Segal Select Insurance

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MEMORANDUM

To: Anne-Marie Sims
Account Executive

From: Robert Nobile
Segal Select Insurance Services

Date: December 3, 2014

Re: **Bakers Union & FELRA Health & Welfare Fund**
Policy No. CH81690546
Fiduciary Liability Insurance

For this year's renewal of the fiduciary insurance, we requested proposals from Chubb, the current carrier, as well as Great American, Hartford, Hudson, National Union, Travelers and Ullico/Alterra.

We received a quote from Chubb, and the quote is presented in table format following this memo. We received verbal communications from the remaining carriers advising us that they would not be providing quotes because they could not offer better premiums and/or coverages than the current carrier.

Recommendation

Our recommendation is for renewal with Chubb based on competitive premium, expanded scope of coverage, and continuity. The carrier will also bind coverage with a two-year renewal guarantee endorsement. The premium would be payable in equal annual installments, and the second year of coverage is subject to the terms and conditions contained within that endorsement. While there is no break in premium for doing so, we still recommend binding coverage for two years in order to lock in premium and because no additional underwriting information would be required next year.

In addition to the quote, please review the attachments regarding:

- Recommendation Decision Variables
- Carrier Subjectivities
- Supplementary Material
- Glossary of Terms

Please advise us of the Trustees' decision at their earliest convenience, but not later than December 22, 2014. ***We are requesting renewal instructions earlier than the policy's expiration date to avoid any potential binding delays due to underwriters not being available during this year's Holiday season.*** If we have not received contrary instructions from you, we will bind coverage with the recommended insurer to avoid a lapse in coverage.

If you should have any questions, please call.

Recommendation Decision Variables

❑ Financial strength of the carrier

Chubb is rated at least "A" by A.M. Best. Segal Select can recommend them.

Segal Select does not inspect the financial strength of the insurers. Instead, we rely on the financial strength ratings provided by A.M. Best and other recognized rating agencies.

❑ Scope of Coverage

Chubb is offering a new Fiduciary Enhancement endorsement that provides a broader scope of coverage than expiring. These coverage enhancements include:

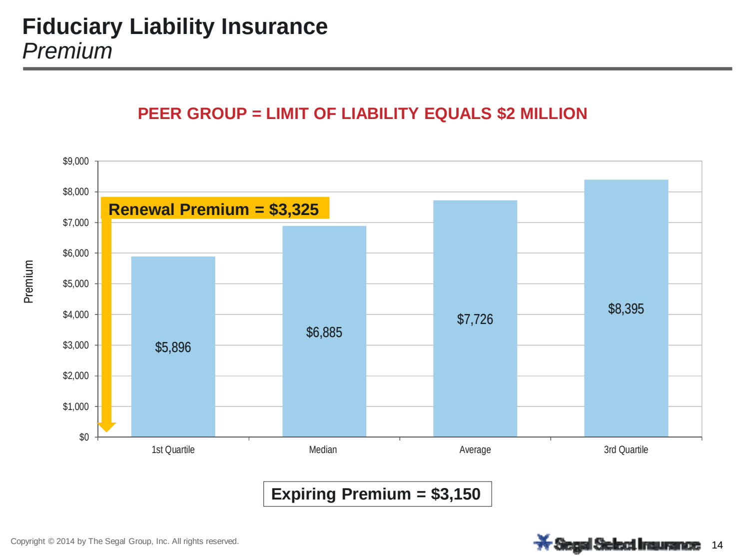
- New, sublimited penalty coverage for IRS Section 4975 and PPACA and separate and increased sublimits for ERISA Section 502(c) and PPA-specific penalties. Each are sublimited at $150,000;
- EPCRS coverage expanded to include similar “Voluntary Settlement Programs” imposed by different agencies, including the DOL and IRS and any similar agency outside the United States. This sublimit is also increased to $150,000;
- Definition of Wrongful Act amended to clarify Settlor Functions;
- Coverage for “pre-claim” defense coverage at the commencement of a DOL investigation. Typically, coverage during a DOL investigation is not provided until after a clear focus of the investigation is identified or breaches of fiduciary duty allegations are actually alleged;
- Defense coverage should an Insured be interviewed by an Enforcement Unit (except the DOL or PBGC) in connection with the individual’s capacity as a fiduciary of the covered Fund or that Fund’s business activities;
- Coverage for certain costs associated with an E-Discovery project including but not limited to the review, collection, cataloging, preservation and/or production of electronically stored information. Such a “project” must be triggered by a claim, settlement program notice or Enforcement Unit interview;
- The policy’s standard Termination of Policy provision is amended to remove the carrier’s ability to cancel the policy for any reason other than non-payment of premium.

❑ Limit of Liability

Chubb has provided a renewal proposal at the expiring $2-million limit. Based on the current size of the Fund, this limit appears appropriate.

❑ Premiums

Chubb has quoted a nominal 5.6 percent ($175) premium increase in light of the various coverage enhancements. Based on our proprietary benchmarking data, this is still competitive in the current market when compared to the pricing of similar $2-million limit policies.



❑ Carrier Quotations

Unless directed otherwise, our policy is to request competitive quotations from various carriers. In the current market many carriers may elect not to provide a quotation for reasons such as the expiring premium (which we disclose) is too competitive, prior losses, prior quotation experience, industry affiliation, or the carrier's evaluation of a plan's financial condition.

The premium quoted is effective through the policy's anniversary date. Orders to bind coverage after the renewal date are subject to acceptance by the carrier, and policy terms and conditions may change.

❑ Continuity (See attached Glossary of Terms for an explanation.)

Renewal Proposal

POLICY TERMS	**Chubb (EXPIRING TERMS)**	**Chubb (RENEWAL PROPOSAL)**
POLICY PERIOD	January 1, 2014-2015	January 1, 2015-2016*
POLICY NUMBER	CH81690546	CH81690546
LIMIT OF LIABILITY	$2-million	$2-million
BASIC PREMIUM	$3,150	$3,325
RECOURSE PREMIUM	$100	$100
DEDUCTIBLE	$0	$0
COVERAGES/ ENDORSEMENTS	502 (l) & (i) Coverages; 502(c) Coverage ($100,000); Administrative Errors & Omissions; COBRA Coverage; Conduct Exclusion -"final adjudication"; Duty to Defend; EPCRS Penalty Coverage ($100,000); Hammer Clause Deleted; HIPAA Coverage ($1.5-million); Non-Fiduciary Coverage ($500,000); Pending and Prior Litigation Exclusion – 1/1/02; P&P Litigation for $1M X$1M – 1/1/11; Severability Coverage; Spousal Coverage including Domestic Partners.	502 (l) & (i) Coverages; **502(c) Coverage ($150,000);** Administrative Errors & Omissions; COBRA Coverage; Conduct Exclusion -"final adjudication"; Duty to Defend; **Voluntary Settlement Program ($150,000);** Hammer Clause Deleted; HIPAA Coverage ($1.5-million); Non-Fiduciary Coverage ($500,000); Pending and Prior Litigation Exclusion – 1/1/02; P&P Litigation for $1M X$1M – 1/1/11; Severability Coverage; Spousal Coverage including Domestic Partners; **Non-cancellable except for non-payment;** **E-Discovery Coverage;** **Enforcement Agency Interview Coverage;** **IRC Section 4975 Penalty Coverage ($150,000);** **Plan Sponsor or Settlor Coverage;** **PPA Penalties ($150,000);** **PPACA Fine & Penalties Coverage ($150,000);** **Pre-Claim Investigation Defense;** **Renewal Guarantee Endorsement*.**

* The carrier will bind coverage for two years, payable in equal annual installments.

Please note that this is not a bill for payment, and you should not make any remittance from this quote. A bill will be issued separately upon receipt of binding instructions.
Note: This policy summary is not a legal interpretation of coverage. Fiduciary Liability is a legal contract that Plan Counsel should review.

Please review the accuracy of the attached listing of individuals to be covered by elimination of recourse. If there are any discrepancies, please contact us immediately to avoid any billing problems.

1.Champion, Jeffrey
2.Gillis , David
3.Haight, Al
4.Oskoian, Gary

Carrier Subjectivities

This section summarizes the additional information each carrier will require in order to bind coverage.

Chubb

- There are no subjectivities at this time.

Supplemental Material – Additional Information for Insureds

The following material is presented in an effort to provide a better understanding of the offered coverage. While all fiduciary liability policies follow a similar format, substantial differences exist between carriers. Fiduciary Liability insurance is a contract between the Insureds and the Insurer. Segal Select recommends Trustees familiarize themselves with the policy's basic coverage features, especially those that require action on your part, and that plan counsel review all fiduciary policies. Of course, as your broker, we are always available for your questions.

Notice of Claim

The policy language requires that the carrier be notified as soon as practicable if the insured becomes aware of an occurrence that could give rise to a claim. Within this context, it is important to note that the policy's definition of claim is broader than just a lawsuit filed against the plan or its trustees. For example, in certain instances even a letter making a demand might be a claim. If a claim, especially a lawsuit, is brought against the insured, the claim or suit must be forwarded to the carrier immediately. Failure to do so could jeopardize coverage under the policy. If a claim should occur, please forward all documents, via certified or overnight mail, or attached to an e-mail, to us for transmittal to the carrier. If you are using e-mail, please forward the e-mail to claims@segalsi.com. Please call us if you need assistance or have any questions with regard to giving notice to the carrier.

Notice must be in accordance with the policy's terms and conditions and must be sent to a designated address. ***Disclosure in an application does not meet these terms and conditions. All DOL audits or investigations should be treated as a claim and noticed to the insurance carrier as soon as the first written DOL communication is received.***

Insured's Obligation to Notice the Insurer

In addition to an obligation to notice the insurer of any claim or circumstance as soon as practicable, the policy will, or may, obligate the Insured to provide notice to the insurer in other instances.

Segal Select Insurance Services Scope of Services and Compensation

Segal Select Insurance Services provides insurance brokerage services. For these services, Segal Select is primarily compensated through commissions paid by the insurance carriers. Annually, we disclose to each client, in writing, the amount of commissions we received during the prior year for that client. For a more detailed description of Segal Select's scope of services and its compensation arrangements, please use the following hyperlink http://www.segalsi.com and then click on the section entitled "Services and Compensation."

Segal Select's Core Insurance Products

Segal Select's core insurance products include fiduciary liability insurance, ERISA fidelity bonds, employment practice liability insurance, and cyber liability insurance. Each of these insurance policies offers specific protections to benefit plans, their trustees, and employees. In particular, ERISA fidelity bonds are mandated by ERISA and Segal Select offers alternative fidelity bonds, including one that offers the broadest compliance coverage we have been able to identify. Due to ERISA's fidelity bond mandate, trustees should annually confirm with legal counsel that the benefit plans have a proper ERISA fidelity bond in effect. Fiduciary liability insurance is not an ERISA fidelity bond. If you have any questions on any of these coverages, please give us a call.

Glossary of Terms – The statements below are not legal definitions. In all instances, the definitions contained within the policy will control coverage.

502 (l) & (i) Coverages

Section 502(l) of ERISA provides that the Secretary of Labor shall assess a civil penalty against a fiduciary equal to 20% of any damage award resulting from a breach of fiduciary duty. Section 502(i) of ERISA provides that the Secretary of Labor may assess a civil penalty, not to exceed five percent of the amount involved in each such transaction, against a party-in-interest in the case of a prohibited transaction.

502(c) Coverage

Section 502(c) of ERISA provides for the assessment of penalties for various administrative failures.

Administrative Errors & Omissions

Basic coverage for negligent administrative acts, which is defined to mean giving advice to participants and beneficiaries with respect to a Trust or Plan, interpreting a Trust or Plan, and handling the records, effecting enrollment, and termination or cancellation of participants under a Trust or Plan.

COBRA Coverage

Amends policy to add and clarify the scope of COBRA coverage provided.

Conduct Exclusion -"final adjudication"

Excludes claims based upon deliberately fraudulent acts or omissions or willful violations of any statute or regulations, or the gaining of any personal profit to which the insured was not entitled to, but will not apply unless a final adjudication establishes such acts.

Duty to Defend

Duty to defend, which is usually associated with the carrier's right to appoint defense counsel or, more typically, for the Insured to select defense counsel from a pre-approved list of "panel counsel", means that as long as any one pleading or allegation is a covered matter, the carrier must defend all the pleadings or allegations. This does not mean, however, that the carrier will be obligated to pay the settlement or judgment of an uncovered matter. "Duty to defend" applies only to the defense costs.

EPCRS Penalty Coverage

EPCRS Penalty Coverage provides additional coverage to the Trustees for penalties assessed by the IRS pursuant to a voluntary compliance program. Under EPCRS, monetary sanctions can be assessed on multiemployer plan trustees for a broad range of operational errors. This penalty cannot be paid from plan assets.

Hammer Clause Deleted

Removes clause from policy so that if the Insured rejects a proposed settlement, the carrier cannot cap or limit its exposure to the amount of the initial proposed settlement.

IRC Section 4975 Penalty Coverage

Section 4975 of the IRS Tax Code provides for the assessment of tax penalties, equal to 15 percent of the amount involved, or if the prohibited transaction is not corrected within the taxable period, 100 percent of the amount involved, on prohibited transactions between the plans and disqualified persons.

Non-cancellable except for non-payment

Carrier cannot cancel the policy for any reason other than non-payment of premium.

Non-Fiduciary Coverage

This endorsement will provide defense costs coverage for Trustee functions beyond fiduciary duties. We believe this is a valuable coverage for Funds that may need to consider benefit changes, other amendments, or regulatory issues that are the responsibility of the Trustees but may not clearly fall within a breach of fiduciary duty. This coverage provides defense only and is subject to a sublimit.

Pending and Prior Litigation Exclusion

The pending and prior litigation exclusion restricts coverage for claims that are a result of any current or past lawsuits. Full coverage is provided for claims not previously litigated or reported.

Plan Sponsor or Settlor Coverage

Clarifies the scope of coverage provided for allegations involving settlor type actions, such as creating or terminating an ERISA benefit plan, or changes in the scope of coverages or cost to the participant of an ERISA benefit plan.

PPACA Fine & Penalties Coverage

Coverage is provided for civil fines and penalties imposed pursuant to the Patient Protection and Affordable Care Act (PPACA).

Severability Coverage

The severability clause allows coverage to apply separately to each insured under the policy.

Spousal Coverage including Domestic Partners

Amends the policy to include coverage for an insured's spouse or domestic partner should they be named as a defendant in an otherwise covered claim.

War and Terrorism Coverage

Coverage will be provided for losses arising out of an Act of Terrorism. This is defined in the Terrorism Risk Insurance Act as an act certified by the Secretary of Treasury (I) to be an act of Terrorism, (ii) to be a violent act or an act that is dangerous to (a) human life, (b) property, or (c) infrastructure, (iii) to have resulted in damage within the United States…and (iv) to have been committed by an individual or individuals acting on behalf of any foreign person or interest, as part of an effort to coerce the civilian population of the United States, or to influence the policy or affect the conduct of the United States government by coercion.

The Secretary's decision to certify or not certify an event as an Act of Terrorism and thus covered by this law is final and not subject to review. There is a $100-billion dollar annual cap on all losses resulting from Acts of Terrorism above which no coverage will be provided under this policy and under the Act unless Congress makes some other determination. Coverage provided by this policy for losses caused by an Act of Terrorism may be partially reimbursed by the United States under a formula established by the Act. Under this formula, the United States pays 90% of terrorism losses covered by this law exceeding a statutorily established deductible that must be met by the insurer.

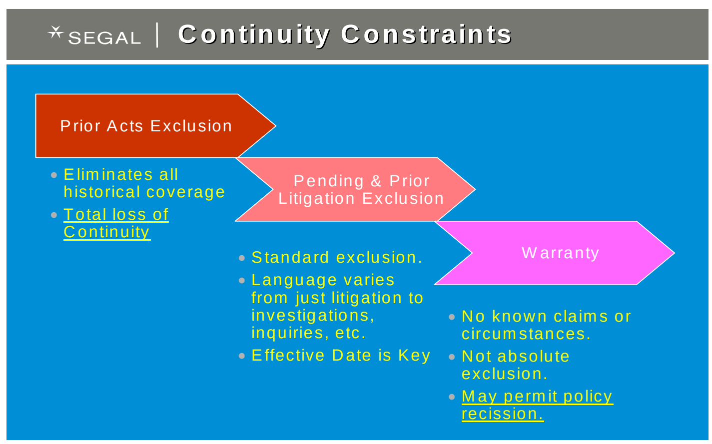
Continuity of Coverage

Continuity is a concept addressing the scope of coverage provided by a renewal policy from the incumbent carrier or a new policy from a new carrier. It is an important concept because fiduciary liability policies are claims made in format. The policy in force when a claim is made will determine whether coverage is or is not provided. When renewing coverage with the incumbent or moving coverage to a new carrier, the insured should determine whether the renewal (or new) policy will provide at least the same scope of coverage as the old policy. In particular, a new carrier may wish to limit coverage in some fashion.

The introduction of any new exclusion or other coverage constraint will impair continuity. For example, introducing a prior acts exclusion would essentially eliminate all continuity. Less severe but also of concern would be resetting (bringing forward to the current renewal date) the effective date of the pending and prior litigation exclusion, a standard exclusion found in most claims made policies. Less obvious but also of significant concern would be a warranty requirement of "No Known Claims or Circumstances." This warranty requirement might be accomplished by a specific policy provision, via the application, or by a separate warranty letter.

To maintain continuity, determine that no new policy exclusions exist. In particular:

- No prior acts exclusion should be imposed by a new or renewal carrier. **Loss of prior acts coverage is an extremely serious loss of coverage and should always be explained or challenged.**
- The Pending and Prior Litigation Exclusion effective date should be the date fiduciary liability coverage was first purchased as long as coverage has been continuously maintained (this will vary by carrier, and by case). If new or higher limits of liability are purchased, a new Pending and Prior Litigation Exclusion may be attached but only for that increased limit of liability.



- The warranty of "no known claims or circumstances" should only be answered in the first fiduciary application completed as long as coverage has been continuously maintained. New warranties are generally required for the purchase of new or higher limits of liability, and applicable only to those increased limits of liability. New warranties may or may not be required by a new replacement carrier.

Renewing with the incumbent carrier maximizes continuity of coverage but does not guaranty it. Renewing with a new replacement carrier does not necessarily eliminate it. Binding coverage with a new carrier reduces but does not eliminate the likelihood of full continuity. As with all claims made policies, each renewal policy, whether with the incumbent or new carrier, must be carefully reviewed to determine whether continuity of coverage has been maintained.