

**Commonwealth of Kentucky
Department of Workers' Claims
Office of the Commissioner**

"BULLETIN"

**RE: Legion Insurance Company
Villanova Insurance Company**

The Department of Workers' Claims has been requested to provide guidance to Administrative Law Judges and attorneys representing claimants and/or employers insured for workers' compensation coverage by either Legion Insurance Company or Villanova Insurance Company. Both of these carriers are in a rehabilitation process administered by the Office of Liquidations and Rehabilitations in the Pennsylvania Insurance Department.

Background:

- March 29, 2002 – The Commonwealth Court of Pennsylvania granted the petition of Pennsylvania Insurance Commissioner M. Diane Koken for Orders of Rehabilitation for Legion Insurance Company and Villanova Insurance Company effective April 1, 2002. Copies of the Orders of Rehabilitation can be obtained via the PA PowerPort at www.state.pa.us, PA Keyword: "insurance." Those without Internet capability may call (717)787-3289 to request a copy.

June 29, 2002 – Rehabilitator requests and is granted by the Commonwealth Court of Pennsylvania an extension of stay on litigation for ninety (90) days until September 27, 2002.

July 26, 2002 – The Pennsylvania Insurance Department through its Office of Liquidations and Rehabilitations, acknowledging the complexity of the situation, issued a letter clarifying the procedures of handling workers' compensation claims under the Rehabilitation Order. The text of this letter is provided below and a signed copy is available at the Department of Workers' Claims if you so desire.

Allow me first to extend the appreciation of the Rehabilitator of Legion and Villanova for your cooperation and assistance while the Rehabilitation Team completes its financial analysis of the companies. Because the issues are complex, this analysis is ongoing. For this reason, the Rehabilitator sought from the Commonwealth Court of Pennsylvania and was granted an extension of the stay on litigation for an additional 90 days until September 27, 2002. The purpose of this letter is to provide clarification of our procedures of handling workers' compensation claims under Rehabilitation Order.

Legion and Villanova are paying undisputed workers' compensation claims. This means that we continue to pay temporary total, temporary partial, permanent total, permanent partial and scheduled loss of use ratings benefits as well as expenses for medical treatment and vocational rehabilitation services. We will also pay prescription costs and mileage or other transportation costs to and from doctors' appointments if required. We are deferring payment of lump sum awards at this time. If a lump sum award has been granted, or is granted in the future, however, we will pay these benefits in weekly installments at the employee's weekly compensation rate.

All denied or disputed claims that go to mediation hearings will be handled as usual; we will direct defense counsel to attend mediation hearings in an attempt to reach a compromise settlement. If such a settlement is reached, we will pay "on forms" or per the compromise agreement in weekly payments. If back weekly payments become due as a result of such compromise agreements, we will pay such benefits to bring the employee to a current status. If a compromise agreement cannot be reached, we will request a 90-day stay on future hearings.

Finally, although we are deferring payment of third party administrators' and other vendors' fees (e.g., attorneys' fees) which were incurred but not paid prior to April 1, 2002, we are paying these expenses for services provided after April 1 in accordance with the Order of Rehabilitation.

If I may be of assistance to you in further clarifying this information, please don't hesitate to call on Nancy Henrich at the Legion/Villanova offices at (215)979-7835.

Sincerely,

*Paula Hower Clausen
Rehabilitation Team – Claims*

- August 28, 2002 – Pennsylvania Insurance Commissioner M. Diane Koken filed Petitions to Liquidate the Companies with the Court stating in her letter to the jurisdictions, "After diligently attempting to determine if the Companies could be rehabilitated and ultimately concluding that further efforts would be futile, and mindful of the harm to policyholders, claimants and creditors that would accrue should a futile rehabilitation continue, my Rehabilitation Team and I concluded that it was necessary to seek liquidation of the Companies."

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- September 25, 2002 – Judge Mary Hannah Leavitt of the Commonwealth Court of Pennsylvania scheduled a Prehearing Conference on both Petitions for October 4, 2002.

October 18, 2002 – Pennsylvania Insurance Commissioner M. Diane Koken filed Emergency Amended Petitions for Liquidation citing concerns over imminent default on workers' compensation and other claim payments after October 24, 2002.

- October – January 31, 2003 – Judge Mary Hannah Leavitt of the Commonwealth Court of Pennsylvania issues a sequence of orders extending the workers' compensation claim payments in those states that complied with the statutory deposit requests of Pennsylvania Insurance Commissioner M. Diane Koken. Kentucky is included in this group of states whose workers' compensation claim payments have been extended.
- January 31, 2003 – The DWC receives notice from Kentucky Department of Insurance that another extension has been ordered by Judge Leavitt extending workers' compensation claim payments through February 14, 2003.

Additional Information:

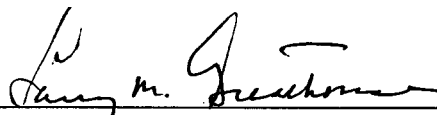
It seems reasonable to expect a continuation of extensions till a permanent solution, probably liquidation, is identified. If the ultimate decision is a liquidation of the two insurance companies then, once the official order of liquidation with a finding of insolvency is signed, The Kentucky Insurance Guaranty Association (KIGA) becomes an instrumental participant and events proceed along the following timeline:

- A. Indemnity Benefits – KIGA will make every attempt to immediately initiate payments and cure all defaults. KIGA has already been in contact with the appropriate agencies in PA and Legion Insurance Company to facilitate these payments.
- B. Other Payments – The time to cure these defaults (medicals, attorney fees, etc.) may take a little longer but should be completed within 60-90 days from date of liquidation.

- C. Pending Claims – It is the custom for KIGA to retain the current counsel on this case provided the attorney is willing. KIGA anticipates it will expedite the assignment of new counsel to defend claims because these are workers' compensation claims.
- D. Per Scott Webster – KIGA does not need to ever be named as a party to these cases. Some attorneys have already named KIGA to Legion Insurance cases causing KIGA additional work at a time when the liquidation order has not occurred.

If you have additional questions or concerns regarding this "Bulletin", please contact Gary Davis, Director of Security and Compliance at (502)564-5550, Extension 4526.

This 10th day of February, 2003.



Larry M. Greathouse, Commissioner