explained more fully in paragraph 7 below, Reliance, as owner of the Remaining Contracts, instructed the annuity issuers to make future periodic payments directly to the payee(s). However, the underlying obligation to make the payments under the Settlements to the payees remains with Reliance.

<sup>3</sup> Delaware American Life Insurance Company ("DALIC") is included solely because it filed a contingent Proof of Claim ("POC") in 2003 in the Reliance liquidation on behalf of any payees under structured settlements for which it may have issued a Reliance-owned annuity. DALIC stated in its POC that it had not identified any such payees. Similarly, Reliance has not identified any such payees either.

6. The Remaining Contracts arose when Reliance settled a claim against a Reliance insured by means of a structured settlement and purchased an annuity contract to fund the settlement payments which Reliance was obligated to make under its policy.

7. As owner of the Remaining Contracts, Reliance instructed the annuity issuers to make future periodic payments directly to the payee(s) named in the Settlements and the annuity application rather than to Reliance.

8. As owner of the Remaining Contracts, the Liquidator has all rights of ownership and control.

9. One such right is the right to transfer ownership of the annuity contracts upon notice to the annuity issuer. For the reasons set forth herein, the Liquidator has concluded that it is in the best interest of the Estate to exercise that right and, subject to Court approval, to transfer ownership of the Remaining Contracts to the current payees.

#### **Payments under the Remaining Contracts**

10. Similar to the annuities that have been the subject of other Applications filed by the Liquidator with the Court, periodic payments under the Remaining Contracts took a variety of forms, including a specific number of guaranteed lump sum payments to be paid regardless of whether the claimant is alive or not; guaranteed lump sum payments, plus monthly payments of a specific amount, commencing on a date certain, with a certain number of months guaranteed and thereafter payments becoming life contingent; and monthly payments of a specific amount with a certain number of months guaranteed and thereafter becoming life contingent, subject to specified annual percentage increases.

11. The Liquidator believes that most of the Remaining Contracts have life contingent payments and that, based on life expectancy assumptions, many of these

payments may be paid many years into the future even beyond the duration of any remaining guaranteed payments.

12. The length of the stream of future payments described above means that the estimated present value (i.e., on a discounted basis) of the Remaining Contracts is substantially less than the total amount expected to be paid out over time on an undiscounted basis. As described above, the combined effect of the Settlements and the corresponding Remaining Contracts is that Reliance is neither the payor nor the payee of the annuity payments.

13. Since liquidation, payees have continued without interruption to receive payments from the annuity issuers under the Remaining Contracts.

#### **Disposition of the Remaining Contracts**

14. While it is uncertain at this time precisely when the Liquidator will be discharged and Reliance dissolved, it is neither feasible nor fair to the Reliance claimants and creditors, or the Court, to keep the Estate open for the entire duration of the payments under the Settlements and the Remaining Contracts, some of which may likely continue for many years. To avoid that undesirable outcome, the Liquidator considered options for the ultimate disposition of the Remaining Contracts “in a manner that will assure the proper recognition of priorities and a reasonable balance between the expeditious completion of the liquidation and the protection of unliquidated and undetermined claims, including third party claims.” See 40 P.S. § 221.46. Reliance repeatedly tried, without success, to obtain the cooperation of the annuity issuers that had issued the vast majority of Reliance-owned annuities in devising alternative options for disposition of all Reliance-owned annuity contracts.



15. Therefore, on September 10, 2012 Reliance filed an Application for Approval to Transfer Ownership of Structured Settlement Annuity Contracts seeking to transfer ownership immediately to the payees of all annuity contracts owned by Reliance, including the Remaining Contracts.

16. After filing the September 10, 2012 Application, Reliance was then approached by the Genworth issuers and several other issuers that had issued the majority of the annuity contracts who expressed the serious intent to cooperate in finding alternative solutions. As a result, Reliance asked that the Court stay the 2012 Application while it continued its long-running efforts to identify viable options to dispose of the structured settlement annuity contracts other than by immediate transfer to the payees. Reliance revived discussions with most of the annuity issuers which centered on alternative options to the requested transfer. These included, where possible, “qualified assignments” within the meaning of Section 130(c) of the Internal Revenue Code of 1986, as amended, by Reliance of its obligation to make the periodic payments due under the structured settlement annuity contracts. Where such “qualified assignments” were not possible, Reliance proposed Administration Agreements between Reliance and annuity issuers with a deferred date of transfer of ownership to payees.

17. Fortunately, those discussions resulted in Reliance’s reaching comprehensive agreements with not only the Genworth annuity issuers but also many non-Genworth annuity issuers. Those agreements are the subject of the prior Applications filed with the Court as described in footnote 1 above. Reliance was successful in coming to agreements with issuers representing over 99% of the Reliance-owned annuities.

18. However, notwithstanding Reliance's repeated efforts through the National Structured Settlements Trade Association ("NSSTA")<sup>4</sup> to make issuers aware of Reliance's desire to seek Court approval to qualifiedly assign the annuities or to enter into Administration Agreements and, only as a last resort, to transfer ownership immediately to the payees, a very small number of annuity issuers did not respond at all.

19. Rather than seeking court approval immediately to transfer ownership to the payees under the Remaining Contracts, Reliance instead made a final effort to find another alternative. Reliance researched the corporate history of the issuers (many of which had been acquired by other insurers over the years) and then contacted those issuers directly or their successors in interest. In each instance Reliance identified the annuity contracts that its records showed had been issued by the issuer and provided the names, contract numbers and annuity payment data. Reliance also provided drafts of the previously court-approved Qualified Assignment Agreement and Administration Agreement and requested that the issuer agree to enter into one of them. Reliance followed up with the issuers, in some cases, many times, in an attempt to find an acceptable alternative to the immediate transfer of ownership to the payees.

20. As a result of these efforts, Reliance was able to obtain executed agreements with 3 additional issuers but has been unable to obtain executed agreements from the 3 other Annuity Issuers listed on the Schedule attached to this Application.

21. After careful consideration, therefore, in conjunction with advisors and experts, the Liquidator has determined that immediate transfer of ownership of the Remaining Contracts to the payees, with simultaneous discharge of Reliance's contingent

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<sup>4</sup> The Liquidator understands that its communications were disseminated by NSSTA to both NSSTA members and non-members.

obligations, is the only viable option regarding the Remaining Contracts and the one that advances the best interests of the Reliance Estate, claimants and creditors. No other alternative option accomplishes the goals of finality and expense reduction.

22. The Liquidator has concluded that there will be no federal income tax liability to Reliance arising as a result of the proposed transfer and that the transfer under the terms outlined in this Application is in the best interest of the Reliance Estate, claimants and creditors. With respect to the potential tax consequences to any payees under the Remaining Contracts, each has unique circumstances that make it impossible and imprudent for the Liquidator to make predictions or provide payees with tax or other advice with respect to the tax consequences of the transfer.

23. The Liquidator proposes that effective as of the date of entry of the Court Order approving this Application, the Reliance Estate and the Liquidator will be discharged and released from all further responsibility and/or liability associated with the Settlements and the transferred Remaining Contracts. Upon entry of such an Order, Reliance will provide the Annuity Issuers of the Remaining Contracts with a copy of the Order and written notice that the transfer of ownership of the Remaining Contracts to the payees shall be effective as of the date of the Order. The Annuity Issuers will be directed to provide written notice of the transfer of ownership to the payees under the Remaining Contracts. The Annuity Issuers of the Remaining Contracts will remain obligated to make periodic payments as required under the Remaining Contracts.

24. The transfer of ownership of the Remaining Contracts to the payees will provide finality and closure as to this contingent obligation of the Estate. After transfer

of ownership to the payees, the payees will have the same right to receive payments directly from the Annuity Issuers as they currently have.

25. The transactions referred to in paragraph 21 above are contingent upon the Court's issuing an Order:

- (a) approving Reliance's formal transfer of ownership of the Remaining Contracts to the payees thereof through written notice to Annuity Issuers;
- (b) effective as of the date of the Order, discharging and releasing Reliance and the Liquidator from any and all further liability or responsibility with respect to the Settlements and the Remaining Contracts;
- (c) confirming that the Annuity Issuers will not be released from any obligation under their respective Remaining Contracts; and
- (d) directing that the Annuity Issuers give written notice to the payees of the transfer of ownership.

**Notice of this Application**

26. As required by Rule 3780 of the Rules of Appellate Procedure, the Liquidator has sent the requisite Notice to all non-parties on the Master Service List and has served a copy of this Application on all parties on the Master Service List. The Liquidator has also served a copy of this Application on the Annuity Issuers of the Remaining Contracts, including annuity issuers that submitted contingent Proofs of Claim on behalf of payees.

27. The Annuity Issuers have provided the Liquidator with the current names and addresses of payees receiving periodic payments under the Remaining Contracts. In order to provide notice to the payees, the Liquidator respectfully requests that the Court

approve the form of Notice to the payees attached hereto as Exhibit A and enter an interim Order with respect to such Notice in the form attached hereto as Exhibit B.

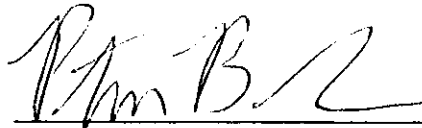
**RELIEF SOUGHT**

28. Pursuant to the authority conferred by 40 P.S. § 221.23(9) and this Court's Orders, including the Liquidation Order, the Liquidator respectfully requests that, after Reliance certifies to the Court that it has provided Notice to the payees under the Remaining Contracts and the payees have had an opportunity to object, this Court enter an Order in the form attached hereto:

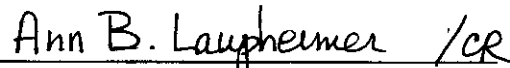
- (a) approving the immediate transfer of ownership of any Remaining Contracts from Reliance to the payees receiving periodic payments under such contracts;
- (b) effective as of the date of this Order, discharging Reliance's obligation to pay future amounts remaining due under the Reliance Settlements;
- (c) effective as of the date of this Order, discharging and releasing Reliance and the Liquidator from any and all further liability or responsibility with respect to the Reliance Settlements and the Remaining Contracts;
- (d) confirming that the Annuity Issuers of the Remaining Contracts will not be released from any obligation under their respective Remaining Contracts; and
- (e) directing that the Annuity Issuers shall provide written notice of the transfer of the Remaining Contracts to the payees thereunder.

WHEREFORE, the Liquidator respectfully requests that this Court grant the Application, enter an Order in the form attached hereto, and order such other relief as this Court deems necessary and appropriate.

Respectfully submitted,



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Attorneys for Applicant, Michael F.  
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Commonwealth of Pennsylvania, in his  
capacity as Statutory Liquidator of Reliance  
Insurance Company

Dated: August 20, 2014

**SCHEDULE OF ANNUITY ISSUERS AND REMAINING CONTRACTS**

<b><u>Annuity Issuer</u></b>	<b><u>Remaining Contracts Nos.</u></b>
1. The Capitol Life Insurance Company	01-609338
2. Delaware American Life Insurance Company	None
3. Washington National Life Insurance Company f/k/a National Fidelity Life Insurance Company	920 1143 1164 1295 1322 1445 1490 1671 1674 1742

**VERIFICATION**

I, David S. Brietling, am authorized by Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania, pursuant to 40 P.S. §221.23, to act on his behalf in his capacity as the Liquidator of Reliance Insurance Company and to supervise the daily operations as Chief Liquidation Officer for Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing pleading are true and correct to the best of my knowledge, information and belief.

I understand that this Verification is made subject to the penalties of 18 P.S. §4904 relating to unsworn falsification to authorities.

Executed on August 20, 2014

  
\_\_\_\_\_  
DAVID S. BRIETLING



**CERTIFICATE OF SERVICE**

I, Claire Rocco, hereby certify that I am this day serving the foregoing document upon the persons indicated below and in the manner indicated below in accordance with Pa. R.A.P. Nos. 121, 3780 and 3784(a):

Upon the attached Master Service Parties List by first class U.S. Mail or e-mail.

Upon the attached Master Service Non-Parties List by a Notice of Filing.

Upon the attached list of Annuity Issuers by a Notice of Filing.

Dated: August 20, 2014

Claire Rocco  
CLAIRE ROCCO

**Master Service List  
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No. 1 REL 2001 (Commonwealth Court of Pennsylvania)

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Company, Federal Home Life Insurance Company,  
and GE Life and Annuity Assurance Company) and  
National Structured Settlements Trade Association)

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## Annuity Issuer Service List

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(Attorney for Washington National Life  
Insurance Company f/k/a National Fidelity Life  
Insurance Company)

**EXHIBIT A**

**NOTICE TO PAYEE of Request to Transfer Contract Ownership**

You are receiving this Notice because you receive periodic payments under a structured settlement funded by an annuity contract (“the Annuity Contract”) issued by \_\_\_\_\_ (“Annuity Issuer”). Reliance Insurance Company (“Reliance”), which is responsible for the payments under the structured settlement, purchased your Annuity Contract to fund those payments and owns your Annuity Contract. Reliance instructed the Annuity Issuer to pay you directly and so you have been receiving payments from the Annuity Issuer. Reliance is being liquidated by the Pennsylvania Insurance Commissioner pursuant to an Order of Liquidation entered by the Commonwealth Court of Pennsylvania (the “Court”) in October 2001.

Reliance is seeking Court approval to transfer ownership to you of the Annuity Contract under which you receive payments with such transfer of ownership to be effective immediately. There may be tax consequences to you as a result of the transfer with respect to the periodic payments received after such transfer. Consequently, you may want to consult a tax advisor or accountant.

Because your structured settlement is funded in accordance with the Annuity Contract and you have been receiving payments directly from the Annuity Issuer under your Annuity Contract, Reliance’s obligation to make any additional payments has been contingent only. Reliance is seeking Court approval to be discharged and released immediately with regard to its contingent obligation to make the periodic payments to you under the structured settlement in the event the Annuity Issuer fails to meet its payment obligation and from all further liability or responsibility related to your structured settlement.

Reliance is seeking to have the Court confirm that the Annuity Issuer remains responsible to make annuity payments to you in the same manner as before the transactions. Reliance’s request and the Court’s response will not affect your rights to receive continuing payments from the Annuity Issuer under your Annuity Contract, although it may have tax implications for you. If the Court approves Reliance’s request, you would no longer have any rights with respect to Reliance. If you have any objection to the transfer, you must file an objection with the Commonwealth Court of Pennsylvania at the following address within sixty (60) days from \_\_\_\_\_, 2014: [insert date] Reliance certifies that Notice was mailed by first class mail, postage prepaid to payees]

**Chief Clerk's Office**  
Commonwealth Court of Pennsylvania  
Pennsylvania Judicial Center  
601 Commonwealth Avenue, Suite 2100  
P.O. Box 69185  
Harrisburg, PA 17106-9185

If you would like to receive a copy of the Liquidator’s filing, you may obtain a copy:

- (1) at [www.reliancedocuments.com](http://www.reliancedocuments.com); or
- (2) by calling Reliance at 215-864-4000; or
- (3) by e-mail inquiry to [Liquidator@relianceinsurance.com](mailto:Liquidator@relianceinsurance.com) (Please refer to the “Structured Settlement Annuity Filing”).

**EXHIBIT B**



IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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**IN RE:  
Reliance Insurance Company  
In Liquidation**

**NO. 1 REL 2001**

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**IN RE:            Amended Application for Approval of Transfer of Ownership  
of the Remaining Structured Settlement Annuity Contracts**

**ORDER**

This matter having come before the Court on the Amended Application for Approval of Transfer of Ownership of the Remaining Structured Settlement Annuity Contracts submitted by the Liquidator (“Liquidator”) of Reliance Insurance Company (“Reliance” or “Estate”), and the Court having reviewed the form of Notice to Payees (the “Notice”), attached to the Application as Exhibit A:

Accordingly, it is on the \_\_\_ day of \_\_\_\_\_, 2014 hereby **ORDERED**

that:

(a) the Court APPROVES the form and substance of the Notice;

(b) because the Annuity Issuers (as defined in the Amended Application) have already provided Reliance with the current names and addresses of the payees receiving payments from the Annuity Issuers identified in the Schedule of Annuity Issuers and Remaining Contracts attached to the Amended Application, within \_\_\_\_ days of the date of this Order, Reliance shall provide notice to the payees by mailing the Notice to the payees by first class mail; and

(c) Reliance shall provide written certification to the Court that it has provided the Notice to the payees at the addresses provided by the annuity issuers.

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**BONNIE BRIGANCE LEADBETTER,**  
**Judge**