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11 HARTFORD LIFE INSURANCE COMPANY
12 AND HARTFORD LIFE AND ACCIDENT
13 INSURANCE COMPANY

14 SUPERIOR COURT OF THE STATE OF CALIFORNIA
15 COUNTY OF SAN FRANCISCO
16 UNLIMITED JURISDICTION

17 HARTFORD LIFE INSURANCE
18 COMPANY and HARTFORD LIFE AND
19 ACCIDENT INSURANCE COMPANY,

20 Plaintiffs,

21 v.

22 STATE OF CALIFORNIA ex.rel.
23 CALIFORNIA DEPARTMENT OF
24 INSURANCE; JOHN GARAMENDI AS
25 CALIFORNIA INSURANCE
26 COMMISSIONER,

27 Defendants.

CASE NO. 505218

SETTLEMENT AGREEMENT

1 SETTLEMENT AGREEMENT

2 This Compromise Settlement Agreement is entered into between HARTFORD LIFE
3 INSURANCE COMPANY and HARTFORD LIFE AND ACCIDENT INSURANCE
4 COMPANY (collectively referred to hereinafter as "Hartford Life"), and the STATE OF
5 CALIFORNIA ex.rel. CALIFORNIA DEPARTMENT OF INSURANCE and THE
6 CALIFORNIA INSURANCE COMMISSIONER (collectively referred to hereinafter as "CDI").
7 (Collectively referred to as the "Parties.")

8 WHEREAS, former Insurance Commissioner John Garamendi issued a Notice
9 Withdrawing Approval and Order for Information ("Notice") on February 27, 2004 withdrawing
10 approval of specified insurance policies and forms, including policies and forms issued by
11 Hartford Life, because they contained generically defined "discretionary clauses" (a copy of the
12 February 27, 2004 Notice and Order are attached hereto for reference as Exhibit A);

13 WHEREAS, Hartford Life timely requested a hearing pursuant to Insurance Code § 12957
14 to vacate, modify, or annul Commissioner Garamendi's Order Withdrawing Approval of the
15 Hartford Life's policies and forms;

16 WHEREAS, the CDI responded by appointing a Hearing Office who conducted an
17 informal administrative proceeding;

18 WHEREAS, after briefing and argument, the Hearing Officer issued a proposed decision
19 on March 18, 2005, recommending that the Commissioner's Order withdrawing approval of the
20 Hartford Life policies and forms be upheld in its entirety (a copy of the Hearing Officer's
21 proposed decision dated March 18, 2005 is attached hereto for reference as Exhibit B);

22 WHEREAS, former Insurance Commissioner Garamendi adopted the Hearing Officer's
23 proposed decision by Order dated March 22, 2005 (a copy of the Commissioner's March 22, 2005
24 Order is attached hereto for reference as Exhibit C);

25 WHEREAS, Hartford Life filed a Petition for Writ of Administrative Mandamus and
26 Complaint For Declaratory and Injunctive Relief in the San Francisco Superior Court on April 21,
27 2005 (a copy of the writ petition and complaint filed by Hartford Life is attached hereto for
28 reference as Exhibit D.) The superior court action and the underlying administrative proceedings

1 shall be referred to hereinafter as the "ACTION";

2 WHEREAS, San Francisco Superior Court Judge Warren issued a Proposed Statement of
3 Decision on June 8, 2006, finding in favor of defendants on all issues, except the Court's ruling in
4 favor of Hartford Life that the Commissioner did not have authority over Summary Plan
5 Descriptions (a copy of the Proposed Statement of Decision is attached hereto for reference as
6 Exhibit E);

7 WHEREAS, Judge Warren overruled Hartford Life's Objections to the Proposed
8 Statement of Decision on January 8, 2007 and adopted the Statement of Decision filed on June
9 30, 2006;

10 WHEREAS, judgment in favor of defendants was entered on January 8, 2007 (a copy of
11 the judgment entered on January 8, 2007 is attached for reference hereto as Exhibit F);

12 WHEREAS, the Ninth Circuit issued an en banc opinion in *Abatie v. Alta Health & Life*
13 *Ins.*, 458 F.3d 955, 962 (9th Cir. 2006) on August 15, 2006, which changed the manner in which
14 the trial courts are to apply the abuse of discretion standard of review in an action for benefits
15 under an insured health & welfare plan subject to the Employee Retirement Income Security Act
16 of 1974 ("ERISA") 29 U.S.C. section 1001 et seq.;

17 WHEREAS, Hartford Life filed a motion for new trial on February 7, 2007, based on the
18 Ninth Circuit's ruling in *Abatie v. Alta Health & Life Ins.*, 458 F.3d 955, 962 (9th Cir. 2006) and
19 other grounds;

20 WHEREAS, the motion for new trial was denied on March 9, 2007;

21 WHEREAS, an amended judgment was entered on March 14, 2007 (a copy of the
22 amended judgment entered on March 14, 2007 is attached for reference hereto as Exhibit G);

23 WHEREAS, Hartford Life filed a Notice of Appeal on May 14, 2007;

24 WHEREAS, the parties have engaged in settlement negotiations throughout the course of
25 the ACTION;

26 WHEREAS, bona fide disagreements and controversies exist between the Parties and the
27 Parties desire to compromise and settle all lawsuits, claims, rights, and causes of action, they have
28 arising out of, or in connection with, the Commissioner's Notice of Withdrawal of Approval

1 dated February 27, 2004 and the March 22, 2005 Order adopting the Proposed Decision of
2 Hearing Officer Leslie Tick dated March 19, 2005; and

3 WHEREAS, the parties have reached a settlement and compromise agreement; and

4 WHEREAS, the Parties believe it is in the best interest of the Parties and for the
5 consideration set forth below, to execute this Settlement Agreement;

6 This is a Release by each Party to this Agreement against each other of any and all claims
7 or actions that relate to or arise out of the ACTION filed by Hartford Life in the case entitled
8 Hartford Life Insurance Company and Hartford Life and Accident Insurance Company v. State of
9 California ex. rel. California Department Of Insurance; John Garamendi as California Insurance
10 Commissioner, filed in the San Francisco County Superior Court, case no. 505218.

11 For the consideration and promises described below, the Parties to this Settlement
12 Agreement agree as follows:

13 1. The Commissioner agrees to vacate the Notice of Withdrawal of Approval dated
14 February 27, 2004 and the March 22, 2005 Order adopting the Proposed Decision of Hearing
15 Officer Leslie Tick dated March 19, 2005, in exchange for the following:

- 16 a. Hartford Life will amend its policy form to delete the following contract provision
17 (module Z-LTD (G006)) of approved form Z-LTD C001 and any related
18 certificates or policies and any later revised forms:

19 **Who Interprets Policy Terms and Conditions?**

20 We have the full discretion and authority to determine
21 eligibility for benefits and to construe and interpret all terms
22 and provisions of the Group Insurance Policy.

- 23 b. Hartford Life shall replace module Z-LTD (G006) with the following language
24 that the Commissioner is satisfied does not violate California Insurance Code
25 §10291.5 (a), (b)(1) or (b)(13):

26 **How Will Hartford Determine Your Eligibility for Benefits?**

27 Hartford, and not Your employer or plan administrator, has
28 the responsibility to fairly, thoroughly, objectively and
timely investigate, evaluate and determine Your eligibility
for benefits for any claim You [or Your beneficiaries]

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make on the Policy. We will:

- 1) obtain, with Your cooperation and authorization if required by law, only such information that is necessary to evaluate Your claim and decide whether to accept or deny Your claim for benefits. We may obtain this information from Your Notice of Claim, submitted Proofs of Loss, statements, or other materials provided by You or others on Your behalf; or, at Our expense We may obtain necessary information, or have You physically examined when and as often as We may reasonably require while the claim is pending. In addition, and at Your option and at Your expense, You may provide Us and We will consider any other information, including but not limited to, reports from a Physician or other expert of Your choice. You should provide Us with all information that You want Us to consider regarding Your claim.
- 2) consider and interpret the Policy and all information obtained by Us and submitted by You that relates to Your claim for benefits and make Our determination of Your eligibility for benefits based on that information and in accordance with the Policy and applicable law.
- 3) if We approve Your claim, review Our decision to approve Your claim for benefits as often as is reasonably necessary to determine Your continued eligibility for benefits.
- 4) if We deny Your claim, explain in writing to You [or Your beneficiaries] the basis for an adverse determination in accordance with the Policy as described in the provision entitled "What notification will You receive if Your claim is denied?"

In the event We deny Your claim for benefits, in whole or in part, You can appeal the decision to Us. If You choose to appeal Our decision, the process You must follow is set forth in the Policy provision entitled "What recourse do You have if Your claim is denied?" If You do not appeal the decision to Us, then the decision will be Hartford's final decision.

2. CDI agrees to vacate its Order dated March 13, 2006, designating its March 22, 2005 Decision as precedential.

3. Ninety days after the approval by CDI of the policy forms identified in paragraph 4 below, Hartford Life agrees it shall no longer market, issue, deliver or sell in California any policy, certificate or endorsement that contains the language set forth in module Z-LTD (G006).

4. Hartford Life shall file an amendment to and the Department of Insurance shall

1 promptly approve: (1) the amendments to all Hartford Life's employer market policy forms
2 associated with certificates Z-STD (C003/C004) and Z-LTD/STD C001/C002 with modules Z-
3 LTD/STD (G006) deleted and replaced with the provision set forth above in paragraph 1.b
4 (submitted by Hartford Life in compliance with the Industry Trade Group Settlement and known
5 as CDI form filing nos. PF-2006-00669); (2) the amendments to Hartford Life's association
6 market disability income forms (submitted by Hartford Life in compliance with the Industry
7 Trade Group Settlement and known as CDI file nos. PF2006-00663 and PF-2006-00653); and (3)
8 pending disability income policy forms including the provisions set forth above in paragraph 1.b
9 (submitted by Hartford Life in compliance with the Industry Trade Group Settlement and known
10 as CDI form filing nos. PF-2006-00652; and, PF-2006-00651). A list of all amended and new
11 form numbers submitted to CDI in conjunction with the Trade Group Settlement by CDI file
12 numbers is set forth in Attachment H. Approval of the policies and amendments thereto shall be
13 provided no later than 30 days after the execution of this Settlement Agreement.

14 5. The Commissioner is satisfied that the reasons for withdrawal set forth in the
15 February 27, 2004 Notice and the Hearing Officer's Decision of March 19, 2005 adopted as the
16 Commissioner's Order on March 22, 2005 no longer apply once Harford Life amends Z-LTD
17 C001 by deleting module Z-LTD (G006) and substituting in its place the provision set forth above
18 in paragraph 1.b.

19 6. Neither this Settlement Agreement, nor the compromise of disputes contained
20 herein, shall be construed as an admission of liability by any Party. This is a compromise of a
21 disputed claim.

22 7. In consideration of the above, Hartford Life agrees to dismiss its appeal after the
23 Hartford Life policies containing the new provision set forth in paragraph 1.b. are approved by
24 the CDI.

25 8. After the appeal is dismissed, the Commissioner and the CDI agree the superior
26 court's judgment entered on January 8, 2007 is not enforceable with respect to Hartford Life.

27 9. Commissioner Poizner agrees he will not withdraw approval of the new policy
28 provision set forth in paragraph 1.b. unless there is an intervening change in the law.

1 10. The Parties expressly understand and acknowledge that it is possible that unknown
2 losses or claims exist or that the present ACTION may have been underestimated in amount or
3 severity, and the Parties, and each of them, state that this possibility was taken into account in
4 determining the consideration for this Release. A portion of the consideration was bargained for
5 between the parties with the knowledge of the possibility of such known and underestimated
6 claims and was given in exchange for a full satisfaction and discharge of all such claims. The
7 Parties expressly accept and assume the risk that facts now believed to be true are actually not
8 true or that facts are different than currently believed. This Release shall remain effective
9 notwithstanding such difference in facts. The Parties hereby acknowledge that they have read and
10 do hereby waive the provisions of Section 1542 of the California Civil Code that states as
11 follows:

12 “A general release does not extend to claims which the creditor
13 does not know or suspect to exist in his favor at the time of
14 executing the release, which if known by him must have materially
15 affected his settlement with the debtor.”

16 11. This Settlement Agreement shall be binding and is binding upon each party’s
17 respective successors, assigns, parent and subsidiary companies, agents, attorneys, and
18 representatives to the extent allowable by law.

19 12. Each party shall bear its own attorneys fees, costs, and expenses incurred in this
20 ACTION, up to and including the negotiations, preparation and execution of this Settlement
21 Agreement except as provided as part of the settlement payments made herein. Any claim for
22 attorneys’ fees or costs incurred by the parties is hereby expressly waived and released.

23 13. This Settlement Agreement shall be construed and enforced pursuant to the laws of
24 the State of California without application of the principles of conflicts of law.

25 14. In the event of a controversy, claim, or dispute arising from the enforcement or the
26 interpretation of this Settlement Agreement following its execution by all Parties, the prevailing
27 party shall be entitled to recover its attorneys’ fees and costs from the non-prevailing party.

28 15. If any provision of this Settlement Agreement is for any reason held to be invalid
or unenforceable, the remainder of this Settlement Agreement shall remain and be valid and fully

1 enforceable.

2 16. The Parties warrant, represent and agree that they have the authority, capacity and
3 are legally competent to enter into this Settlement Agreement and have the authority to bind each
4 party to the representations, terms, conditions and covenants set forth herein.

5 17. The Parties, and each of them, hereby certify that this Release is being freely and
6 voluntarily signed by each of them after each has: (i) read this Release; (ii) been apprised by their
7 attorney of all relevant information and the consequences of signing this Release; and (iii) made
8 their own respective investigation of the facts relating to this Release. The Parties, and each of
9 them, are relying solely on their own judgment, belief and knowledge with regard to the subject
10 of this Release, and they acknowledge that they have not been influenced to any extent
11 whatsoever in making this Release by any representations, inducements, promises or other
12 statements by any other party to this Release, or anyone else, which are not set forth herein.

13 18. This Settlement Agreement constitutes the entire agreement between the parties on
14 the subject matter involved herein. There are no oral agreements, which modify, vary or
15 contradict any provision of this Settlement Agreement, and there are no representations (oral or
16 otherwise), which any party has relied on in agreeing to this Settlement Agreement other than
17 those expressly contained herein. This Settlement Agreement will not be modified or amended in
18 any manner except upon a new and additional Settlement Agreement signed by the Parties.

19 19. This Settlement Agreement shall be deemed to have been drafted equally by all
20 parties hereto. Accordingly, the parties agree that any and all rules of construction to the effect
21 that any ambiguity is to be construed against the drafting party shall be inapplicable in any
22 dispute concerning the terms, meaning, or interpretation of this Settlement Agreement.

23 20. This Settlement Agreement may be executed in counterparts.

24 21. This Court shall retain jurisdiction to hear any disputes arising out of this
25 Settlement Agreement.

26 22. The effective date of this Settlement Agreement is July 1, 2007.

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Dated: June 27 2007

HARTFORD LIFE INSURANCE COMPANY
AND HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY



Charles E. Hunt

APPROVED AS TO FORM:

Dated: June __, 2007

ROPERS, MAJESKI, KOHN & BENTLEY

Pamela E. Cogan
Kathryn C. Curry
Attorneys for Plaintiffs HARTFORD LIFE
INSURANCE COMPANY AND
HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY

Dated: June __, 2007

STEVE POIZNER, in his Capacity as Commissioner
of the California Department of Insurance, and
CALIFORNIA DEPARTMENT OF INSURANCE

Gary M. Cohen, Chief Counsel

APPROVED AS TO FORM:

Dated: June __, 2007

EDMUND G. BROWN, JR.
ATTORNEY GENERAL

David Lew
Deputy Attorney General
Attorneys for Defendants

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Dated: June __, 2007

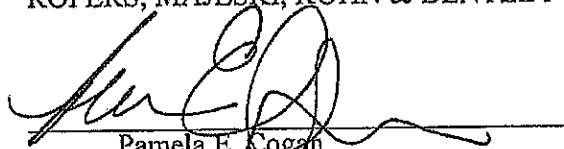
HARTFORD LIFE INSURANCE COMPANY
AND HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY

Charles E. Hunt

APPROVED AS TO FORM:

Dated: June 30, 2007

ROPERS, MAJESKI, KOHN & BENTLEY



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INSURANCE COMPANY AND
HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY

Dated: June __, 2007

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Gary M. Cohen, Chief Counsel

APPROVED AS TO FORM:

Dated: June __, 2007

EDMUND G. BROWN, JR.
ATTORNEY GENERAL

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Dated: June __, 2007

HARTFORD LIFE INSURANCE COMPANY
AND HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY

Charles E. Hunt

APPROVED AS TO FORM:

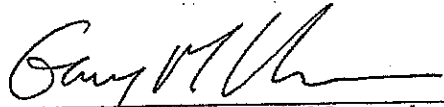
Dated: June __, 2007

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INSURANCE COMPANY AND
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INSURANCE COMPANY

Dated: June 27, 2007

STEVE POIZNER, in his Capacity as Commissioner
of the California Department of Insurance, and
CALIFORNIA DEPARTMENT OF INSURANCE



Gary M. Cohen, Chief Counsel

APPROVED AS TO FORM:

Dated: June __, 2007

EDMUND G. BROWN, JR.
ATTORNEY GENERAL

David Lew
Deputy Attorney General
Attorneys for Defendants

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Dated: June __, 2007

HARTFORD LIFE INSURANCE COMPANY
AND HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY

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INSURANCE COMPANY AND
HARTFORD LIFE AND ACCIDENT
INSURANCE COMPANY

Dated: June __, 2007


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of the California Department of Insurance, and
CALIFORNIA DEPARTMENT OF INSURANCE

Gary M. Cohen, Chief Counsel

APPROVED AS TO FORM:

Dated: June 27, 2007

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