

BONDING PROVISIONS OF FEDERAL LABOR LAWS

HEARINGS

BEFORE THE

GENERAL SUBCOMMITTEE ON LABOR

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

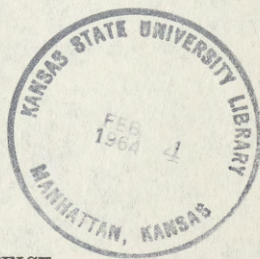
H.R. 4669, H.R. 4670, and H.R. 4671

BILLS TO AMEND THE LABOR-MANAGEMENT REPORTING
AND DISCLOSURE ACT OF 1959 AND THE WELFARE AND
PENSION PLANS DISCLOSURE ACT WITH RESPECT TO THE
FILING OF REPORTS BY SURETY COMPANIES WITH THE
DEPARTMENT OF LABOR

HEARINGS HELD IN WASHINGTON, D.C.
OCTOBER 16 AND 24, 1963

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ADAM C. POWELL, *Chairman*



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BONDING PROVISIONS OF FEDERAL LABOR LAWS

WEDNESDAY, OCTOBER 16, 1963

HOUSE OF REPRESENTATIVES,
GENERAL SUBCOMMITTEE ON LABOR
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room 429, Cannon Building, Washington, D.C., Hon. James Roosevelt (chairman of the subcommittee) presiding.

Members present: Representatives Roosevelt, Dent, Pucinski, Daniels, Gill, Ayres, Martin, and Bell.

Also present: Representatives Landrum and Griffin; Jay Foreman, subcommittee counsel and Adrienne Fields, clerk.

Mr. ROOSEVELT. The subcommittee will come to order, please.

This morning the subcommittee is meeting to hear public witnesses testify with respect to proposals to amend the bonding provisions of current Federal labor laws. Three of these bills are H.R. 4669, 4670, and 4671. My distinguished colleague from Pennsylvania, Representative John Dent, has introduced a bill, H.R. 5602, which is identical to H.R. 4669.

These two would amend the Labor-Management Reporting and Disclosure Act of 1959, and the Welfare and Pension Plans Disclosure Act with respect to the filing of reports by surety companies with the Department of Labor.

H.R. 4670 would amend the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959, with respect to the nature of the bond required. This bill would substitute a requirement for an honesty bond in place of the present requirement of a faithful performance bond under the so-called Landrum-Griffin Act.

It would also allow the Secretary of Labor to permit alternative bonding arrangements if such arrangements would provide the protection required by the law.

H.R. 4671 would amend the bonding provisions of the labor-Management Reporting and Disclosure Act of 1959 to permit bonding by foreign surety companies and to permit alternative methods of bonding in certain cases.

(The bills referred to follow:)

[H.R. 4669, 88th Cong., 1st sess.]

A BILL To amend the Labor-Management Reporting and Disclosure Act of 1959 and the Welfare and Pension Plans Disclosure Act with respect to the filing of reports by surety companies with the Department of Labor

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title II of the Labor-Management Reporting and Disclosure Act of 1959 is amended by adding at the end thereof the following new section:

"SURETY COMPANY REPORTS

"SEC. 210. Each surety company which has issued any bond required by this Act shall file with the Secretary a report, signed by the president and treasurer or corresponding principal officers of the surety company, listing and describing for its preceding fiscal year its bonding experience under this Act, including the following information:

- "(1) Gross premiums and net premiums;
- "(2) Total claims paid;
- "(3) Total contingent claims;
- "(4) Administrative and legal expenses incurred in connection with the processing of such claims; and
- "(5) Amounts recovered by way of subrogation."

SEC. 2. The Welfare and Pension Plans Disclosure Act is amended by adding at the end thereof the following new section:

"SURETY COMPANY REPORTS

"SEC. 19. Each surety company which has issued any bond required by this Act shall file with the Secretary a report, signed by the president and treasurer or corresponding principal officers of the surety company, listing and describing for its preceding fiscal year its bonding experience under this Act, including the following information:

- "(1) Gross premiums and net premiums;
- "(2) Total claims paid;
- "(3) Total contingent claims;
- "(4) Administrative and legal expenses incurred in connection with the processing of such claims; and
- "(5) Amounts recovered by way of subrogation."

[H.R. 4670, 88th Cong., 1st sess.]

A BILL To amend the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959 with respect to the nature of bond required

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the first sentence of section 502(a) of the Labor-Management Reporting and Disclosure Act of 1959 is amended by striking out "for the faithful discharge of his duties" and substituting therefor the following: "to provide protection against loss by reason of acts of fraud or dishonesty on his part".

(b) Section 502(a) of such Act is amended by inserting before the period at the end thereof the following: ": *Provided*, That when in the opinion of the Secretary a labor organization has made other bonding arrangements which would provide the protection required by this section, he may exempt such labor organization from placing a bond through a surety company holding such grant of authority".

[H.R. 4671, 88th Cong., 1st sess.]

A BILL To amend the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959 to permit bonding by foreign surety companies and to permit alternative methods of bonding in certain cases

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 502(a) of the Labor-Management Reporting and Disclosure Act of 1959 is amended by striking out the period at the end thereof and inserting in lieu thereof the following: "; or is a foreign surety company authorized to do business under the laws of the State of New York. Notwithstanding the foregoing sentence, if a labor organization makes a diligent effort to secure the required bond from surety companies which qualify under the above standard and such companies refuse to issue the required bond without good cause shown in writing, the labor organization involved may make such other bonding arrangements as it deems necessary to satisfy the bonding requirements of this section subject to the approval of the Secretary as to the adequacy and sufficiency of such arrangements to afford the bonding protection required by this section."

Without objection, the bills referred to will be included in the record at this point.

This morning we have four witnesses scheduled to appear. Other persons have indicated a desire to submit written statements for the record rather than appear in person. The hearing record, without objection, will remain open for 2 additional weeks and will include all statements submitted within this period.

Our first witness this morning is Mr. Arnold Mayer, legislative representative, Amalgamated Meat Cutters & Butcher Workmen.

Mr. Mayer, we are glad to have you. I think all the members of the committee are old friends of yours. We are happy to see you here again.

**STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE,
OF THE AMALGAMATED MEAT CUTTERS & BUTCHER WORKMEN
(AFL-CIO)**

Mr. MAYER. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, this morning I am a substitute. Our Vice President Schachter had planned to testify on this bill and appear, together with one of our attorneys.

However, they were ready on the ninth. Unfortunately, the committee couldn't meet then, and today we have an executive board meeting of our union, so they are unable to be here today. I appreciate your hearing me at the beginning because I do have to catch a plane for Chicago where our meeting is being held.

Mr. Chairman and gentlemen of the committee, my name is Arnold Mayer. I am the legislative representative of the Amalgamated Meat Cutters & Butcher Workmen of North America (AFL-CIO).

The AMCBW is a labor union with 375,000 members organized in about 450 local unions throughout the United States and Canada. The AMCBW and its local unions have contracts with thousands of employers in the meat, retail, poultry, egg, canning, leather, fish processing, and fur industries.

We appreciate the opportunity of presenting the views of the AMCBW on this important legislation. We believe the measures before you are important in safeguarding union funds. Congress wrote bonding requirements into labor legislation to assure that the members' money will be safe against theft or irregularities. Yet the wording of those bonding requirements, themselves, involve a potential frittering away of some of union's funds.

Union treasuries belong to the members of the union. Certainly, the members must be protected against the loss of those funds through fraud or dishonesty. However, it would be a mockery to safeguard this money, on the one hand, and to have it unnecessarily diminished through excessive bonding fees on the other.

The legislation before you aims at ending this mockery. It seeks to provide information for unions to use as intelligent buyers of bonding protection. The legislation also seeks to bring additional competition into the business of selling bonding protection for union treasuries and health and welfare funds. We believe these goals to be highly desirable.

H.R. 4669 would require reports from surety companies which have issued bonds under either the Labor-Management Reporting and Disclosure Act of 1959 or the Welfare and Pension Plans Disclosure Act, as amended. This information will permit a better judgment to be made on whether bonding rates are reasonable.

It is not only desirable for the union officer who is responsible for bonding agreements to possess this information; it is in fact, necessary. For to have him unwittingly pay an excessive amount of the members' money to surety companies involves a loss to the members. If it is a union officer's responsibility to manage union funds in the best way possible, he should have this necessary information available to him.

H.R. 4670 provides two vitally important reforms in the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959. Section (a) would substitute the definite and generally used wording "to provide protection against loss by means of acts of fraud or dishonesty on his part," instead of the vague wording, "for the faithful discharge of his duties."

Before the enactment of the Labor-Management Reporting and Disclosure Act, our international union and a large majority of our local unions carried bonds providing against loss through acts of fraud or dishonesty. This, of course, is the standard generally applied to bonding persons who have fiduciary responsibilities. But the legislation of 1959 brought a new and unprecedented concept to bonding, the concept of "faithful discharge of duties."

At the outset, many bonding companies refused to quote rates on the "faithful discharge" bonds. They did not know what "faithful discharge" was. Some companies, which previously had premium rates of 30 to 40 cents for a thousand dollars of coverage for protection against acts of fraud or dishonesty, quoted rates \$10 a thousand dollars of coverage because of the "faithful discharge" addition.

Fortunately, these rates have dropped sharply, but they are still higher than is necessary to protect the members' money. The use here of the standard generally applied to persons occupying positions of fiduciary responsibility would result in savings to union treasuries.

Section (b) of H.R. 4670 would apply the very same standard in bonding under the Labor-Management Reporting and Disclosure Act as now exists under the Welfare and Pension Plans Disclosure Act, as amended. Concurrently, we have the curious situation that the same individual may be bonded according to one standard under the Welfare and Pension Plans Act and according to another under the Labor-Management Act.

Under the proposed amendment, unions could use less expensive bonding arrangements provided that the Secretary of Labor is assured that adequate protection, as required by section 502(a) of the Labor-Management Reporting and Disclosure Act of 1959, exists. Such a provision is certainly desirable.

H.R. 4671 would permit a foreign surety company authorized to do business under the laws of the State of New York to bond unions in accordance with provisions of section 502(a) of the Labor-Management Reporting and Disclosure Act of 1959.

An Executive order now permits Lloyds of London and two Swiss companies to write bonds in accordance with the provisions of the Welfare and Pension Plans Disclosure Act, as amended. But the Labor-Management Reporting and Disclosure Act specifically requires

a bonding company to be a corporate surety which holds a grant of authority from the Secretary of the Treasury under the act of July 30, 1949.

Why Congress wrote this requirement is a mystery. Certainly, the more reputable companies competing for the union bonding business, the better. Lloyds of London which is barred from this business under the Labor-Management Reporting and Disclosure Act is a reputable firm well able to participate adequately. And finally, it is silly to permit these foreign surety companies to participate in bonding under one act, but not under another one.

The remainder of H.R. 4671 concerns a grant of discretionary authority to the Secretary of Labor which is more adequately covered by section (b) of H.R. 4670, be incorporated in H.R. 4670. We further urge that H.R. 4670 be approved by the subcommittee in this amended form. We also urge that you approve H.R. 4669.

Mr. Chairman and gentlemen of the committee, we again wish to express our appreciation for your consideration of our union's views.

Mr. ROOSEVELT. Thank you very much, Mr. Mayer, for a very clear and concise statement. I think at this point it would be well to insert into the record the departmental reports which I will just summarize briefly for the information of the members of the committee.

The Department of Labor favors the objective of H.R. 4669 requiring surety companies to file a report. It favors technical changes in legislation and discretion by the Secretary to formulate the requirements. It favors the objective of H.R. 4670 regarding designation of surety and respectable honesty bond requirements. It prefers the flexible approach of H.R. 4670 to that of H.R. 4671 regarding designation of sureties and it favors enactment of H.R. 4669 and H.R. 4670.

The Department of Justice supports the purpose of H.R. 4669 but defers to the Department of Labor regarding the exact requirements. It has no objections to H.R. 4670. It states it is unable to recommend enactment of H.R. 4671 but refers back to H.R. 4670 for which it has no objection.

H.R. 4671 is objected to because of the limitations of the laws of the State of New York.

The Department of Commerce report merely defers to the views of the agencies more directly concerned.

The committee also has a report from the AFL-CIO signed by Andrew Biemiller. Without objection, it will also then be inserted at this point in the record. It supports the enactment of H.R. 4669 and H.R. 4670, but does not favor enactment of H.R. 4671. This is substantially the same position taken by the Department of Labor and Department of Justice.

(The matter referred to follows:)

U.S. DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., October 8, 1963.

HON. ADAM C. POWELL,
Chairman, Committee on Education and Labor,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Department of Justice concerning H.R. 4669, a bill to amend the Labor-Management Reporting and Disclosure Act of 1959 and the Welfare and Pension Plans Disclosure Act with respect to the filing of reports by surety companies with the Department of Labor.

The reports which would be compelled by the bill would be required to include information with respect to the surety company's (1) gross and net premiums; (2) total claims paid; (3) total contingent claims; (4) administrative and legal expenses incurred in connection with the processing of claims; and (5) amounts recovered by subrogation.

Both the Labor-Management Reporting and Disclosure Act of 1959 and the Welfare and Pension Plans Disclosure Act require bonding of certain officers and employees of welfare pension plans and trusts, and labor organizations. However, there is no reporting requirement with respect to the surety companies which issue such bonds.

The Department of Justice supports the purpose of this measure, to afford the Secretary of Labor closer surveillance over surety companies issuing bonds under the acts. However, with respect to the specific information which would be required to be reported by such companies, we defer to the Department of Labor since the Secretary would be charged with the administration of this legislation.

Incidentally, we note that the bill would add a new section 210 to the Labor-Management Reporting and Disclosure Act although there now is a section 210 in the act.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

NICHOLAS DEB. KATZENBACH,
Deputy Attorney General.

U.S. DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., October 8, 1963.

HON. JAMES ROOSEVELT,
*Chairman, General Subcommittee on Labor, Committee on Education and Labor,
House of Representatives, Washington, D. C.*

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Department of Justice concerning H.R. 4670, a bill to amend the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959, with respect to the nature of bond required.

The bill would amend section 502 of the Labor-Management Reporting and Disclosure Act of 1959, which requires every officer, agent, representative, or employee of a labor organization or of a trust in which it is interested, who handles funds or other property of the organization or trust, to be bonded "for the faithful discharge of his duties." The bill would delete the quoted language and substitute therefor "to provide protection against loss by reason of acts of fraud or dishonesty on his part." A new provision would be added to section 502 to permit the Secretary of Labor to exempt a labor organization from the requirement, stated in the section, relating to the type of corporate surety which may be used.

The bill would prescribe the same standard for the bonds of employees handling union and trust funds now prescribed under the provisions of the Welfare and Pension Plans Disclosure Act for employees handling the funds of pension benefit plans and welfare benefit plans. The Department of Justice has no objection to the enactment of this measure.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

NICHOLAS DEB. KATZENBACH,
Deputy Attorney General.

U.S. DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C.

HON. JAMES ROOSEVELT,
*Chairman, General Subcommittee on Labor,
Committee on Education and Labor,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Department of Justice concerning H.R. 4671, a bill to amend the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959, to per-

mit bonding by foreign surety companies and to permit alternative methods of bonding in certain cases.

The bill would amend section 502(a) of the Labor-Management Reporting and Disclosure Act of 1959, which requires every officer, agent, representative, or employee of a labor organization or of a trust in which it is interested, who handles funds or other property of the organization or trust, to be bonded. The section provides that such bonds may be placed only with corporate surety companies which hold a grant of authority from the Secretary of the Treasury under the act of July 20, 1947.

The bill would provide that, in addition to a surety company approved by the Secretary of the Treasury, a bond may be obtained from a foreign surety company authorized to do business under the laws of the State of New York. Further, it would provide that if qualified surety companies refuse to issue a bond to a labor organization without good cause shown in writing, the labor organization may make such bonding arrangements as it deems necessary, subject to the approval of the Secretary of Labor.

The Department of Justice has no objection to the liberalization of the provisions of the Labor-Management Reporting and Disclosure Act with respect to the designation of corporate sureties. However, we know of no reason for restricting the access of foreign sureties to this bonding market to those authorized to do business under the laws of the State of New York and for restricting labor organizations to placing bonds with foreign sureties which have qualified under the laws of that State.

Accordingly, we are unable to recommend enactment of this measure. However, we would like to direct the committee's attention to H.R. 4670, which is pending with the committee. This measure also would liberalize the act's provisions with respect to the designation of sureties, but does not contain the above restriction.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

NICHOLAS DEB. KATZENBACH,
Deputy Attorney General.

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, October 2, 1963.

HON. ADAM CLAYTON POWELL,
*Chairman, Committee on Education and Labor,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in further response to your request for our views on H.R. 4669, which would amend the Labor-Management Reporting and Disclosure Act and the Welfare and Pension Plans Disclosure Act so as to require surety companies to file reports with the Department of Labor, and on H.R. 4670 and H.R. 4671, pertaining to certain bonding requirements under the Labor-Management Reporting and Disclosure Act.

Since neither of these laws presently requires surety companies to file reports with this Department, we are denied access to information which would be extremely helpful in assessing the effectiveness of their bonding provisions. We favor the objective of H.R. 4669 which would require the filing of certain informational reports by these companies.

However, we believe that the complexity of diversity of bonding corporations necessitate a flexible approach in prescribing the type of information surety companies must report. H.R. 4669 in its present form is inflexible in this regard since it prescribes in specific terms the information to be disclosed. We recommend that the bill be amended to give the Secretary of Labor a measure of discretion in formulating these reporting requirements. In addition, we would suggest certain changes of a technical nature in the bill. We would be pleased to provide such assistance as the committee may desire in drafting necessary amendatory language.

We also favor the objective of H.R. 4670 and H.R. 4671 to liberalize the Labor-Management Reporting and Disclosure Act's provisions regarding the designation of sureties. Of the two bills, however, we prefer H.R. 4670. Its provision, granting discretion to the Secretary of Labor to exempt a union from the requirement of placing its bond only with a surety on the Treasury Department's list of acceptable sureties, is similar to the Secretary's present authority under

section 13(e) of the Welfare and Pension Plans Disclosure Act. The vesting of this authority in the Secretary permits the granting of needed tolerances in unusual situations.

H.R. 4670 would also amend section 502(a) of the Labor-Management Reporting and Disclosure Act by changing the type of bond presently required from a "faithful discharge of duties" type to a type which protects against fraud and dishonesty. We approve of this change.

For the above reasons and subject to the changes we have mentioned, we favor the enactment of H.R. 4669 and H.R. 4670.

The Bureau of the Budget advises that there is no objection to the submission of this report from the standpoint of the administration's program.

Yours sincerely,

W. WILLARD WIRTZ,
Secretary of Labor.

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., September 30, 1963.

HON. ADAM C. POWELL,
*Chairman, Committee on Education and Labor,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter is in reply to your request for the views of the Department of Commerce on H.R. 4669, H.R. 4670, and H.R. 4671; bills to amend the Labor-Management Reporting and Disclosure Act of 1959, with respect to the filing of reports by surety companies with the Department of Labor, with respect to the nature of bond required, and to permit bonding by foreign surety companies.

This Department would defer to the views of the agencies more directly concerned as to whether or not these bills should be enacted.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely,

ROBERT E. GILES.

AMERICAN FEDERATION OF LABOR,
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., October 4, 1963.

HON. JAMES ROOSEVELT,
*Chairman, General Labor Subcommittee, Committee on Education and Labor,
U.S. House of Representatives, Washington, D.C.*

DEAR MR. ROOSEVELT: It is my understanding that the General Labor Subcommittee of the House Committee on Education and Labor has scheduled hearings on bills, H.R. 4669, H.R. 4670, and H.R. 4671, to amend the bonding requirements of the (Landrum-Griffin) Labor-Management Reporting and Disclosure Act of 1959, and the Welfare and Pension Plan Disclosure Act, as amended. I would appreciate it very much if you would include the following comments of the AFL-CIO on these bills in the record of your hearing.

H.R. 4669 amends title II of the Labor-Management Reporting and Disclosure Act of 1959, and the Welfare and Pension Plan Disclosure Act, as amended, by requiring reports from surety companies which have issued any bond required by either of these acts. Heretofore, no such reports have been required. There is reason, however, to believe that premium rates, particularly those charged for bonded union officers for "faithful discharge" of their duties, may have been excessive. It would be helpful, therefore, to obtain data on the basis of which an informed judgment could be made as to whether this is, in fact, the case.

H.R. 4669 seeks to accomplish this objective by requiring surety companies to report to the Secretary of Labor information as to their gross and net premiums, total claims paid, total contingent claims, administrative and legal expenses incurred in connection with the processing of such claims, and amounts recovered by way of subrogation. There may be some question whether the information required by the bill will provide sufficient data to determine precisely the reasonableness of premiums currently being charged by surety companies against unions and welfare and pension plans. The bill might also present some difficulties to surety companies insuring welfare and pension plans in isolating meaningful data applicable to such plans for their overall experience. Because we

believe, however, that the information sought by H.R. 4669 would be generally useful for the purpose indicated, the AFL-CIO supports enactment of this measure.

The AFL-CIO also supports enactment of H.R. 4670. This bill would eliminate the somewhat anomalous "faithful discharge" of duties standard required in the bonding of union officers under the Labor-Management Reporting and Disclosure Act of 1959 and replace it with the traditional protection against "acts of fraud or dishonesty" standard generally applied to persons occupying positions of fiduciary responsibility. Because the Landrum-Griffin standard of "faithful discharge" was new, surety companies charged premiums that we thought were too high for bonding union officers during the first year after the act was passed. While these premiums were subsequently cut in half, we still believe them to be higher than is necessary to provide adequate protection to surety companies insuring union officers. The labor movement generally has from the beginning favored legislation along the lines proposed in H.R. 4670.

H.R. 4670 also proposes to amend the Landrum-Griffin Act by providing that when in the opinion of the Secretary of Labor a union has made other bonding arrangements which would provide the protection required by the act, he may exempt such union from the requirement of placing its bonding through a corporate surety company holding a grant of authority from the Secretary of the Treasury under the act of June 30, 1947 (6 U.S.C. 6-13), as an acceptable surety on Federal bonds. This provision would bring the bonding requirement of the Landrum-Griffin Act, insofar as acceptable sureties are concerned, into line with the similar requirement for welfare and pension plans approved by Congress in the Welfare and Pension Plan Disclosure Act, as amended in 1962, and also has the approval of the AFL-CIO.

H.R. 4671 also deals with the question of specifying acceptable surety companies for purposes of bonding union officers under the Landrum-Griffin Act. Since H.R. 4671 would inject considerable confusion into the picture by adding to acceptable sureties any "foreign surety company authorized to do business under the laws of the State of New York," and since H.R. 4670 appears to provide a more satisfactory resolution than does the remainder of H.R. 4671 of the question of acceptable bonding arrangements along the lines of those provided for in the Welfare and Pension Plan Disclosure Act, as amended, the AFL-CIO does not favor enactment of H.R. 4671.

Sincerely yours,

ANDREW J. BIEMILLER,
Director, Department of Legislation.

Mr. ROOSEVELT. Mr. Martin?

Mr. MARTIN. Mr. Mayer, you call attention to the difference in the premiums for bonds in regard to fraud or dishonesty and the rates quoted for the "faithful discharge of duties" type bond and you say that the rates are 30 to 40 cents for a fraud bond and rates are as high as \$10 a thousand for a faithful discharge bond.

Is that true today?

Mr. MAYER. No, that is not true today.

Mr. MARTIN. What is the rate today on the faithful discharge bond?

Mr. MAYER. It varies, sir. My information from our international union is that it varies, depending upon the amount that is to be bonded.

For example, for some local unions that need to be bonded only up to \$2,500, in other words, very small unions, local unions, the rate is \$28.82 for a 3-year period.

Mr. MARTIN. What are you covering there in the \$28.82?

Mr. MAYER. This is under the Labor-Management Reporting and Disclosure Act. Our international union itself doesn't have any bonds under the Welfare and Pension Plans Disclosure Act.

Mr. MARTIN. Break it down to the thousand the way you did in your testimony.

Mr. MAYER. Breaking down to the thousand would be roughly about \$3 a thousand. As to unions that have over \$100,000 to be bonded, the rate that was quoted me was \$5.80 per thousand. I believe that is for a 3-year period, so it is roughly about \$2 a thousand for 1 year.

Mr. MARTIN. To your knowledge are the rates charged by the bonding companies to unions for this type of bond higher than they are for industry or other phases of our economy for the same type of bond?

Mr. MAYER. As I explained I am a substitute—I am not an expert—but my understanding is that only unions have to meet this faithful discharge provision. I understand industry is not required to do this, but has to meet simply the usual things, as the theft and fraud provisions, as quoted in the bill.

In other words, surety companies have to be responsible for a different concept in bonding unions than they do in corporations. This is my understanding.

Mr. MARTIN. What about the bonds for the trustee of an estate?

Mr. MAYER. I don't know, sir.. If I am not mistaken, I believe again the trustee of an estate is bonded against loss through an act of fraud or dishonesty, but I may be wrong on that.

Mr. MARTIN. For instance, you might have a situation in an estate like this. The trustee of an estate would perhaps have, let's say, just a straight honesty bond and he would have to account for all of the funds, that he did not steal any himself, and would be covered on that sphere, but here the trustee of an estate in handling that money might have a request from the Red Cross or the United Fund drive in his community, or church drives, and so forth, and under these circumstances give substantial sums to charity for these drives and yet it would not be in the best interest of the estate.

He would not actually be dishonest in the handling of the funds, but I think in the faithful discharge of duties he would be in error.

There is quite a distinction I think between the two here. He could dissipate the assets of that estate through this means.

Mr. MAYER. But he is bonded against that, sir, or is that simply some rule or regulation?

Mr. MARTIN. I was asking you if there wasn't such a bond written.

Mr. MAYER. I am sorry, I don't know. If our attorneys had been here they would have been able to answer. As I say, I am a substitute on this.

Mr. ROOSEVELT. If the gentleman will yield the next witness, Mr. Cohen, I think is an expert in this line and will be of help.

Mr. MARTIN. Does your union feel that bonding companies arbitrarily discriminate against you people in the rates that they charge you for these bonds?

Mr. MAYER. No. We are urging a change that would allow the surety companies to set lower rates; that would permit them to set lower rates. We don't feel we are discriminated against, no, sir.

Mr. MARTIN. Since this law went into effect, according to your own testimony, the history of the bonding companies in regard to losses and so forth indicates they have voluntarily reduced this rate to you people.

Mr. MAYER. That is right, but we feel it could be reduced even more to the benefit of the amount of money in the union treasury, which, after all, is the members' money, without any danger to anyone.

Mr. ROOSEVELT. Would the gentleman yield?

Mr. MARTIN. Yes.

Mr. ROOSEVELT. I think the point of the part of legislation that is under discussion between the two of you at the present time, is that in order to know whether the rate is a fair rate certain information must be available to the buyer. This information is not available to the buyer, and therefore this part of the legislation merely tries to equalize the situation so that it could be properly determined whether the rate is a fair rate or not a fair rate.

Mr. MARTIN. Well, but it seems to me, Mr. Chairman, that we are getting into the field here of trying to determine whether private enterprise in our country is setting the prices correctly or not, and under our free enterprise system I think that competition more or less holds sway in this field. If they are too high some of their competitors are going to lower the rates and they themselves will have to lower the rates, as has been illustrated over the history of time since this became law.

Mr. MAYER. But, sir, competition is also based on the buyer having knowledge. I mean one of the basic points of Adam Smith was that the consumer or the buyer would have adequate knowledge of what he is buying. This is one of the principles of the free enterprise system.

Mr. MARTIN. I question that. I question the advisability of writing legislation simply because objections are made to the rates that the unions are paying in the private enterprise system.

Mr. ROOSEVELT. Will the gentleman yield again? There is nothing new in this. This requirement simply applies to the bonding business which is the practice in many other types of business today. If you have a pension welfare fund you get full reports as to all of the expenses, all of the experience, and your premium or the return on experience is based upon these reports. This is nothing new. This is simply carrying out what has become a standard procedure except in this particular area when the legislation was passed it wasn't thought about. There is nothing new about it, I would say to the gentlemen.

Mr. MARTIN. The witness' testimony seems to bear on the point that the rates are too high. Yet he admits that rates over the years have been reduced considerably from the \$10 a thousand.

Mr. ROOSEVELT. I think I can clarify that point. There is no uniformity of rates to all labor unions. It varies again according to what the insurance company may decide is the risk involved. No one wants to take away that right to set the price, but the unions are required to buy something.

If they were not required to buy something that would be a different thing. If you and I in private enterprise like something that is offered for sale, but we don't like the price, we don't have to buy it. Here they do have to buy it. It is a thing that is in force by law, a requirement.

Mr. MARTIN. I think probably so.

Mr. ROOSEVELT. I am not disputing that, but if you force somebody to buy something, then at least he ought to know that he is paying a fair price for it. If you make it satisfactory legal requirement that he buy it, isn't that a fair appropriation? And, remember, these prices on these bonds vary throughout the union field.

Mr. MARTIN. Of course, according to circumstances, the amount of the bond, or the individuals involved, and so on.

Mr. ROOSEVELT. That is right, and therefore there should be some substantiation for the price that you are forcing somebody to pay. If this were just free enterprise and I didn't have to buy it if I didn't want it, then I would go along with the gentleman, but where I am made to buy something, I don't think that I can see much equity.

Mr. MARTIN. We will get into it further, Mr. Chairman, with some other witness. That is all.

Mr. ROOSEVELT. Mr. Pucinski.

Mr. PUCINSKI. Mr. Chairman, I want to congratulate Mr. Mayer for his testimony here today. I am sure we can all agree that he is one of the most effective spokesmen for labor on the Hill. I want to congratulate him for the brevity of his statement. I am not surprised that this legislation is before this committee. We anticipated this in 1959 when we spent several days right here in this committee discussing the bonding provisions of the 1959 act.

I recall very vividly that at that time I warned that putting in this loose language of "faithful discharge" would subject the unions to "crawl," so to speak, to the bonding companies and that is exactly what has happened. We have imposed upon the bonding companies a judgment that I am not sure they want themselves. More seriously, we have created a situation with the existing law where bonding companies for various reasons could actually put a union out of business, even though the membership of that union wants the union to continue in business, merely by refusing or failing to issue a bond to that union with this strange language. The one thing that I am very much interested in is in the report that was prepared by the committee in 1959 on the Elliott bill, which was the bill that was reported out by the committee, H.R. 8342.

If I may refresh the committee's recollection, the vote had not quite yet been completed on H.R. 8342 when the gentleman from Michigan and the gentleman from Georgia announced that they were introducing a substitute bill on the floor. All we have in the way of legislative history on this subject of faithful discharge as far as I have been able to find is the reference to the bonding provision in the report submitted by the committee.

Mr. Chairman, there is not a single word in the report attempting to define "faithful discharge," so that it would appear to me that the issue is open, but that this provision should be clarified by this committee. I want to ask you this one question, Mr. Mayer. In your own union has anybody attempted or have the bonding companies that now sell you a bond attempted to give you any kind of definition of how they construe "faithful discharge," or are you just flying on instruments on this one?

Mr. MAYER. This is basically flying on instruments, I believe.

Mr. PUCINSKI. You are never sure?

Mr. MAYER. Apparently there is not much definition on this. Apparently the bonding companies aren't very sure and certainly we aren't.

Mr. PUCINSKI. Is there any merit to the statement made that because of this particular language, "faithful discharge," many responsible labor leaders who used to be able to adjust a grievance with an employer now turn it over to arbitration?

In the case of a discharge of an employee that everybody knew was irresponsible and the employer finally discharges the employee; the employee files a grievance. The union studies the grievance and finds that there is no merit for his grievance, that he in fact has not been a reliable employee. The union sustains the employer in his action.

Is there, as far as you know, any truth to the charge that many union presidents now, in order to avoid being accused of unfaithful discharge of their responsibilities, turn these cases over to arbitration which previously had been settled amicably between an employer and a union?

Mr. MAYER. I haven't heard of any case like that, Mr. Pucinski. In the case of a grievance of course, in a grievance in which there is some question as to the validity of the grievance, the union of course is in the middle. On the one hand it may think that the grievance doesn't have much basis.

On the other hand, there is the danger of both the union and the company being sued by the individual for damages on the charge that the union did not process the grievance adequately, and although the case would be thrown out of court you still have to go into court to defend yourself. That has happened a number of times.

Although I don't know of cases such as yours, I do know of cases where there has been fear on the part of local unions to contribute to charity for fear that it might be considered not a faithful discharge of their duties, that the law would require them to stick more closely to collective bargaining and to organize them specifically in handling of grievances.

I have heard the fear expressed in that area.

Mr. PUCINSKI. I think your point is well taken, Mr. Mayer. Mr. Chairman, I will ask that the whole bonding paragraph of the committee report of 1959 be put in the record.

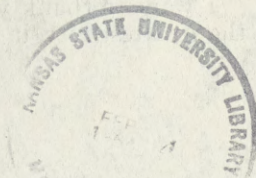
Mr. ROOSEVELT. Without objection, it will be inserted.

(The document referred to follows:)

BONDING

Section 502(a) : Requires bonding of officers, agents, shop stewards, or other representatives or employees of labor organizations who handle funds of such organizations or any trust in which such organization is interested. The bonding requirements of this subsection would not apply to labor organizations whose property and annual financial receipts do not exceed \$5,000 in value. Each bond shall be fixed at the beginning of the organization's fiscal year and is to be in an amount not less than 10 percent of the funds handled by the person to be bonded and his predecessors, if any, during the preceding fiscal year. Where there is no preceding fiscal year in the case of a local union, the bond shall be not less than \$1,000; in the case of an international union or trust, not less than \$10,000. The bond shall be individual or schedule in form and a corporate surety company is required to act as surety on the bond. It is specifically provided that no bond shall be placed through an agent or broker or with a surety company in which any union or any union officer, agent, shop steward, or other union representative has any direct or indirect interest. A surety company must be a corporate surety which holds a grant of authority from the Secretary of the Treasury as an acceptable surety on Federal bonds. No person is to be allowed to handle or exercise custody or control of union or trust funds or property unless covered by a bond as hereinabove set forth.

Section 502(b) : Makes willful violation of section 502 punishable by a maximum \$10,000 fine or imprisonment for 1 year, or both.



Mr. PUCINSKI. It is interesting that in the first sentence of section 502(a), it says:

Requires bonding of officers, agents, shop stewards, or other representative or employees of labor organizations who handle funds of such organizations or any trust in which such organization is interested.

As one who sat in on the drafting of this legislation there is no question in my mind, Mr. Chairman, that the majority of the committee was concerned with the protection of the funds. I don't think that the committee had intended through this procedure of bonding to police all the other activities of a union official. I think there are other provisions in that respect.

The so-called bill of rights gives a member of a union all sorts of redress for any grievances that he thinks might have occurred in his union, but I don't think that it was the intention of this committee to attach the words "faithful discharge" to anything other than the honest handling of the union funds.

Mr. ROOSEVELT. If the gentleman would yield.

Mr. PUCINSKI. Yes.

Mr. ROOSEVELT. I think it is important to note that the term "faithful discharge" normally is used to describe the duties of an official whose duties are clearly set out legally, so that there can be little question as to what they mean.

In this kind of a situation we have normally had the kind of a bond which protects against specific things, such as fraud and dishonesty, and we don't take the legal aspect because there is no legal description of a union official's work. It has to vary to some degree, so I think perhaps the committee was working under a misapprehension back in 1959.

Mr. PUCINSKI. I don't think the committee was working under a misapprehension. I feel that since the enactment of this legislation the bonding companies have imposed upon this language meaning, properly or not. As far as I know, they have gone way beyond the requirements of honesty in handling union funds, which I don't think was the intention of the committee.

Would this be a correct statement, Mr. Mayer, on the basis of your own experience?

Mr. MAYER. I think rather that the bonding companies are not sure what this means. I don't think they have imposed anything. I think rather that they are as confused by it as the unions are and as the members of this committee seem to be, and they are trying to protect themselves on their rates.

Mr. PUCINSKI. Mr. Mayer, I would like to call your attention to your own statement on page 3 in which you say:

At the outset many bonding companies refused to quote rates on the "faithful discharge" bond. They did not know what "faithful discharge" was and some companies, which previously had premium rates of 30 to 40 cents for a thousand dollars have coverage for protection against acts of fraud or dishonesty, quoted rates of \$10 a thousand dollars of coverage because of the "faithful discharge" addition.

So it seems to me that the bonding companies did impose language or give at least meaning and interpretation to "faithful discharge" that I don't think this committee intended in the first instance.

I want to thank you for your testimony. Have a nice trip back to the greatest city in the world, Chicago.

Mr. MAYER. Thank you.

Mr. ROOSEVELT. Mr. Goodell.

Mr. GOODELL. No questions.

Mr. ROOSEVELT. Mr. Dent?

Mr. DENT. No questions.

Mr. ROOSEVELT. Mr. Mayer, thank you very much.

Mr. MAYER. Thank you.

Mr. ROOSEVELT. The committee will next hear from Mr. David Q. Cohen, manager of the Fidelity and Surety Department of the Association of Casualty & Surety Companies of New York City.

Mr. Cohen, we are happy to have you. You are an old friend and assistant to the committee in many ways. I believe you worked with us in some of this before, so we feel not only are you a good friend, but certainly you are an expert and we are very happy to have you.

STATEMENT OF DAVID Q. COHEN, ASSOCIATION OF CASUALTY & SURETY COMPANIES

Mr. COHEN. Mr. Chairman and gentlemen of the committee it is a pleasure to be here and have this opportunity on behalf of the association and our membership to present our views on these bills.

During this testimony or thereafter, as you please, I will be glad to answer any questions you may have, perhaps some of the questions that were put already to Mr. Mayer, and supplement from what I know of this general area of my work.

I am David Q. Cohen, manager of Fidelity and Surety Department of the Association of Casualty & Surety Companies, 110 William Street, New York City. I am also a member of the New York bar.

Mr. ROOSEVELT. Mr. Cohen, if I may interrupt for just a minute, because we have such a long list this morning I am wondering whether you would try to summarize wherever you can in your written statement, but without objection your complete statement will be put in the record.

Mr. COHEN. I think I should say that the Association of Casualty & Surety Companies is a membership trade association consisting of 131 capital stock casualty and surety companies and is charged by such membership with representing their interests in legislative and other matters throughout the United States.

The association has no function in ratemaking. Our member companies write at least 90 percent of the annual premium volume deriving from the underwriting of all kinds of fidelity and surety bonds. In 1962, the total premiums written by all companies (members of the association and otherwise) for fidelity bonds was approximately \$115 million.

I might say by way of clarification this is not the bonds under the labor union act, but all fidelity bonds of all kinds.

The surety volume was approximately \$230 million. The type of bonds arising from the requirements of the Landrum-Griffin Act (29 U.S.C. 502(a)) and from the Welfare and Pension Plans Disclosure Act Amendments of 1962 (29 U.S.C. 308(d)) are categorized as "fidelity" bonds in surety industry practice.

Our comments and position on each of the bills in caption follow:

H.R. 4669: This bill would require each surety company issuing bonds either under the Landrum-Griffin Act or under the Welfare

and Pension Plans Disclosure Act Amendments of 1962 to report certain information about such bonds to the Secretary of Labor.

The Association of Casualty & Surety Companies is opposed to this bill in toto because it represents an inroad on State regulation of insurance (which includes fidelity and surety bonding), and because it would increase the recordkeeping and expenses of surety companies and of the Department of Labor with no compensating contribution to the public welfare.

We call attention to Public Law 15 of the 79th Congress, approved March 9, 1945 (15 U.S.C. 1011 et seq.), entitled "An act to express the intent of the Congress with reference to the regulation of the business of insurance." This act is now commonly known as the McCarran-Ferguson Act. By section 2(a) of that act, Congress declared that:

The business of insurance * * * shall be subject to the laws of the several States which relate to the regulation and taxation of such business.

In each instance the word "regulation" is emphasized.

Pursuant to such congressional delegation of power to regulate in the field of insurance, the several States have all enacted laws regulating rates for insurance policies and bonds. Generally under such laws, rates are required to be filed and are subject to examination and approval by the State insurance departments. Also, under such laws rates must meet the statutory criteria of being "adequate, reasonable, and not unfairly discriminatory."

Since 1945, our membership and other insurance companies have conformed to whatever the requirements of State law might be in filing reports with the State regulatory authorities on their business activity and solvency and in support of the rates charged by them.

In addition, they are subject to examination of their financial records, claim handling practices, and so forth, under State law at least once in every 3-year period.

H.R. 4669, therefore, constitutes a first step in the erosion of State regulation of insurance by requiring reporting to a Federal agency about two minor categories of fidelity business (involving less than 2 percent of such business) and the collection of statistics thereon and in a form different in content from that now being collected to meet the requirements of State law and of the National Association of Insurance Commissioners.

We feel that the informational requirements of this bill will serve no useful function because the ultimate objective of the reports is relevant to the ratemaking function which, as has been previously pointed out, is already adequately regulated under State law. The reporting requirements will only increase the operating expenses of the companies and incidentally will also lay additional expense on the Department of Labor in the processing of the reports.

Having just discussed the questionable philosophy of the bill, we come now to some matters illustrating the ambiguity thereof.

It is to me noted that the bill requires—

listing and describing for its preceding fiscal year * * * (the company's) bonding experience under this Act, including the following information: * * *.

What is the content and meaning of this language? The plain implication thereof is that something more than information on the five enumerated items must be furnished. If so, what is that "some-

thing more?" Does each bond written by the company have to be listed separately and also the loss and salvage experience on each such bond? Will it be sufficient to meet the bill's requirements, if enacted, to furnish only information on the enumerated items?

We infer that the bill potentially looks toward congressional rate regulation, an area within the province of the several States by congressional declaration since 1945. If the bill is intended to subserve any other objective, "What is it, and how does it fit within the philosophy of the McCarran-Ferguson Act?"

For the foregoing reasons, we respectfully urge that this bill not have your support.

H.R. 4670: This bill has two aspects. Subsection (a), would convert the present requirement that bonds furnished under the Landrum-Griffin Act shall be of a faithful performance type, to a fidelity type, that is, bonds providing protection against the bondage union official's fraud or dishonesty).

Since the enactment of the Landrum-Griffin Act in 1959, the surety industry has geared itself to the faithful performance type of coverage required thereby. It has always had available the dishonesty type of coverage.

Mr. PUCINSKI. Mr. Witness, what does that mean? What do you mean by that; that they have geared themselves to the faithful performance?

Mr. COHEN. Prior to the passage of the Landrum-Griffin Act it was customary, to the extent there were any bonds bought by unions to protect their funds, to buy dishonesty coverage or to buy a form of faithful performance coverage which was geared to faithful performance in accordance with the labor union's charter and bylaws.

That was a fixed standard by which they could write this faithful performance coverage, because it was coordinated with whatever the duties and obligations were under the charter and bylaws.

When you had the passage of Landrum-Griffin you substituted for that fixed standard this amorphous thing called faithful performance of duty in an area where it had never been used in that broad aspect before.

The term I think was taken by the draftsmen, perhaps unwittingly, from the procedures and the kind of coverage which historically had been available to public officials. It was the common and ordinary broad scope coverage which was available to people who are required as officials of State and Government to be bonded—faithful performance of duty.

In that area, of course, when you had a public official his duties were known. They were fixed by statute. They were fixed by the customary practices of the office, by the common law definition of what the faithful performance might be, but when you took it into the area of this type of bonding for labor union officials you had no fixed standard any more because what, for example, are my duties as an official of the association? Can anybody say? Are they fixed in any particular way? You do what you think you have to do. That's about the size of it.

And the same thing happened in the case of these labor union officials.

Mr. PUCINSKI. How do you, under the act, 3 years later, define faithful performance for the purpose of issuing a bond and setting a fee?

Mr. COHEN. I must repeat that this association has no ratemaking functions. Many of our companies are members of the ratemaking organization, but we are not charged with any ratemaking functions and we have nothing to do with that.

Mr. PUCINSKI. What does faithful performance mean? How do you now define faithful performance?

Mr. COHEN. I think Mr. Mayer is quite right. In this area we don't know what it means.

Mr. DENT. May I ask a question at that point?

I thought you made a very fine presentation against inclusion of the so-called faithful performance provision, and yet in your statement here you say you are neutral.

Are you neutral for or neutral against?

Mr. COHEN. No. What we are saying in effect is this: We did not have this type of coverage before 1959.

Mr. DENT. I understand that.

Mr. COHEN. We have geared ourselves by bonds which have been set up and have been standardized and are used in this area now.

Mr. DENT. Did it increase the rate?

Mr. COHEN. With the caveat that I have no function, I will say it is a matter of knowledge that faithful performance bond does cost more than the dishonesty coverage.

Mr. DENT. And yet what was the experience under the dishonesty coverage over the years?

Mr. COHEN. I am not prepared to say, sir.

Mr. DENT. I am just trying to find out if the unions are right when they contend that all this does is add cost to their union memberships for bonds that they had always been able to procure before the time of this language, an indefinite language. The bonding companies have increased the rates.

Mr. COHEN. I don't know that that is true at all, sir.

Mr. DENT. How did their rates get higher?

Mr. ROOSEVELT. Would the gentleman yield?

The reason for the higher rate is the underwriting. In other words, if, as you very well said a few minutes ago, you are required to underwrite something and you are not sure as to its implication, you are going to charge more money so as to safeguard yourself against this uncertainty.

Mr. COHEN. Exactly, Mr. Chairman. You stated it.

Mr. ROOSEVELT. Right.

Mr. DENT. Then it is costing the union members more money for coverage.

Mr. COHEN. All I am trying to say by our statement, sir, is that we don't care. Congress made the policy decision originally in Landrum-Griffin and imposed something that was unknown to us.

If Congress wants to change it we don't care what you do. You call the turn.

Mr. PUCINSKI. Then, Mr. Cohen, if I understand you correctly after this entire colloquy, you really don't know what you are insuring this union for or against. The underwriters have set a fee on a bond that they themselves are not quite sure what it covers and they are strictly in the dark on this whole question.

Is this what we are concluding?

Mr. COHEN. We can only guess as to what faithful performance coverage means in the frame of reference of the duties of an official of a union.

Mr. PUCINSKI. And while you may not be able to answer this question because you said you have nothing to do with ratemaking, I can't help but have a feeling that the rates were really determined more on what the traffic will bear than any particular connection with the degree or type of coverage the bond is providing, because the companies themselves don't know what kind of coverage they are providing; is that right?

Mr. COHEN. I do not think that is right, sir.

Mr. PUCINSKI. All right.

Mr. COHEN. I do not think it is right and I think there has been overlooked to this point, and I have tried to point it out, that these rates are made, and are regulated, and are approved by the State regulatory authorities. They are not made because there is an imposition of the seller's notion of what the proper rate is as an uncontrolled thing. It is controlled by the rate regulatory laws in the various States—must be adequate, reasonable, and not unfairly discriminatory.

Mr. PUCINSKI. Would you know then what criteria do the States use for defining faithful discharge?

Mr. COHEN. I don't know what they do.

Mr. PUCINSKI. Then how can a State determine what is fair in the amount of money?

Mr. COHEN. When you file rates—and there again I don't want to be bound by this, because this is not my function—they must be supported.

Mr. PUCINSKI. By what?

Mr. COHEN. By information about the rates. You just don't file the rate and say, "Here it is."

Mr. PUCINSKI. You say nobody knows what faithful discharge means and therefore you don't know what you are protecting against, so how can an insurance company go before a State body and say these are the fees we are going to charge for a thousand dollar bond and this is why we are going to do it, when you told me a moment ago that they are really on instruments on this whole thing.

Mr. MARTIN. Will the gentleman yield.

Mr. PUCINSKI. After an answer, yes.

Mr. COHEN. You have used this term "on instruments." I don't think it is quite that bad. I think from what we know about faithful performance duty coverage in the public official field we do have some feeling about what this might take, but I think our experience would indicate that even in the public official field in many instances the term "faithful performance" is something which the courts have been pricking at, case by case, under given sets of facts and telling us that this is not faithful performance of duty, this is, and because we don't have any definiteness, there should be something definite.

Mr. PUCINSKI. What you are saying, Mr. Cohen, is the bonding company can set itself up as a judge of whether or not a union official is faithfully or unfaithfully performing his duties?

Mr. COHEN. It does not.

Mr. PUCINSKI. I can't find anything that provides any criteria.

Mr. COHEN. I don't know from what you have reached that conclusion.

Mr. ROOSEVELT. I think, if the gentleman will yield, the bonding company doesn't do that. If they are called upon to make good on the bond they are going to have to try to decide whether to defend it and say whether it is clearly a breach of faithful performance or not, but until that time nobody knows.

Mr. PUCINSKI. I would like to remind the chairman that this committee not too long ago took some action when a whole series of bonding companies, for reasons known best to themselves, set themselves up as judges and said: "We are not going to issue a bond."

Isn't that in effect setting themselves up as judges of the faithful performance of union officers? They say, "Well, we are not going to issue you the bond." And when this company says: "We are not going to issue the bond," it in effect is setting itself up as a judge of a term that has not been defined by anyone, "faithful discharge."

Mr. COHEN. In my opinion, sir, it had nothing to do with the term. It was a matter of underwriting judgment. It is just the same as if I as an underwriter were submitted a risk which involved a great hazard of fire and I thought in my underwriting judgment that I didn't want to cover that risk so I refused to write it.

Mr. PUCINSKI. Mr. Cohen, you are absolutely right.

Mr. MARTIN. Will the gentlemen yield.

Mr. PUCINSKI. Yes.

Mr. MARTIN. Isn't it true, Mr. Cohen, when a bonding company files with the State insurance commissioner for a rate, and let's assume he files for a \$2.50 per thousand rate on this coverage, that in requesting approval of that rate you have to set forth the history that the company has accumulated as to your costs, and your payouts, and what your profit has been, and so forth, and the amount of business that you have done in this particular field, and you have to justify that, that your rate is not high, that you are not going to get too large a return on the amount charged, or, on the other side of the fence, that you are going to get sufficient revenue in so that your company isn't going to go broke?

Isn't that correct?

Mr. COHEN. Congressman Martin, without wanting to endorse in any way the details of what you have said as part of the presentation I will categorically say that you must justify your rate. I don't know the details of how it is done particularly, but you are required to justify the rate when you file it.

Mr. MARTIN. And you get in sufficient money to cover the losses that you might incur according to past history?

Mr. COHEN. You have to justify it, as I believe, in terms of the statutory mandate that the rate must be adequate, not unreasonable, and not unfairly discriminatory.

Mr. MARTIN. I think that takes care of the point that the gentleman from Illinois was trying to make and it disproves his contention that you are the judge, and the jury, and the whole business in these affairs.

Mr. COHEN. That is the last thing in the world I would want to be.

Mr. ROOSEVELT. I think it probably would be well if you would just continue with your statement.

Mr. COHEN. The industry is consequently prepared to write either type of bond now and it is only for the Congress to make the policy

decision as to which it shall be. Our association, therefore, is completely neutral on this aspect of the bill.

The second aspect of the bill, and to us this is a very vital thing, (subsec. (b)) is such that the surety industry is vitally disturbed thereby in that its language can be construed as an open invitation for unregulated competition by alien insurers which do not have a Treasury Department grant of authority to act as acceptable sureties on Federal bonds or as reinsurers on such bonds.

We have recently been dismayed by the interpretation given to somewhat similar language in the Welfare and Pension Plans Disclosure Act by the Department of Labor. On August 9, 1963, the Department ruled that under subsection 13(e) of that act, bonding arrangements with the underwriters at Lloyds, London, will satisfy the bonding requirements of that act. Subsection 13(e) of that act is analogous and is the apparent source for the provisions of subsection (b) of the instant bill.

Because we do not agree in any respect whatsoever with that ruling for reasons previously stated on March 7, 1963, in our memorandum in opposition to the Lloyd's petition to be recognized as a source for fidelity coverages under the Welfare and Pension Plans Disclosure Act, we are opposed to subsection (b) of this bill which will undoubtedly provide another springboard for further competitive inroads by Lloyds on surety companies which have seen fit to comply with all the requirements of the Treasury list of approved sureties.

At the present time under the Landrum-Griffin Act, Lloyds of London is not eligible to write any bonds for labor union officials handling money or property of labor unions. If subsection (b) of this bill is enacted, we anticipate an immediate petition by Lloyds of London to be further recognized by the Secretary of Labor.

Our membership is prepared to meet competition from Lloyds under equal competitive conditions but cannot reasonably be expected to meet it under circumstances where they must abide with State regulation to assure that their premium rates are "adequate, reasonable, and not unfairly discriminatory" while Lloyds of London is not so regulated.

So that your subcommittee may understand in detail the basis for our opposition to any further recognition of Lloyds as a competitor with surety companies on the Treasury list, we attach a copy of our memorandum in opposition, mentioned above, and also a copy of the Department of Labor's ruling of August 12, 1963.

To the extent that subdivision (b) of the bill may be intended as a "safety valve" for union officials who cannot obtain surety coverages from companies on the Treasury list, we have no objection whatsoever to the implementation of that aim. The fact of the matter is, that this association suggested the necessity of such a safety valve in the early stages of the drafting of the Welfare and Pension Plans Disclosure Act Amendments.

It is our considered position that when Congress said in both acts that bonds furnished thereunder should be those of approved companies on the Treasury list, it meant just that. To the extent that Congress gave power under the Welfare and Pension Plans Disclosure Act Amendments to the Secretary of Labor to approve "other bonding arrangements" it did not, we submit, intend to empower him to permit

the use of professional sureties not on the Treasury list, such as Lloyds of London.

We believe that the philosophy of the safety valve can well be carried out by giving union officials the choice as to whether they wish to qualify through professional sureties on the Treasury list or by other types of security providing adequate protection for union funds.

We, therefore, urge that the bill be redrafted to afford such right of election and to specifically provide the alternative methods of protection which may be accepted by the Secretary of Labor.

We, therefore, urge that the proviso of subsection (b), appearing as lines 1-5 on page 2 of H.R. 4670, be deleted, and the following proviso be substituted:

Provided, That, pursuant to regulations of the Secretary, any person required to be bonded under this section may, in lieu of the aforesaid corporate surety bond, elect to provide personal sureties, or deposit cash, a certified or bank cashier's check, an irrevocable letter of credit, or governmental securities, or may enter into an escrow agreement or make any other deposit of collateral, any one or more of which may be accepted by the Secretary as a compliance with this section, if in his opinion such personal surety or other security is adequate to protect the aforesaid funds or property.

If this amendment is adopted, no union official will be able to claim that the suretyship provisions of the Landrum-Griffin Act frustrate the will of the union membership that he be one of their officials.

Mr. LANDRUM. Is there any agreement that anybody can say anything? I want to ask him a question about this if this is permissible. Of course, I am not a member of the subcommittee.

Mr. ROOSEVELT. Let the Chair say we are always very privileged to have the distinguished gentleman with us and as an author of the law I think it would be the unanimous feeling that we should allow you to speak at any time you care to.

Mr. LANDRUM. I don't want to interrupt his presentation.

Mr. ROOSEVELT. No, no; you may proceed.

Mr. LANDRUM. You are the most generous officials I have ever seen. Maybe I better not say anything.

Mr. Cohen, I don't understand why your association would be willing to advocate such provisions as you just enumerated here in view of what you have said before this, judging that the real purposes of this provision, section 502 in Landrum-Griffin, is to protect the ordinary run of the mill union member.

Now, what you suggest here, it seems to me, is that this union official can't get bonded under the terms of Landrum-Griffin, and since he can't get bonded we are going to give him an opportunity to put up a cash bond, and I would assume that when he puts up this cash bond he would have a defense if he were charged later, that he acted in good faith for whatever action he took short of proof of embezzlement and things like that.

I don't see where we would be doing anything except making it easier for the union official, and making it more dangerous for the union member to have his interest protected. We weren't trying to make it easy for the union official to be bonded. That's not the point in the law.

I think Mr. Ayres was on the conference committee when we adopted this law. We weren't concerned with making it easy for a man to get a bond. That had been the problem before that.

What we were concerned with was protection and interest of the union member whose funds were being handled by this union officer.

Now, then, if the union officer is of such character and representation that he can't get this surety bond that comes from a company that is on the Treasury list, then it seems to me, instead of making it easy for him to get covered, you ought to make it plain to the union that they need to get another official. That was the whole essence of the conference.

Mr. ROOSEVELT. I think the gentleman has stated his point as boldly as I have heard it stated.

Mr. DENT. That was what they thought they could do when they all refused bond. That was one way of getting rid of a man they couldn't get rid of.

Mr. LANDRUM. That is not my problem. What we want to do is protect the union members' interest. They pay this money to this union for welfare. They pay this money in for various other things; and it is nothing but right, if we are going to legislate in that field, to see that the funds are protected.

Mr. ROOSEVELT. I agree with the gentleman, but I don't quite follow then why the gentleman is opposed to this, if all he is interested in is protection of the funds.

Mr. LANDRUM. Because I don't think this will protect them. The reason I don't think it will is with whom is he going to deposit the cash bond? Who is going to distribute the proceeds from the cash bond?

Mr. DENT. That is not our problem.

Mr. LANDRUM. I know. I am talking about his problem.

Mr. DENT. I propose to open it up so that other insurance companies can get in.

Mr. LANDRUM. I will have something to say about your proposal.

Mr. DENT. That isn't before the committee. It is just a suggestion.

Mr. LANDRUM. Excuse me for interrupting. I can't quite reconcile his recommended substitution here with what he says before and what I know the purpose of section 502 to be.

Mr. ROOSEVELT. I think, in order that we can put the thing to the proper perspective, I would like to say to the gentlemen that while we heartily endorse the gentlemen's objectives, and that was the reason I think the committee and the Congress passed the law, we did have an instance where it looked suspiciously—and this has nothing to do with the safety of the funds—as if this was another way to get out a union official and that it was being used in that manner.

Mr. LANDRUM. I don't believe the law was ever intended to be used for that purpose. I think the real purpose of this section was to protect the interest of the union member.

Mr. ROOSEVELT. That is right. We are trying now to see what we can do to close what seems to be a loophole and still do what the gentleman has in mind.

Mr. PUCINSKI. Mr. Cohen, in view of the colloquy that you just heard here would you then want to change your answer?

Earlier I asked you about this. Under the present operations, even though a union membership elects a union official in a secret election, following all the requirements of the Landrum-Griffin bill, and in the judgment of these members they want this fellow and there is not

necessarily anything against him, if a bonding company comes along and says we will not issue a bond on him and if all the other bonding companies take this same position for some reason or other, this bonding company then in effect, if I understood the gentleman from Georgia correctly, is setting itself up as a superior judge as to who shall be the officer of that union.

Mr. LANDRUM. No; you don't understand the gentleman from Georgia correctly.

Mr. PUCINSKI. Wait a minute. The will of the majority of that union that has elected its officers in a democratic way is abrogated by your refusal to issue a bond under this language of "faithful performance"; isn't that right.

Mr. COHEN. First of all, you imply that there is some duty which rests upon an insurer or a surety to bond every person that applies for a bond. That is not the fact at all.

Mr. PUCINSKI. I don't imply that at all.

Mr. DENT. Will the gentleman yield.

Mr. COHEN. I think this is the implication of what you are saying.

Mr. DENT. If there is a restrictive covenant in the law that names only certain people as the insurance carrier, there is a duty because the man then is denied other rights by the refusal, either by collusion or contact to write a bond, because he has no outside person to go to.

Say only four people can write this bond. If these four people get together that union official is dead.

Mr. COHEN. Your statement seems to imply that this came about by the will of the surety companies.

Mr. DENT. Why did it come about?

Mr. COHEN. This is the will of Congress, and we are acting within the congressional mandate in this respect.

Mr. ROOSEVELT. Would the gentleman yield?

Mr. COHEN. I think the point is that what you say is perfectly right. There certainly should be no compulsion on any insurance company to write a bond on somebody that they don't think is a risk that they want to undertake, but it does seem that the Congress—and I blame the Congress, not the surety company—set up a provision which says a man must buy a bond, he must buy it from a certain group of companies, and thereafter if he gets turned down by those companies, then there must be some protection to him, as you have pointed out here, because, otherwise, he can't comply with the law.

He must have some way and ability to satisfy the requirements that the Congress has put on him. In other ordinary areas of life that is not so. He doesn't have to have a bond in many instances, except the practice has brought this about.

Here it is a legal requirement, and I am not fighting against the fact that this was a sound legal requirement. I think the proponents of the legislation are merely interested in protecting the rights of those people who have been forced to buy something, and in turn have been forced to buy it in a particular place by a particular group.

Mr. COHEN. As my statement says—

Mr. ROOSEVELT. You seem in agreement.

Mr. COHEN. That is a safety valve. We are in agreement that a man who cannot comply with the statutory mandate as it now stands

ought to have a choice of getting it some other way. The only thrust of our statement is that this language which is proposed by this bill has the effect, indirectly, of opening up the position to further inroads on American companies by Lloyd's of London which is not regulated.

We are regulated and they are not and we cannot meet that type of competition.

Mr. DENT. Wait a minute. Do I understand this now to be a question of whether we are going to allow the free exchange of business with our foreign friends over there? We don't want a foreign import company in the United States by way of insurance because there is no agreement or something on how much regulation? We have no regulation on their wages over there or anything else, but we allow their imports to come in and compete with other producers of American jobs and goods.

Mr. COHEN. Sir, as I view it, Congress has said that the regulation of insurance is in the public interest when regulated by the States. We have set up in the various States regulatory bodies dealing with the question of insurance, and rate regulations, and so forth, and Lloyd's has not seen fit to meet those standards and to enter into these various States, with two exceptions, and is competing with us through the London market without any standards by which their competition is regulated.

Mr. DENT. You are on the same side in this situation. Congress has passed regulations on wages and hours of labor and yet we will take the products of these people who do not live up to the regulations on hours and wages so it has a parallel in the situation. We are not supposed to regulate them. We are not allowed to regulate them.

Mr. ROOSEVELT. Just for the record, Mr. Cohen, what are the States that Lloyd's has entered into?

Mr. COHEN. Illinois and Kentucky.

Mr. LANDRUM. Are they the only two?

Mr. COHEN. That is right, sir.

Mr. DENT. They can buy their bond through the State of Illinois or through the State of Kentucky and still not be affected.

Mr. COHEN. The chairman of Lloyd's, when he testified before the Kefauver committee, and his statement on that appears in the appendix to this, indicated that half of their American business does not come out of Illinois and Kentucky. They were writing \$400 million of American business and at least half of it did not come through those States. It was written through the London market direct, and not through Illinois and Kentucky.

Mr. PUCINSKI. Mr. Cohen, I wonder if you would make one point clear to me.

I just think that the time has come when we ought to stop making labor the whipping boy. You are saying here now that we should not permit Lloyd's of London to provide the bond when everyone else fails or refuses to provide it. You want to set up another here to protect the interests of the American bonding companies. You know and I know that any time the American bonding companies don't want Lloyd's of London to issue the bonding policy they can issue it.

They take risks. The author of the legislation said here just a moment ago:

The only thing we are interested in is protecting the investment of the members in that union. That is what we are interested in. We are not interested in other parts of the bill.

Mr. LANDRUM. If you will yield, the author will say that he believes that allowing Lloyd's of London such bonds as are required here would not be protecting the union members.

Mr. PUCINSKI. There are other measures in this bill that protect the morality and various other things of the union officials, but it is my understanding that this bonding provision deals primarily with the assets of that union.

That is what you are interested in, if I understood you correctly. I understood the author to say he was interested in protecting the assets, the money, that had been received, that had been paid by the membership of that union into the union funds, and this is why he said:

We did not want to make it easy on the union official. We wanted to make it tough on him to make sure that we protected the assets, the investments, of those members in that union fund.

That was the statement made by the author of the bill. If we are interested in that, what is the difference whether an American company bonds it or whether Lloyd's? Has Lloyd's of London ever defaulted on a bond?

Mr. COHEN. I wouldn't know, sir. I wouldn't know, except that before the Dodd committee there was some big scrape within the year involving some differences between Lloyd's, and some American companies about some business in Florida. I think it has blown over now, but you might get that information from the staff of the Senate committee or Senator Dodd.

Mr. PUCINSKI. I get the impression here that your recommendation is find some other alternative such as a cash bond or something to give these union people if they don't get a normal surety bond, but don't let Lloyd's of London in here. I don't know why we should establish that kind of a standard for labor people when we don't establish that standard for everybody else.

We have, for instance, people driving cars in this country that can't get insurance and yet we give them that deadly weapon. We say "Well, if they can put up a bond in lieu of insurance, we will accept it."

Mr. COHEN. All we say is that there is a well-established insurance principle of rate regulation which Congress by its action in 1945—at that time Congress was in a position to say to the insurance industry, if they wanted to, that we are going to take over the complete Federal regulation of insurance. It was within its power to do so.

It made that policy decision at that time because, as it declared in Public Law 15, in the McCarran-Ferguson Act, the regulation of insurance and the taxation of insurance was in the public interest when regulated by the States and it delegated that power.

Mr. ROOSEVELT. Wait a minute, not taxation. We tax insurance companies on the Federal level.

Mr. COHEN. But the word "taxation" appears in Public Law 15. What I am saying is that Congress deliberately set up a system of regulation of insurance and now because of some difficulties in here you now

want to walk away from that and set up a special rule in this very narrow area of bonding. All we tried to do was we tried to live within the framework of the congressional legislation.

Mr. ROOSEVELT. We did that when we limited the number on the Treasury's list.

Mr. DENT. That is when we narrowed it.

Mr. ROOSEVELT. You already got that and you didn't object to it.

Mr. COHEN. I don't want to get into the history. I am quite familiar with the Landrum-Griffin Act in the various stages and I am also familiar with the welfare and pension, but in welfare and pension we already saw the effect of what was happening. That provision about the Treasury list didn't come because of anything that the surety industry said to Congress. We didn't ask for it. Congress made that decision. We had no part of it. Congress made the decision to require the bonding. We didn't ask for it.

Mr. ROOSEVELT. If you then cite the 1945 act as a precedent you also have to cite this as a precedent. You can't just cite the precedent that suits you and not take the other one.

Mr. COHEN. I am not sure that it necessarily ties together in that way. In all aspects of bonds which the U.S. Government requires, such as, for example, contract bonds under the Miller Act, and customs bonds, and so forth, all those bonds, a company that writes any one of those bonds is required under Federal law, with the only exception, and this was the first exception, where it was said—

Mr. DENT. May I just say that Lloyd's of London are permitted to underwrite the bonds on welfare and pension?

Mr. COHEN. Yes, sir.

Mr. DENT. There are just as many millions of dollars and the same identical persons involved?

Mr. COHEN. Sir, that was a construction given to certain language in subdivision 13(e) of welfare and pension and we had no reason to expect an interpretation of that language. As a matter of fact, we had in the early stages, and I think Mr. Foreman, the committee counsel, was present when I personally pointed out the need for the exemption provision. I said that the safety valve was necessary. The provision which required that the company be on the Treasury list was in every version of the bill, but the language in connection with the safety valve which we had suggested varied from bill to bill.

The only thing that happened was that the bill came out of conference with a gloss from the chairman of both the committees, from the chairman of the full committee, Mr. Powell, and from Senator McNamara, and there were in our opinion these unfortunate words that this provision would open up—he said it with reference to some of the other things, such as escrow and cash, as we have in this proviso in my statement, but these statements had the sentence to the effect that this would open up the way for underwriters such as Lloyd's to qualify.

We had no notice whatsoever at any stage of that 7 months that the Welfare and Pension Plans Act was pending that such an interpretation was in the mind of any person in the Congress.

We relied upon the language that you had to be on the Treasury list and this other bonding arrangement to use something along the lines of this proposal that we have in the proviso. What I am saying is that we never had a chance because that came out of the conference committee as a fait accompli which we were presented with,

we never had a chance to examine, and we have gone into that quite thoroughly in the appendix to this statement.

Mr. DENT. You said that it is proper of course for the Congress, and naturally it is, to restrict the privilege of writing these bonds to those on the Treasury Register, right?

Mr. COHEN. That has been customary on bonds running to the U.S. Government since 1894.

Mr. DENT. Right. And yet you said that it was also proper and just for the Federal Government to take the position that the regulation of bonding companies be within the prescription of the States themselves. Isn't it just as possible then that a State can and does license and approve a bonding company within that State under what you seem to be considering as a proper function of the State, and yet that bonding company is excluded from writing business within the State because it comes under this act if it doesn't belong to Treasury Register?

Mr. COHEN. That is right.

Mr. LANDRUM. Will the gentleman from Pennsylvania yield?

Mr. DENT. Yes.

Mr. LANDRUM. I will ask Mr. Cohen if he knows what percentage of the surety companies doing business in the United States is not registered with the U.S. Treasury?

Mr. COHEN. I would not know.

Mr. LANDRUM. Would it be small in your opinion?

Mr. COHEN. This list is intended to govern the acceptability of bonds to the U.S. Government, running to the U.S. Government. That was the intention of it. Any company which wants to write bonds tries to have its name on the approved list because then its bonds are automatically acceptable by contracting officers, by customs officials, by whoever has to take them.

Mr. LANDRUM. It is merely a prestige thing?

Mr. COHEN. I would say that in some instances there are some companies who are on that list who are in our book true surety companies, are writing across-the-line suretyship by and large of all sorts. There are other companies who write very little suretyship at all, but prefer to have their name on the list for the reason you have said, sir, for prestige purposes.

Mr. DENT. Mr. Cohen, I have to go to a meeting of the Rules Committee and and testify there this morning, but I just want to question you about your logic, of course, that all bonds that run to the U.S. Government ought to be on a federally approved list. Take a treasurer or a union president in Jeannette, Pa. Under what stretch of the imagination does that bond on his local union affairs run to the U.S. Government?

Mr. LANDRUM. I will answer that one.

Mr. DENT. I would like to have you answer it.

Mr. LANDRUM. It runs to the interest of the U.S. Government because we have declared that under the interstate jurisdiction and we have preempted all of that. Insofar as the States are concerned all union legislation in States that don't have States right-to-work laws has to come under the U.S. Government. The Supreme Court held that. That is one of the things we had to do in Landrum-Griffin. We had to rewrite the no-man lands.

Mr. DENT. But when written, the bond itself, no matter whether we regulate, does not run to the U.S. Government under any conditions.

Mr. LANDRUM. You will turn right around here when we get to something else and advocate because of the principle that there is a Federal interest and we ought to stick to the Federal requirements.

Mr. DENT. Did you say I will do that?

Mr. LANDRUM. Yes. You have.

Mr. DENT. Where?

Mr. ROOSEVELT. And the gentleman from Georgia will do it in reverse, too.

Mr. DENT. Maybe we both have the same habit.

Mr. COHEN. Before you go may I point out to you that by reason of the Treasury list of the approved sureties Lloyds of London could not qualify on a bond for a contractor or anybody else in the sum of \$1 and yet Congress passed a piece of legislation whereby it purports to protect the interest of the beneficiaries and participants in these welfare funds and labor union funds. And even though Lloyds of London cannot qualify for \$1 in a bond running to the United States and Congress wants to protect these people that I have named, yet you would by reason of the application of this provision in the bill as written, and the carryover of the Department of Labor's interpretation of the words "other bonding," permit Lloyd's of London to write bonds for \$500,000.

Mr. DENT. Mr. Cohen, as far as I am concerned, I wouldn't allow Lloyd's of London to write a penny's worth of insurance in the United States. Until you give these people another alternative other than a restrictive list, and a combination in that restrictive list can destroy a union membership's right to elect their own officials, then they have to go somewhere. As far as I am concerned, I would bar Lloyd's of London tomorrow if you had given them an alternative.

Mr. COHEN. We are proposing an alternative, but the only thing to cut out of the alternative is the Lloyd's of London.

Mr. DENT. How can an ordinary workingman put up a cash bond to be president of the International Union of Rubber Workers? Where is he going to get the cash, unless he uses union funds, and I would be against that because that is no protection for the workingman. How can an ordinary workingman achieve the presidency of the union? When I was just an ordinary worker I was on the executive board of the United Rubber Workers.

Mr. ROOSEVELT. Mr. Cohen, let's go on now. I think we have finished on this point. I think we have covered that. You are on page 7, I believe you haven't come to H.R. 4671.

Mr. LANDRUM. I apologize. I didn't know I was going to create all this. I just wanted to ask that question.

Mr. COHEN. If I may sum up our position just before I go on, from what has been said here today, the surety industry tried to live within the confines of what Congress said was what it wanted. We set ourselves up and geared ourselves to do that.

Now it appears to us that, by reason of what Congress does, some people think that we are exercising some kind of superior legislative power, or things of that kind. We didn't ask for it. We don't want it. We don't want to be the whipping boy in this controversy. We want to get from under it. We didn't ask for the bonds in the first place and all we say is that if a man can't get the bond which Congress

said in Landrum-Griffin he is to get in a certain form, if he can't get it, let him get it in some other way. These alternatives are not something which we manufactured. These alternatives are substantially what any man has a right to do on any bond required under laws of the United States.

If you look at title VI of the United States Code, section 15, you will find substantially this privilege is given to anybody on any kind of bond written to the United States. You look at the armed services procurement regulation and, notwithstanding that the Treasury list is applicable, you look at them and you will find that under the section on bonds you can qualify by personal surety, Government securities, and so forth.

Mr. ROOSEVELT. I think our problem is here that the provisions you discuss are provisions that allow fairly substantial financial corporate entities to have a substitute. I am not quite sure and perhaps I think we would like to have you file a supplementary statement with us as to whether the language you have here really is practical in the sense of this bill because, in order to file a \$500,000 bond or the equivalent of a \$500,000 bond, an international president, unless he has been misusing his position, probably is not in a financial position, as an individual to put up the kind of security that you have described here.

Now, the only alternative would be to go, as Mr. Dent said, to the union treasury, and that is exactly what we don't want. We don't want him to be able to go to the union treasury to bond himself. So I am not quite sure that I see that there could be a practical application of your suggestion.

Mr. LANDRUM. You don't mean to imply that the expense of the bond premium, it is permissible to pay that out of the union funds.

Mr. ROOSEVELT. That is true, but not the alternative of a cash deposit.

Mr. LANDRUM. I quite understand that.

Mr. COHEN. That is only one of the alternatives. We have been very careful to say that you can qualify by personal sureties, which would mean that, if I were the president, let's say, of a particular union and I couldn't get the bond, I could go to some friends of mine who are in good shape financially, acceptable under our language, to the Secretary of Labor, and they will write my bond as personal sureties guaranteeing it, people of financial probity, let's say, that is a way of qualifying. That was the historic way of qualifying before corporate suretyship arose in this country, through individual sureties. There is nothing hard about that. You go to your friends.

Mr. PUCINSKI. I don't know how big a bond Mr. Reuther or Mr. Carey or Mr. Hoffa or any of the big presidents have to put up. I have no idea how large a bond, but I rather imagine it very substantial.

Are you suggesting that these men should go hat in hand looking for friends who are going to put up a million or a million and a half dollars worth of bonds for them? Do you do this for anybody else in America?

I mean these are responsible leaders, as far as I know.

Mr. ROOSEVELT. I think perhaps you would want to think it through in terms of its practicality and perhaps—

Mr. COHEN. Personal suretyship is not unknown. It is used all the time.

Mr. PUCINSKI. Not for the amounts they deal in, Mr. Cohen. This is the problem. I agree with you. As for me or somebody else who needs a small bond maybe for some purpose, you can do it, but we are talking here about presidents of international unions who I presume, and maybe you know, but I presume must put up extremely large bonds.

Mr. DANIELS. Will the gentleman yield?

Mr. PUCINSKI. Yes.

Mr. LANDRUM. They didn't have to put up any unless their own constitution required it.

Mr. PUCINSKI. But the witness has suggested a third alternative which I think would be extremely impractical.

Mr. DANIELS. With reference to the subject of a personal bond, isn't there a danger attached to that in that even though a man today may be financially solvent and capable of paying the indemnity required by the bond, a year hence he may be insolvent or bankrupt?

Mr. COHEN. There is, of course, that possibility and that is why—

Mr. DANIELS. So what protection then is there to the union and the best interests of its membership?

Mr. COHEN. That is inherent in the situation and that is something which under our draft we have said that the Secretary of Labor will have to make the regulations on what is acceptable, in the same way he is under section 15 of title VI of the U.S. Code, if that is offered, if personal sureties are offered or anything else, it is up to the person charged with accepting of the bond to make the determination, the Secretary of the Treasury, to determine under his regulations as to the acceptability.

In other words, we can't guarantee the man is going to have that money forever, but it is not a problem which is peculiar to this. It is inherent in the whole bonding setup at the present time.

Mr. ROOSEVELT. Would you object to broadening the language so it would allow other companies than those that are registered with the Treasury to write these bonds?

Mr. COHEN. In the H.R. 4671 you have another aspect and alternative of a company which is authorized to do business under the laws of the State of New York. We are for that. Even though it is not on the Treasury list, we are for it because we have confidence in the regulatory system of New York.

Mr. PUCINSKI. Are you suggesting that you don't have confidence in Illinois? Then if not, why not?

Mr. COHEN. What I have already pointed out, sir, is that much of these bonds which are written by Lloyd's are not written through Illinois.

Mr. PUCINSKI. I wish that you people would suddenly and some day find out that it is a beautiful country west of the Appalachians and the Alleghenies.

Mr. ROOSEVELT. To go back to my original question, I am assuming that you wouldn't necessarily limit it to the State of New York. Is it also true that there are a number of companies that are in the surety

business that are not on the Treasury list that are perfectly sound and good companies?

Mr. COHEN. That is true.

Mr. ROOSEVELT. What we have done, gentlemen, is to say under the way the law is presently written that an unknown official cannot use those companies, simply because for whatever they just don't like to write Government bonds, just don't want to get the Government business, but we have excluded them from this, which is not Government business.

Mr. LANDRUM. Would the chairman yield to me?

Mr. ROOSEVELT. Always happy to.

Mr. LANDRUM. To discuss a little history in connection with this thing.

Mr. ROOSEVELT. Of course.

Mr. LANDRUM. The reason and the principal reason for this restriction in section 502 is the fact, which is established throughout the legislative history of the Landrum-Griffin Act and through the pension welfare act and the other, that a significant number of insurance companies, surety companies, bond and sureties companies, and so forth, were established with union funds owned and operated and controlled entirely by the union, and in some very critical instances went completely broke with the money drained off and taken away from the union members. There was no regulation. One, as I recall, was a union casualty company formed I think by a German immigrant and a German who had charge of the Waste Handlers Union in Chicago. What is his name? It starts with a "D."

If you get those reports from this committee in 1954 you will find all of those facts that welfare funds being drained off, away from the union members and absolutely no control over the union, was the reason for this thing.

Now, then, what could they do other than require that you place this bond with whomever you want, so long as it is a company that is registered with the U.S. Treasury. We weren't trying to discriminate with those who can be registered if they wanted to. What we were trying to do was to be sure they didn't do business with those who can't be registered with the U.S. Treasury.

Mr. ROOSEVELT. Will the gentleman yield?

Mr. LANDRUM. I am through.

Mr. ROOSEVELT. Doesn't it seem though that a company might for very solid reasons not want to do Government business? This that you have required here is not Government business and therefore they don't want to get on the Treasury list.

Mr. LANDRUM. A question arises, then, in view of the question that the gentleman asks, how are you going to exclude these companies that I have just referred to?

Mr. ROOSEVELT. I just simply say companies writing a bond shall not be a company in which any union shall have any substantial financial interest and certainly you can prohibit control. That would still leave a lot of other companies eligible to do it today.

Mr. PUCINSKI. If the chairman will yield, in the bill that was reported out by the committee, by a vote of 16 to 14—I am speaking now about the bill that had been very carefully thought out through the committee process, not the substitute that was offered on the floor—

but in that bill we stated in the report on H.R. 8342 that it is specifically provided that no bonds shall be placed through an agent or broker or with a surety company in which any union or any union officer, agent, shop steward, or other union representative has any direct or indirect interest.

I think we did exactly what the gentlemen from Georgia wanted us to do in that bill. Then in the substitute process apparently that was dropped.

Mr. LANDRUM. No, we didn't drop it. We included that and added this additional safeguard.

Mr. PUCINSKI. I am glad the author is here. The coauthor of that bill said the basic interest was to protect the union from fraud.

Mr. LANDRUM. What other purpose would there be?

Mr. PUCINSKI. That is right, and what has happened though is that, with this wording of faithful discharge and then limit on those on the Treasury list, we now have gone way beyond what the coauthor, I have a feeling, intended to in his original bill.

Mr. LANDRUM. I don't think so.

Mr. ROOSEVELT. Mr. Cohen, we have to move forward. Would you finish your statement, please, sir.

Mr. COHEN. H.R. 4671. The purpose of this bill we gather from its title, is to amend the Landrum-Griffin Act "to permit bonding by foreign surety companies and to permit alternative methods of bonding in certain cases."

The association has no objection to so much of the bill which would permit "foreign" surety companies authorized to do business under the laws of the State of New York to qualify as professional sureties on the bonds of labor union officials, although not qualified on the Treasury list. We have every confidence in the requirements of New York relating to the admission of "foreign" companies to do business in that State. We would be less than fair, however, if we did not point out to your subcommittee that Lloyd's of London is not presently admitted to do business in that State.

So that there be no ambiguity in the meaning of the term "foreign" in the title of the bill and in line 6 of page 1 thereof, we suggest that the words "or alien" be interpolated after the word "foreign" in both places mentioned. In the customary parlance of State insurance laws the words "foreign company" connote a company which is organized or domiciled in another American State. The words "alien company" connote one which is organized under the laws of another country.

For reasons already stated in connection with H.R. 4670 we are opposed to the rest of H.R. 4671 insofar as it opens the door to Lloyd's of London through the interpretation already placed on the words "other bonding arrangements" by the Secretary of labor by his ruling of August 12, 1963, relating to the Welfare and Pension Plans Disclosure Act Amendments of 1962. We restate our position that professional surety companies regulated under the American law should not again be exposed to the competition of unregulated.

(Attachments to the statement of Mr. Cohen follow:)

MARCH 7, 1963.

MEMORANDUM OF THE ASSOCIATION OF CASUALTY & SURETY COMPANIES IN OPPOSITION TO THE PETITION OF THE UNDERWRITERS AT LLOYD'S, LONDON, TO BE RECOGNIZED AS A SOURCE FOR FIDELITY BOND COVERAGE UNDER THE WELFARE AND PENSION DISCLOSURE ACT AMENDMENT OF 1962

To the Honorable Frank M. Kleiler, Director, Office of Welfare and Pension Plans, U.S. Department of Labor:

This memorandum is submitted on behalf of the Association of Casualty & Surety Companies, an insurance trade association with a membership of 134 capital stock companies the vast majority of which are nationally operated. Substantially all such member companies also hold grants of authority from the Secretary of the Treasury pursuant to 6 U.S.C. sections 6-13 certifying to their acceptability either as sureties or as reinsurers of sureties. Among such membership, moreover, are a number of companies incorporated in foreign countries which are duly admitted to underwrite insurance or suretyship in various States of the United States and are duly qualified on the Treasury list for reinsurance purpose. All such member companies pay premium taxes, other taxes and license fees in every State in which they do business and pay income and other taxes to the Federal Government and are subject to the insurance and other laws of the jurisdictions in which they are admitted.

The Association of Casualty & Surety Companies is strongly opposed to the grant of any exemption by the Secretary of Labor to the underwriters at Lloyd's, London, for purposes of validating fidelity bonds of such underwriters as a compliance with the provisions of section 13 of the Welfare and Pension Plans Disclosure Act of 1962. The allowance of the petition, in the words of the February 9, 1963, Federal Register notice inviting comment thereon, "would have the effect of designating the underwriters at Lloyd's, London as a source through which administrators, officers, and employees of employee welfare or pension benefit plans subject to the act, may make bonding arrangements which would meet the requirements of the act." [Emphasis added.]

It is precisely that announced effect which disturbs the member companies of this association. Allowance of the petition would constitute a Federal endorsement of a group of alien insurance underwriters which by and large has refused to subject itself to regulation under American law but now seeks to enhance its competitive position in the United States by a ruling from the Secretary of Labor that it has parity status for purposes of the act with its publicly regulated American competitors.

The petition states that the underwriters at Lloyds have pioneered in creating and adapting insurance coverages; that they have an outstanding reputation for integrity and fair dealing; dwells on the size of the so-called American Trust Fund; and records their availability to suit in the United States.

These allegations are all interesting, but we fail to understand their relevance when measured against the statutory criterion laid down by subsection (a) of section 13 of the act as to who is an eligible surety—a standard which the petition utterly ignores. As a matter of fact, this very crucial statutory requirement is neither mentioned nor discussed in the petition.

The significant and very plain statutory mandate to which we are referring, and which is to be found in subsection (a) of section 13, clearly states that:

"Any bond shall have as surety thereon a corporate surety company which is an acceptable surety on Federal bonds under authority granted by the Secretary of the Treasury pursuant to the act of July 30, 1947 (6 U.S.C. 6-13)."

This requirement is by no means a congressional aberration. It is substantially the same as is found in section 502 of the Labor Management and Disclosure Act of 1959 (29 U.S.C. 401 et seq.).

The Secretary of Labor is now being asked by indirection to disregard this express statutory mandate merely because in subsection (e) of section 13 the Secretary is authorized to exempt an administrator, etc., from the requirements of the section if the latter "offers adequate evidence of the financial responsibility of the plan, or that other bonding arrangements would provide adequate protection of the beneficiaries and participants." Normally the phrase "other bonding arrangements" bears the connotation of permitting a deposit of security other than a corporate surety bond, such as a personal surety bond, or a deposit of cash or governmental securities in the amounts required by statute. This connotation

has been partially obscured in the petition by its sole emphasis on certain comments made to Congress by Representative Powell and Senator McNamara in their explanations of the bill. It cannot be gainsaid that parts of those statements, if required to be accepted by the Secretary of Labor at their face value, are favorable to the position urged by the petition.

It is, however, the position of the Association of Casualty & Surety Companies that the plain words of a statute which bear specifically on a particular matter, to wit, that the surety must be Treasury qualified, cannot be emasculated by general words in the same statute such as "other bonding arrangements" because of some extra statutory or extrinsic glosses placed upon such general words. When the Congress enacts a statute containing words of plain meaning, such meaning cannot be impeached by personal interpretations rendered by Members of the Congress. This canon of statutory construction has been often applied. For a general statement of the principal see 82 C.J.S. Statutes section 347b and section 355. For specific application of the principle see: *U.S. v. Shreveport Gas & Elec. Co.* (287 U.S. 77, 53 S. Ct. 42); *Baltimore Nat. Bank v. State Tax Comm.* (297 U.S. 209, 56 S. Ct. 417); *Kuehner v. Irving Trust Co.* (299 U.S. 445, 57 S. Ct. 298).

We cite the canon of construction advisedly because if the Secretary of Labor were to accept the comments of Messrs. Powell and McNamara as binding upon him, he can do so only by completely ignoring the express statutory mandate. To grant the petition of Lloyd's is to leave the statutory mandate without any practical meaning whatsoever. The positive mandate cannot be harmonized with the relief sought by the petition. Per contra, to reject those parts of the explanations of Messrs. Powell and McNamara to the extent that they fly in the face of the unambiguous mandate of subsection (a), is not to leave the phrase "other bonding arrangements" without significant meanings. Each of the legislators named alluded to such other significant meanings. Chairman Powell, not only by reference to "other forms of surety" in his statement as quoted in the petition, but also by what he went on to say immediately following the part of his comment quoted in the petition, to wit:

"He [the Secretary] will also be empowered to accept irrevocable escrow arrangements that will provide the same degree of protection offered by other bonds. Thus, the commercial practice of guaranteeing an obligation though a cash bond can be accepted by the Secretary in lieu of other bonds" (Representative Powell, House Conference Report 1417, Mar. 13, 1962, p. 12).

Senator McNamara also completed his remarks on the subject, immediately following those quoted in the petition, by adding:

"Under the new section 13(e), the Secretary would also be empowered to accept, in lieu of the bond requirements of section 13(a), irrevocable escrow arrangements which are most usually represented in commercial practice by the putting up of a cash bond" (Senator McNamara, p. 3858, Congressional Record, Mar. 15, 1962).

THE SIGNIFICANCE OF THE TREASURY LIST REQUIREMENT

We would be remiss if we did not point out the background and significance of the Treasury list requirement by reference to a page of history. Treasury regulation of acceptable sureties had its genesis in the act of March 13, 1894 (now 6 U.S.C. secs. 6-13) which for the first time in American fiscal history permitted the use of corporate suretyship to guarantee obligations in favor of the United States. The experience of Government with personal suretyship had left much to be desired. Congress did not wish to repeat that experience with corporate suretyship. It wanted to be abundantly sure that corporate risk bearers, whose suretyship was accepted on bonds in which the United States had a monetary or other interest, would be able to respond if, as and when their obligations matured. From 1894 to date, all companies desiring to qualify as acceptable Federal sureties, whether as direct writers or as reinsurers, in substance, have had to meet the same requirements of the implementing regulations. They must file quarterly and annual statements of their financial condition; they must observe the Treasury monetary limitations on risks they underwrite; they must report all risks (Federal or otherwise) underwritten which exceed the risk limitations set for the company and must observe the investment restrictions. (See Treasury Circular 297.)

Such were, and are the standards, laid down for suretyship which is offered to protect the interests of the United States as obligee. Congress, following the pattern it established in section 502 of the Labor Management and Reporting

Act of 1959 (the Landrum-Griffin Act), expressly provided in section 13(a) of the act under discussion that the suretyship furnished by an administrator must be that of a company on the Treasury list, notwithstanding that the United States had no monetary interest of its own to protect. In doing so, its philosophy obviously must have been that it could not in good conscience require less to safeguard the interests of employees and their dependants than that which it had always required to protect the interests of the Government itself. Unless so viewed, the specific requirement relative to the Treasury list is utterly incomprehensible. If Congress had intended to leave the whole question of what is an adequate surety to the sole discretion of the Secretary of Labor, it could have made its intention unmistakable by simply deleting the specific provision of subsection (a) and by using apt words to confer regulatory authority in the matter upon the Secretary through the first sentence of subsection (e).

It seems to us significant, too, that every version of the Senate and House bills from August 15, 1961, on, and both of the bills which eventually went to the conference, as well as the one which was enacted, contained the specific provision relating to the Treasury list, while at the same time the general provisions for "exemption" from the bonding requirements varied from bill to bill. During the 7 months preceding the conference it was never suggested, so far as the record shows, by any Member of Congress, that the general provisions obliterated the specific. Therefore, the unstudied explanations made by Representative Powell and Senator McNamara for the first time in the closing stage of the bill as it came from the conference with the Treasury list provision intact cannot, in our opinion, bind the Congress and must be regarded at most as expressions of personal opinion. We respectfully submit that on the issue of who is an acceptable professional surety Congress did not intend to indulge in futile verbiage or to stultify its use of the English language. We, therefore, urge that the Secretary of Labor has been foreclosed on the issue by the express words of the statute and that he has no inherent power to override the clear mandate of the Congress as expressed in the words of the statute.

SOME COMMENTS ON THE PETITION OF THE UNDERWRITERS AT LLOYDS

We have previously stated that the Lloyd's petition makes much of various aspects of their operations—all presumptively relevant to the point that Lloyd's coverage provides "adequate protection" for the employee beneficiaries of plans. It says that pioneer in creating and in adapting insurance coverages. We fail to understand the thrust of this argument. Certainly in the area of the types of fidelity coverage required by the act, the underwriters at Lloyd's did not create the necessary coverage nor is there any extraordinary skill or know-how possessed by them which the Secretary of Labor should consider in passing upon the petition.

There is no doubt that the underwriters at Lloyd's have profited from a freedom of action with regard to coverages and rates and other matters not enjoyed by companies on the Treasury list, all of which are duly licensed and regulated by the jurisdictions in which they do business.

The substantial extent of such unregulated competition by the underwriters at Lloyds was testified to on June 17, 1960, by Anthony Charles Grover, chairman of Lloyd's, when he frankly stated at page 17 of his statement (appended to the petition):

"Lloyd's underwriters are licensed in the States of Illinois and Kentucky. However most of the insurance placed in the Lloyd's market in favor of American assureds and reassureds are effected on a nonlicensed or nonadmitted basis."

Significantly, as of the time of the testimony, about one-half of the Lloyds total worldwide writings was American business, amounting to about \$400 million. (See transcript of hearings before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U.S. Senate, 86th Cong., 2d sess., pursuant to S. Res. 328, pt. 10, "Operation of Foreign Companies." Mr. Grover's testimony commences on p. 5980. His testimony on the size of the American market is found on p. 5993.)

We are quite confident that Congress did not intend by the exemption for "other bonding arrangements" to give leverage to the underwriters at Lloyds for further competitive inroads on American insurers.

We do not quarrel with the claim to "outstanding reputation for integrity and fair dealing." We do urge that the Secretary of Labor should not, even if he had the legal power to do so, evaluate Lloyd's of London by its own image of itself.

The Congress, in our opinion, has framed the mirror by which the proper image for sureties in the risk-bearing business is to be reflected—the Treasury list of acceptable sureties.

Insofar as we know, there is nothing in the Treasury regulations which prevents the underwriters at Lloyd's from qualifying for reinsurance purposes and by so doing making themselves eligible as acceptable sureties for the purpose of the Welfare and Pension Plans Disclosure Act. All that is required of them is they put themselves on a competitive parity by disclosing aspects of their operations which their American regulated competitors must disclose.

CONCLUSION

In closing, we urge that the petition of the underwriters at Lloyd's be rejected. Otherwise, there will be the peculiar anomaly that a group of foreign underwriters whose obligation on a surety bond running to the United States is not acceptable even for \$1, would nevertheless be acceptable on fidelity bonds up to \$500,000, or more, intended to safeguard the welfare and pension interests of the beneficiaries of the solicitude of the Congress.

Seventy years of governmental experience and reliance on the Treasury list to determine the qualifications of professional sureties, a history which certainly impelled the specific statutory mandate of section 13(a), should not be lightly cast aside merely because of two unstudied interpretations made to the Congress for the first time during the final legislative stage of the 1962 amendments to the Welfare and Pension Reporting and Disclosure Act. We submit that the Secretary of Labor may not, and should not, ignore a clear and positive requirement of the Congress.

Respectfully submitted.

ASSOCIATION OF CASUALTY & SURETY COMPANIES,
By DAVID Q. COHEN,
Manager, Fidelity and Surety Department.

U.S. DEPARTMENT OF LABOR,
OFFICE OF WELFARE AND PENSION PLANS,
OFFICE OF THE DIRECTOR,
Washington, August 12, 1963.

Mr. DAVID Q. COHEN,
Manager, Fidelity and Surety Department,
Association of Casualty and Surety Companies,
New York, N.Y.

DEAR MR. COHEN: Enclosed is a copy of my ruling on the petition with respect to underwriters at Lloyd's, London.

The statement which you filed last March was most carefully considered, but as you will see, we concluded that the petition should be granted. In reaching this conclusion we have relied heavily upon the legislative history of section 13(e) of the Welfare and Pension Plans Disclosure Act as well as upon all the information submitted in support of the petition.

Sincerely yours,

FRANK M. KLEILER, *Director.*

TITLE 29—LABOR

CHAPTER XI—OFFICE OF WELFARE AND PENSION PLANS, DEPARTMENT OF LABOR PART 1307—EXEMPTION FROM BONDING REQUIREMENTS Bonds Placed With Underwriters at Lloyd's, London

On February 9, 1963, the Office of Welfare and Pension Plans of the Department of Labor published notice in the Federal Register (28 F.R. 1322) that it had under consideration a petition for exemption from the requirements of subsection 13(a) of the Welfare and Pension Plans Disclosures Act (76 Stat. 39) (hereinafter referred to as the Act) which would permit the placing of bonds for administrators, officers, and employees of welfare or pension benefit plans covered by the Act with Underwriters at Lloyd's, London.

All interested persons were invited to comment upon the petition for exemption. Upon consideration of the comments received from such persons and for the reasons stated in the petition, I find that bonds placed with Underwriters at

Lloyd's, London, which otherwise satisfy the requirements of section 13 of the Act and regulations thereunder (29 CFR 1306), would provide adequate protection for the participants and beneficiaries of welfare and pension plans covered by the Act.

Therefore, pursuant to the authority of section 13(e) of the Welfare and Pension Plans Disclosure Act (76 Stat. 39), Secretary's Order No. 15-62 (27 F.R. 4977) and 29 CFR 1307.1 to 1307.11, the requested exemption is granted, effective on publication in the Federal Register. Title 29 CFR, Chapter XI, Part 1307, is hereby amended by adding a new Subpart C to read as follows:

SUBPART C—BONDS PLACED WITH UNDERWRITERS AT LLOYD'S, LONDON

Sec.

1307.31 Exemption

1307.32 Conditions of Exemption

AUTHORITY: Sections 1307.31 and 1307.32 issued under section 13(e), 76 Stat. 39; 29 U.S.C. 308 D; Secretary's Order No. 15-62, 27 F.R. 4977; 29 CFR 1307.1-1307.11.

§ 1307.31 Exemption

An exemption from the bonding requirements of subsection 13(a) of the Welfare and Pension Plans Disclosure Act is granted by this section whereby arrangements (which otherwise comply with the requirements of section 13 of the Act and the regulations issued thereunder), with the Underwriters at Lloyd's, London, will satisfy the bonding requirements of the Act.

§ 1307.32 Conditions of Exemption

(a) This exemption obtains only with respect to the requirements of section 13(a) of the Act that all bonds required thereunder shall have as surety thereon, a corporate surety company, which is an acceptable surety on Federal bonds under authority granted by the Secretary of the Treasury, pursuant to the Act of July 30, 1947 (6 U.S.C. 6-13).

(b) This exemption is granted on the following conditions:

(1) Underwriters at Lloyd's, London, shall continue to be licensed in a state of the United States to enter into bonding arrangements of the type required by the Act.

(2) Underwriters at Lloyd's, London, shall file with the Office of Welfare and Pension Plans two (2) copies of each annual statement required to be made to the Commissioner of Insurance of those states in which Underwriters at Lloyd's London, are licensed. Copies of annual statements shall be filed with the Office of Welfare and Pension Plans within the same period required by the respective states.

(3) All bonding arrangements entered into by Underwriters at Lloyd's, London, under section 13 of the Act shall contain a "Service of Suit Clause" in substantial conformity with that set forth in the petition for exemption.

Signed at Washington, D.C.

This 9th day of August, 1963.

FRANK M. KLEILER,

Director, Office of Welfare and Pension Plans.

Mr. ROOSEVELT. Mr. Cohen, we want to thank you for your help and assistance. Through your discussion with the committee you have highlighted some of the basic principles and problems which we have here. I do want to make the comment that it seems a little bit peculiar that the American public should by law be able to buy almost anything that they want in the way of insurance from Lloyd's. As you say, the testimony shows that they buy rather substantially from Lloyds abroad, so that they are in competition with you whether they are regulated or not by being resident in the State. I think that the general purpose of the Secretary of Labor's decision was that, as long as there was no evidence that a bond of Lloyd's was not a worthwhile bond and one that would protect the individual union treasury and union members, that he couldn't believe that the Congress would prohibit the union or union officials from being able to secure this type of bond when it was available to everybody else in the country. I don't think the Congress would pass a law prohibiting any American from buying Lloyd's of London insurance. I don't think even you have indicated that such a law should be passed. I think I would

ask that you give a little more thought to the practicality of the alternate suggestion which you made, possibly pointing out to us how it does apply to or could apply to individual union members who ordinarily are not too well off, whereas a corporate individual can under other status supply this alternate surety.

I think our basic problem is whether we shouldn't go back to the original narrow trend so that we make sure that everybody in the industry knows what they are insuring, which you yourself admit they do not know today under existing law. We can then be sure that there is a wide enough market, that we haven't narrowed it too much; so there can be no possible misuse of the market to keep individuals from holding position, when in essence that isn't the job of the individual insurance companies. I think that is our basic problem.

Mr. COHEN. I am not out of sympathy with the problem, but there are at the present time, if you stay just on the Treasury list alone—and we go beyond that. We say there ought to be a choice—there are 252 companies on the Treasury list alone which are authorized to write this.

Mr. ROOSEVELT. Yet we found, though, that at one point all 252 would not write insurance for a particular union.

Mr. COHEN. But even in that instance, Mr. Chairman, eventually when the chips were down—

Mr. ROOSEVELT. Who put the chips down?

Mr. COHEN. One of our member companies did write it.

Mr. ROOSEVELT. But who put the chips down? This committee launched an investigation and when it did it the threat of whatever you want to call it, of whatever was going to come out, suddenly resulted in a couple of companies and a big company reversing its position overnight and being willing to write the insurance. That alone revealed to the fairminded members of this committee as to what was going on.

Mr. CARROLL R. YOUNG (vice president, Niagara Fire Insurance Co., New York, N.Y.). Mr. Chairman, I happen to be vice president of the company that wrote those bonds. We did not reverse our position and we underwrote those bonds on a business basis on the merits of the risks.

My name is Carroll Young.

Mr. ROOSEVELT. Mr. Young, in all due deference to you, maybe you can support that statement and we will be happy to have you do it, but the impression given to the committee was that they could not get any bond at a given period of time from anybody and that not until there was a change of position was it possible to get the bond written.

Now, if the record is wrong on that, I would be glad to have the record corrected.

Mr. YOUNG. I will try to straighten the record right now.

Mr. ROOSEVELT. But the record as it now stands before the committee, is that if you were willing to write it at that time, you were one of the very few and the great majority of the 252 were not willing to write it. Would you not agree to that?

Mr. YOUNG. I agree to that.

Mr. PUCINSKI. May we at this afternoon's session have the good gentleman testify?

Mr. ROOSEVELT. I think it would be very helpful, Mr. Young. We are going to meet again at 2:15. We would certainly like to discuss it with you further, if you can come.

Mr. YOUNG. I will be very glad to.

Mr. PUCINSKI. I have two quick questions. One, you said if I understood correctly, that the fees have increased substantially on bonding provisions with this new faithful discharge language; is that correct?

Mr. COHEN. I didn't say so.

Mr. PUCINSKI. Have they increased?

Mr. COHEN. How can I think they increased when the Congress required a type of bonding which was unknown?

Mr. PUCINSKI. That is not my question, Mr. Cohen. The question is, is there any merit to the statement made by Mr. Mayer that previous to this language of faithful discharge you could get insurance for 30 to 40 cents a thousand and in some instances since the passage of this legislation bond insurance has gone up as much as \$10 a thousand. Is there any merit to Mr. Mayer's statement?

Mr. COHEN. As I earlier pointed out, I have no rate function and I don't know the particularities of it, but, just as a matter of general knowledge which I have from my 25 years in the business, I would be very much surprised to find that there was 40 cents a thousand at any time.

Mr. PUCINSKI. Was there a substantial increase?

Mr. COHEN. Increase from what, sir? You have no standard.

Mr. PUCINSKI. On surety bonds.

Mr. COHEN. You had no faithful performance bonds of this kind for union officials.

Mr. PUCINSKI. Are unions paying you more money now for a surety bond than they were prior to the passage of this act?

Mr. COHEN. I don't know about that.

Mr. PUCINSKI. And you are the manager of the Fidelity and Surety Department of the Association of Casualty & Surety Co. and you don't know?

Mr. COHEN. That is right; it is not within my function. I have no function in ratemaking.

Mr. PUCINSKI. Would you offer an opinion, then?

Mr. COHEN. I prefer not to.

Mr. ROOSEVELT. I am sorry we can not have anybody but the witness' testimony at this time.

Mr. COHEN. I prefer not to offer opinions about a matter which is not within my jurisdiction.

Mr. ROOSEVELT. Would you yield?

I just want to clear this point. The law required a different kind of insurance.

Mr. COHEN. Exactly.

Mr. ROOSEVELT. Mr. Cohen testified that the new kind of insurance required by the law was more expensive than the previous kind of insurance on a surety basis, but not required of, but done by insurance companies in bonding their insured.

Mr. COHEN. But it was not of the same kind.

Mr. ROOSEVELT. It was an entirely different kind of insurance.

Mr. PUCINSKI. But the cost to the union, their annual rate—

Mr. ROOSEVELT. He testified that it was higher, that the cost was more, this new type of insurance.

Mr. PUCINSKI. Is that correct, Mr. Cohen?

Mr. COHEN. That is right, sir.

Mr. PUCINSKI. Would you have an opinion? Has there been an increase, or decrease, or have they remained more or less the same, the number of defaults on surety bonds? Would you have an opinion?

Mr. COHEN. No; I would not have an opinion. I would only have the opinion that there is no credibility to any of the statistics because the Landrum-Griffin law went into effect in 1962 and that period is too short to develop any loss experience of any credibility because, if I may, sir, we know in this business that there is a factor called the hidden loss. The embezzlements and defalcations and speculations when they are committed are committed by people who have no thought to make these things public. They try to hide them in every devious manner they can. It is something unlike the sinking of an insured ship where it is a notorious fact that the ship went down or that there was an automobile accident or that a fire occurred. When a man steals he tries to hide it and we have many instances that we know of where these losses have come up 15, 20, 30 years later, and that goes to the experience. When you have a short period like that we don't know what is under this iceberg which may develop in the future.

Mr. PUCINSKI. Without any attempted comparisons then, would you venture an opinion now? Let's take for last year and take into consideration your hidden losses. Is there a large number of defaults on the surety bonds by unions?

Mr. COHEN. I wouldn't know.

Mr. PUCINSKI. Would you venture an opinion?

Mr. ROOSEVELT. Are there any known ones?

Mr. COHEN. I wouldn't know, sir. I mean we don't have any function in this area of collecting statistics.

Mr. PUCINSKI. Now let me ask you this: Just so I know how much credence to put in this witness' testimony, I have asked a whole series of questions related to surety business and all of these the witness says he doesn't know. What is the value then of his testimony? What qualifies this witness as an expert on this subject and I am not being facetious. Perhaps you would like to tell me, Mr. Cohen. I spent half the morning with you listening to your testimony.

Mr. COHEN. I will tell you what qualifies me. Twenty-five years of experience in dealing with problems in this field. If I am trained as a lawyer and you ask me about things involving medicine or engineering, I could tell you in all good faith that I don't know a thing about it. When you are asking me about a subject matter which our association is not charged with, the statistics and rates and that sort of thing, which I have no function with and I don't deal with, then I think I can tell you in all good faith that I cannot answer your questions in that respect. But in all other respects within which I have testified, I said to you and I think people in our industry and people who have had any dealings with me in Government and others know that I do have experience within these fields.

Mr. PUCINSKI. Mr. Cohen, with all due respect to your expertise, could you then do this committee the courtesy of providing this committee at some future date, reasonably soon, a statement of the actual

figures on the number of defaults that they have had on surety bonds in the last year among union members, union officers? Could you do that for us?

Mr. ROOSEVELT. The existing known ones.

Mr. COHEN. I will pass it on to those who may have them, but I say to you again that there is no credibility to them at all for the reasons I have stated.

Mr. LANDRUM. Would the chairman yield to me?

Mr. ROOSEVELT. Certainly.

Mr. LANDRUM. I have no purpose to either bolster or try to weaken the testimony given by the gentleman on the witness stand, but I would like to direct Mr. Pucinski's attention to the October 11, 1963, Daily Report of the Bureau of National Affairs in which the statement is made in connection with or relating to the question he asked Mr. Cohen:

Labor Department opinion is not unanimous on the value of Landrum-Griffin Act provisions administered in cooperation with the Department of Justice—and so forth.

Some characterize it one way and some characterize it another.

It goes on to describe complaints under title I. Some of them are under other titles but they come down to this section on title V, in which the Labor Department report says, quoting from the October 11 Bureau of National Affairs Daily Labor Report:

The most frequent court action under the law has charged union officers with embezzling funds. Some 1,500 complaints charging improper handling of union funds have been considered serious enough for tabulation by the Department. Of these 702 were sufficiently serious to be listed in embezzlement charges rather than some lesser category such as improper or faulty management of funds. Of the embezzlement charges, some 250 are under investigation. About the same number have been closed as "not actionable," and 140 have been taken into court as criminal charges.

Now then that is under Landrum-Griffin but we come to the next paragraph which deals with the later report from the office of Labor-Management and welfare pension reports:

LMWP contains several pages listing more than 120 alleged embezzlers subject to court action during fiscal year 1962.

Now the results:

Sixty-two convictions, twelve acquittals. The rest are pending trial except two, in one of which the defendant died and in the other he was convicted on another charge and the embezzlement matter was dropped.

Mr. PUCINSKI. On pensions?

Mr. LANDRUM (continuing):

The embezzlement complaints appear to have increased sharply, 471 being reported for fiscal year 1963, as compared with only 231 in the preceding 3 years. Embezzlement convictions result in a fairly wide range of sentences. One of the most spectacular involved a top officer's report of the Bakery & Confectionery Workers Union, whose former president, James G. Cross, was sentenced to 1 to 3 years in prison for embezzlement of \$70,000 from his union. The union's lawyer was convicted of embezzlement and grand larceny in the case, not under the Landrum-Griffin Act.

Mr. PUCINSKI. If my colleague will yield, just so I know, we are talking now the most recent figures. I mean the second half of this report deals with the pension and welfare funds, not union treasury. Is that correct?

Mr. LANDRUM. The second paragraph I said. But that is still union funds.

Mr. PUCINSKI. Would my colleague know how much of those 471 embezzlements in that pension category were embezzlements from pension funds that were managed by and supervised by management and how many were by unions. If the gentleman recalls, 90 percent of all the pension funds in this country are managed by management?

Mr. LANDRUM. I made no statement about who the embezzlers were. I just merely quoted the report saying that the charges were made.

Mr. PUCINSKI. Yes; but the gentleman used those figures, I presume, to substantiate—

Mr. LANDRUM. They are not my figures.

Mr. PUCINSKI. That is right; but the gentleman brought these figures in, if I understand correctly, as an effort to answer the questions I raised of the witness whether or not the number of defaults on surety bonds by union officers has increased, decreased, or remained stable. The gentleman brought in this report and I think that, if we are going to use those figures, then we ought to complete the record by ascertaining two things. No. 1, the management that operates these pension funds does not come under the severe surety provisions as provided in the Landrum-Griffin Act for union officers. No. 2, certainly we ought to know how many of these 471 embezzlements involved management and how many involved union members. The gentleman mentioned one union member.

Mr. LANDRUM. I state no accusation or no reference whatever. All I said was what the report says and the report says that "the embezzlement complaints appear to have increased sharply"—that is from U.S. Department of Labor—"471 being reported for fiscal year 1963 as compared with only 231 in the preceding 3 years."

That is all I said. That is all I intend to say. I am making no accusation about who, when, or what. That can be determined from studying the records in each case.

Mr. PUCINSKI. I would agree with my colleague that that figure should be of serious concern to everybody, but I think that, in order to use those figures and get any guidelines, and I presume that is what they were introduced for, we really have to have a further breakdown and I would like the counsel to break this figure down so that we can see what is the relationship.

Mr. LANDRUM. What difference would it make as to whether it was a man, or woman, or mule, or mouse that embezzled the funds? What we are trying to do is keep them from being embezzled.

Mr. PUCINSKI. The difference is that this testimony, these statistics, were brought in by the gentleman from Georgia as an effort to help answer the question that I posed to this witness, whether or not the surety bonds that have been issued at a higher rate calling for this faithful discharge, whether there has been an increase, a decrease, or whether the figure has remained static in terms of union officials who are covered by the surety bonds defaulting on these bonds.

That was the question I posed to the witness. He was unable to answer the question and the gentleman from Georgia called my attention to the report of the Labor Department as an effort to help the witness clarify the pictures and I say that, as long as the gentleman has done that, we now ought to go to the next step and find out who

are these 471 embezzlers. Are they union officials? Are they management officials? Who are they?

Mr. ROOSEVELT. Without objection, the Chair will instruct counsel to inquire of the Labor Department if they have a breakdown as to who these companies and accused are so that we may have the information.

Thank you again, Mr. Cohen. We appreciate your being with us. The committee will stand in recess until 2:15 this afternoon.

(Whereupon, at 11:55 a.m., the committee was recessed, to be reconvened at 2:15 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2:15 p.m., Hon. James Roosevelt presiding.)

Mr. ROOSEVELT. The committee will come to order, please.

The committee will continue this afternoon its hearings on H.R. 4669, H.R. 4670, and H.R. 4671. Our first witness this afternoon is Mr. Harold Gibbons, executive assistant to the general president of the International Brotherhood of Teamsters.

I believe he is accompanied by Mr. Zagri, legislative counsel.

We are happy to have you both with us.

STATEMENT OF HAROLD GIBBONS, VICE PRESIDENT, ACCOMPANIED BY SID ZAGRI, LEGISLATIVE COUNSEL, INTERNATIONAL BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, WAREHOUSEMEN & HELPERS UNION

Mr. ROOSEVELT. I think I should indicate at this point something which obviously appeared in the record of this morning's hearing. A good deal of this probably does involve the International Brotherhood of Teamsters, in the specific cases that came to the attention of the committee, part of them as a result of telegrams and correspondence with the chairman of the full committee on Education and Labor, Mr. Powell.

I want to emphasize, however, that I think I can speak for all members of the committee when I say that any legislation which is going to be considered or under consideration or introduced is not introduced for the benefit of the Teamsters alone. We are interested only in seeing that legislation is fair to all parties, and if it is unfair to one party, then it should be corrected.

But it is not being corrected in this instance, I think as testimony as already has been presented and will be presented later, just for the benefit of the Teamsters but it is being considered for the benefit of all labor organizations as such that are included under the Welfare and Pension Act and under the provisions of the Landrum-Griffin Act.

Mr. Gibbons, do you want to proceed? You have a statement, rather a full statement. I don't know whether you want to read it in its entirety or summarize it as you go along. If it is convenient to you, we will put it in its entirety and let you proceed in any manner convenient to you.

Mr. GIBBONS. I will attempt to skim through this in light of the fact that it will be made part of the record, Mr. Chairman. Of course, I

will be subject to any interruptions that the Congressmen would care to make in the way of questions as I proceed.

First let me say my name is Harold Gibbons, executive vice president of the Teamsters Union. I am appearing here on behalf of the general president of our international, Mr. Hoffa, who extends his appreciation for this opportunity to attend and testify before this committee.

We as Teamsters and as members of organized labor have suffered the indignity of a double standard under this provision, had our members gouged by excessive bonding fees, our freedom of contract to do business with Lloyd's of London deprived, the rights of our rank and file members superseded by the dictates of corporate sureties.

Section 502(a), for the first time in American history, set labor apart from the rest of the community enacting a special bonding code for labor—one that does not apply nor is required of any other segment of the community.

We, the Teamsters Union, and 450 locals were faced with this reality, of having our offices dictated to on the right to hold office, dictated at the whim of a surety company. From January 7 to February 7, 1963, we were without bonds. If we had not secured bonds by February 8, 1963, we would have been compelled to suspend operations.

Mr. ROOSEVELT. You may remember this morning, Mr. Carroll Young, vice president of Niagara Insurance Co., rose to state that his company had been prepared at all times to give you bonds. Why, then, were you without bonds for that period?

Mr. GIBBONS. He may very well have been prepared at all times to take care of our bonding situation, but this fact was unknown to us. In an effort to determine whether or not any of the companies were prepared to write our bonds, we wired everyone of them, asking them to. Mr. Young's company came into the picture, and I am sure this is probably the truth, that they had not made any decision on the question, even though we had wired them.

But they certainly came into the picture as a result of our asking them, and emissaries of ours asking them, if they would sit down and discuss this problem with our union. They agreed to come in and sit down and get the whole picture of our international union and its problem with respect to bonding, and they readily agreed to it. But even though we say rejected by all bonding companies, there is nothing in the record to indicate that the company now taking care of our bonds ever turned us down as such.

Mr. ROOSEVELT. In essence, what you are saying is that you were without bonds primarily because until that time you had no one who had come forward, including Niagara Insurance Co., to affirmatively state to you that they would cover you as of that date?

Mr. GIBBONS. Even though we invited everyone of the 231 companies on the Treasury list to do so. Despite our request, none of them did come through, and we were at that moment without bonds and subject to going out of business. However, after 1 day of discussion with Mr. Young and his associates, we were happy to find that they had no reluctance whatsoever to take our bonding business, and they did this, I am certain, on the basis of the facts as they found them during that day's discussion and not on the basis of any pressure from anyone involved.

No checks could have been written, no salaries paid, no strike benefits approved, no financial obligations undertaken, if the uniform withholding of insurance by the 231 surety companies on the Treasury list had continued until midnight February 8, 1963.

This was the fulfillment of the prophecy of Senator Wayne Morse, who stated, on the floor of the Senate, September 3, 1959:

If a 2-inch headline should appear some morning: "Bonding Company X Refuses To Bond President Z of Y Union" that union will have been done irreparable damage in that area.

Whatever may have been the cause of the cancellation of our bond, it could not have been on business grounds. The Teamsters Union, having paid \$745,000 in premiums with only \$3,000 in claims over a 3-year period, was uniformly rejected by all 231 surety companies on the Treasury list. The bond was canceled and no reason stated. One minute before midnight, and only after the House Committee on Education and Labor wired all surety companies on the Treasury list requesting reasons for their failure to write Teamster bonds, were Teamster bonds finally written.

That is badly phrased in terms of my previous statement with reference to pressure.

Mr. ROOSEVELT. May I ask you what company carried you and then canceled the bond?

Mr. ZAGRI. That was Citizens Casualty.

Mr. ROOSEVELT. And in canceling it, did they give any reason outside of notifying you?

Mr. GIBBONS. Absolutely no reason. Our inquiries resulted in no information on that subject.

Mr. ROOSEVELT. The reason I ask this question is that I again raise the point for my colleagues on the committee. If you require a bond, not to simply say it is available but if you require that a bond be written, it seems to me that there should be something in equity which would say that if it is to be canceled, reasonable cause be given for canceling. When you get a situation where there is cancellation without any effort to establish any cause, you must begin to wonder on the equities as it concerns the individual or company to whom you have said you can't do business without a bond. I just want to raise that point.

Mr. AYRES. Will the chairman yield?

Mr. GIBBONS. This situation applies on no other segment of American society.

Mr. AYRES. Do you know, Mr. Chairman, whether we have information from Treasury which spells out how they select those that get on their preferred list?

Mr. ROOSEVELT. Yes. There is a bulletin by the Treasury Department which states the manner and requirements for Treasury approval. It is available to the insurance companies, as I am sure Mr. Cohen will agree, and I think there would be no question in the minds of the insurance fraternity as to what the requirements are to qualify for a listing by the Treasury Department.

Would you agree with that, Mr. Cohen?

Mr. COHEN. Yes, sir. Title 6, United States Code, governs it by statute and it is supplemented by, I think, Treasury Circular 297, which deals with the Treasury list.

Mr. ROOSEVELT. Does that answer the question?

Mr. AYRES. Yes. My next question, Mr. Chairman, is again emphasizing the points that you have made: we by legislation have said to the unions affected that you cannot go outside of the list that is approved by the Treasury, and, again supporting—

Mr. ROOSEVELT. Under the Landrum-Griffin Act. Under the Pension-Welfare Act the Department of Labor has ruled that it can accept other surety companies and has specifically accepted Lloyds of London as fulfilling the requirements of that act.

Mr. AYRES. But insofar as the Landrum-Griffin Act is concerned, by legislation we have said you can only use the services of those bonding companies approved by the Treasury. And then your position, Mr. Chairman, as I understand it, is since we, through the legislative process have made this declaration, then we, in turn, have an obligation to the union attempting to get the bond to see that there is a bonding company available, providing they meet the requirements. According to the testimony, I presume your percentage of loss is one of the lowest in any bonding operations, Mr. Gibbons, is that true?

Mr. GIBBONS. I would say so. I think it works out to be 0.002 percent. Out of \$745,000 in premiums, the company suffered a loss of \$3,000 payout, all of which was recovered, incidentally.

Mr. AYRES. I wonder, Mr. Chairman, if there are any figures available showing what percentage of losses as a whole are.

Mr. GIBBONS. We have figures later in my statement comparing the losses suffered by trade union officials and banking officials.

Mr. AYRES. Trade union officials, are more honest; aren't they?

Mr. GIBBONS. They show up very much so.

Mr. ROOSEVELT. Let's say that Mr. Cohen pointed out this morning that he would somewhat question the validity of any figures because of the time lag involved and so forth.

Mr. GIBBONS. Nevertheless, in this kind of comparison the timelag applies in both instances. So for the limited purposes of what losses were covered in a given year in labor and in banks, these are valid statistics.

Mr. ROOSEVELT. I would have to agree with that. I think they would eventually balance out, because somewhere along the line that loss is going to come against that year's premium and it would affect that year's premium. So if it was over a long enough period of time there would be no questions.

Mr. GIBBONS. It gives one an idea of the risk that has to be run and it points up the unfairness of placing labor in a more stringent position in relationship to its bonding procedures than it does these who are literally of much higher risk than the labor unions are.

Mr. ROOSEVELT. Mr. Gibbons, you will come to that, but I want to say that I am in agreement with my colleague, Mr. Ayers' statement, that quite apart from whether it is right or wrong to take labor and put it in a special category, if you do take anybody and put them in a special category, then you must recognize that you incur certain responsibilities in so doing, and I question whether we have lived up to those responsibilities.

Mr. GIBBONS. Not as they do, for instance, in the case of insurance laws where it is mandatory for a citizen to carry automobile insurance; it likewise is mandatory on the insurance companies of that State to provide that insurance.

I think New York would be a good example. There the risk is spread and it could be legitimately done in this particular instance if it is necessary that we have this particular type of bonding arrangement. But the other thing in terms of the fact that this Treasury list which we have been discussing, one of the interesting things of the Treasury list is that of the 231 companies that turned us down or who failed to come forth, with the exception of one company, when this very committee checked out those companies they found very few which were even interested in writing or which did write this type of bond. There were only four or five companies interested in this type of bond or ever wrote it in their history. They just weren't interested in writing this particular type of bonding. In many instances, a large section was excluded because they just didn't have the size of the company. There is a relationship between the size of your company in terms of assets and the size of the bond that you can write. A lot of them were excluded in the 231 companies. A second group was excluded because they weren't interested in this kind of business and never wrote this kind of business and it left very small numbers of people. In other words, what we are doing in this law is placing in the hands of four or five surety companies the right to pick and choose and determine whether or not a particular group can have a particular officer by saying yes or no to the bonding provisions.

As we pointed out, in our experience, up to 1 minute before midnight, when we were ready to be put out of business, this is not something that is a matter of conjecture or fancy or imagination, but this is reality. This has actually come right down to the deadline in terms of the possibilities of the things.

Mr. DANIELS. May I ask a question?

Do I understand you correctly that there are only four or five bonding companies who could write the type of bonds that your unions needed?

Mr. GIBBONS. I am saying that there are some 231 companies listed who are eligible to write. That is the No. 1 figure. No. 2, of those 231, there are a large number of them that are simply not large enough companies to write a half million dollar bond.

For instance, one example. As a matter of fact, I have two or three half million dollar bonds in my capacity. That would be one bond. So that excludes a number of them.

Mr. DANIELS. About how many bonding companies would be excluded because they do not have the assets?

Mr. GIBBONS. Our insurance total is \$109 million, the policies we were seeking. That excluded over, say, 50 percent of them, that is one problem.

Mr. DANIELS. So of the 231 you have now eliminated approximately 111 companies.

Mr. GIBBONS. Now, I would reduce the balance down to maybe a handful which I would guess, and the committee has it in their files here, the telegrams are available for your scrutiny, I would say there were not over a half dozen companies who were big enough, and who made it a practice or had a desire to write this type of business.

Mr. DANIELS. Do you know the names of those half dozen companies large enough to write such a bond?

Mr. GIBBONS. No, I am testifying now not from something I checked out in the last few days, but from my knowledge at the time this committee was sending out the telegrams. I am recalling now, and it is subject to error. I certainly would not be able to write the exact companies.

Mr. ROOSEVELT. The Chair will be glad to see that the gentleman gets the responses from Mr. Powell's telegrams to the various companies and he can look over the list.

Mr. DANIELS. Thank you.

Mr. GRIFFIN. I think it would be unfortunate if the record didn't make clear that there was no requirement in the law that the Teamsters International Union do all of its bonding under one bond, as you determined that you were going to do. There is no requirement in the law; is that correct?

Mr. GIBBONS. We were not determined to ask for one bond.

Mr. GRIFFIN. Then, when you tried to bond in such a big bloc, it is true that there were few companies that were financially equipped to assume that kind of a risk. But I think it should be clear that that isn't the only avenue of bonding by which you could have proceeded. Other unions bond on a local or regional basis; isn't that true?

Mr. GIBBONS. The reason we bond on a unit basis is because of the cheapness by which we can buy.

Mr. GRIFFIN. But the law doesn't require that.

Mr. GIBBONS. Neither did we insist on that at the time. We were scouring around the country. We were advising our local people whose bonds had been canceled to check with the local community and ask the brokers if they can get bonds in the local community. We were not going down this route determinedly and to the exclusion of any other possibility.

Mr. ROOSEVELT. I think the gentleman from Michigan is vitally interested in this, naturally, but I would like to point out that the record also shows, taking the one bond pattern, it clearly shows the increased overall cost in securing these bonds, which is very considerable. If our purpose is to protect, and I think it should be, the financial security and soundness of the individual labor union member, I don't think Members of Congress want to be responsible for adding a very heavy financial burden by saying, "If you can't have it that way, then you should go and try to pick it up individually, even though it may cost you 25 or 30 percent more," and it does cost 25 or 30 percent more to do it on the individual or local basis.

Mr. GRIFFIN. What do you do about the smaller union?

Mr. ROOSEVELT. The smaller union has to pay because that is his only market. He does it with the local fellow, if he is not able to do it on a national basis. In the large unions they can do it on a national basis in many instances. But it seems to me to be a questionable position for Congress to say to somebody, "Look, if you can't find a way to do it on the national basis, we will not protect you in this area at all, and they will be taking the more expensive route, which is 25 or 30 percent higher."

Mr. DANIELS. Will the Chair yield for a suggestion?

May I suggest to this witness that he submit to us a statement of what the cost is to his union for the bond?

Mr. GIBBONS. I have it.

Mr. DANIELS. And what it would have cost if he got small bonds or individual bonds? Then we would have a comparison of the two.

Mr. ROOSEVELT. I am not sure he can do it in all of them because I doubt whether he was able to even get quotations.

Mr. GIBBONS. We certainly tried to get bonds on a local level. We were turned down on a local level. We were not able to get bonds for some 450 locals on a local level. We asked them to call people in their community in a position to handle this type of business. In many smaller communities there were no such agents available, but in other instances, where there were agents of insurance companies, they didn't write this kind of business or they would not touch the Teamster Union bonding business.

Mr. AYRES. Will the gentleman yield?

I think, Mr. Gibbons, the pattern has been established in corporate structures where you have a number of operations under one corporation, where they require the bonding of their employees, that they deal with one bonding company. A lot of them require each employee who punches a cash register to be bonded. If they have 500 stores throughout the United States, they don't have the bond in that particular community where the chainstore is operated. There is one bond for the corporation.

Mr. ROOSEVELT. It is for the same reason. It would cost them 25 or 30 percent more to do it on a local basis. It is the same principle.

Go ahead.

Mr. GIBBONS. When we were discussing this with some of the companies, we got various reasons why they would not handle our bond. But the result was, once they made these determinations, such as "We will not bond anybody who takes the fifth amendment," that left us in a bad position because it eliminated one more possibility of our getting bonds and staying in business.

No other segment of the community is required to deal exclusively with sureties on the U.S. Treasury list without some safety-valve proviso.

The U.S. Treasury list for surety companies was originally established for the purpose of providing reputable guarantors for specific performance of Government contracts. But in this instance, the law provided for an alternative type of arrangement; 6 U.S.C. 15 provides:

Wherever the United States requires a contractors bond, with surety or sureties, such person may, in lieu of such surety or sureties, deposit as surety with the official having authority to approve such bond, U.S. liberty bonds or other bonds or notes of the United States in a sum equal at their par value to the amount of such bonds required to be furnished * * *.

At least there they have an alternative if they faced the same problem as we faced. Similarly, each of the States where corporate surety bonds are required for the performance of public contracts, the alternative of collateral in the form of bonds, cash, certified checks, is authorized.

However, under section 502(a), the Secretary of Labor is without discretion to accept any form of collateral as an alternative to bonds issued by a corporate surety on the U.S. Treasury list. During the bonding crisis, the Teamsters Union offered the Secretary of Labor U.S. Government bonds in lieu of surety bonds required by section 502(a) of the Landrum-Griffin law.

This offer was made on the assumption that section 15 of the United States Code referred to above would permit such alternative bonding. On February 7, 1963, Charles Donohue, Solicitor of Labor, stated in a letter to Mr. Florian Bartosic, house counsel, International Brotherhood of Teamsters:

* * * it is my opinion that such a proffer or deposit would not satisfy the particular bonding requirements of section 502(a), referred to above, which require a specific faithful performance bond to be secured only from certain companies specified by the Secretary of the Treasury. In reaching this conclusion, I have considered section 15 of title 6 of the United States Code, providing for deposit of U.S. bonds with certain officers in lieu of a penal bond required by the United States. This provision has no application, in my opinion, to bonds required by section 502(a) and, therefore, any exception provided by section 15 would have no application in your case. Faithful performance bonds obtained from companies who are not properly listed with the Secretary of the Treasury similarly would not serve to satisfy the bonding requirements of the Labor-Management Reporting and Disclosure Act.

At the time this was made part of the law, we were required to abandon the company bonding of our people for honesty bonds. We were paying them 17 cents per \$1,000 and we had every single employee, including the janitors in our building, covered under this one bond.

After the enactment of section 502(a) of Landrum-Griffin, the Teamsters Union was required to enter into a contractual relation with a company on the Treasury list and to pay \$5.95 per \$1,000 for comparable coverage. Subsequently, this was reduced to \$2.78 per \$1,000.

Mr. ROOSEVELT. Could I ask you at that point, and again I want to raise the point because I want to try to establish the basis for what we have done and what we hope to do. One of the points in the law—this matter came up in conference—was certainly to try to make it impossible for people who were considered completely undesirable from a surety risk point of view, because of their past action, to secure a bond, and, therefore, in essence, to indirectly put them out of business.

My question would be along the line of, Has any individual that you have presented on your schedule been rejected by the insurance company as being uninsurable?

Mr. GIBBONS. We have had no officer of our international union, either at the international or the local level, to my knowledge, who has been turned down as an individual by an insurance company. Our current carrier is in the room, too.

Mr. ROOSEVELT. It is possible, however, is it not, under normal bonding procedures, for them to say, "We will write the blanket bonds for you, but we will not accept Mr. So-and-so." Do they require the submission of the names of the people?

Mr. GIBBONS. They not only require us to submit the names of the people, but they conduct an investigation in their own fashion. I am sure this can be developed from the company themselves. They advised us they were proposing to investigate individuals covered by the arrangement that we entered into. To my knowledge, as of right now, I have no recollection of a single solitary officer at any level of our international union having been denied bonds due to any past activities on the officers' part.

Mr. ROOSEVELT. Thank you.

Mr. GIBBONS. No bank, no insurance company, or other corporate entity is required to write "faithful discharge of duty" bonds for any of their officers or employees. It was at a surcharge of 50 percent of the premium and now it is 25 percent. We are not critical of the surety companies charging 25 percent, but there can be no basis for even a 25-percent charge because nobody knows what the phrase means.

Mr. ROOSEVELT. Maybe you are getting that surcharge for that very reason.

Mr. GIBBONS. I am saying I don't want to be critical, but you cannot pinpoint the reasons why, excepting it is kind of an overall protective device they have hit upon to protect themselves. Unless you can spell out, as in the case of public officials, the exact functions and duties, it is something which is very much in doubt, and I suspect that the insurance companies which originally had the 50-percent surcharge, now at 25 percent, as they build experience they may further reduce it.

But at the moment it is a 25-percent surcharge only because we, of all the groupings in the society, have been picked out to have a faithful performance bond written mandatorily for our officers.

No bank or insurance company or any welfare and pension fund is required to write individual bonds with multiple penalties, but may write blanket bonds for all of its officers and employees and provide for all under an aggregate penalty. This has increased further our cost by 13 percent, from that one stipulation within the law.

Again, it is a matter of being exclusively provided for in the case of labor leaders instead of any other responsible person who is handling funds and properties of people who certainly should be protected, such as stockholders, if you are going to protect a group of workers in a union. Certainly they are not entitled to any more protection than the stockholder, yet no stockholder is given that protection and the result is that these other corporations operate at a much lower cost.

No bank, insurance company, or other corporate entity is required to write bonds at 10 percent of the net capitalization with a maximum of \$500,000 per officer. This becomes much more dramatic when we take one section of the business community and compare the risk in terms of what the records indicate. They are much greater risks in terms of honesty and in terms of handling and responsibility in funds. But with us it paints a broad picture of going overboard in an effort to protect our people, giving it its very best interpretation, or discriminating against the union, giving it another type of interpretation.

A comparison of Federal and State laws, under which bonding is prescribed, further demonstrates the discriminatory nature of the Landrum-Griffin provisions. Under the provisions of the Federal Deposit Insurance Act, 12 U.S.C. 1811-31, officers and employees of banks are covered by an aggregate bond of \$500,000 covering deposits of \$42,500,000. Compare this with the Teamsters bonding experience of its general executive board with an individual bond of \$500,000 for each member, or a total of \$7,500,000 to protect assets of approximately \$40 million. Here we are, instead of buying \$500,000 worth of coverage, we are buying \$7,500,000 worth of coverage, the \$500,000 in the instance of the business corporation to protect \$42 million worth of assets, and ours is only a matter of \$40 million.

Federal savings and loan associations, which insure accounts of its member savings and loan associations and corporative banks may use blanket bonds of \$500,00 to protect assets of \$46 million. For a comparable set of assets, we have to buy \$7,500,000 worth of insurance.

Once again, compare the inequity of the Landrum-Griffin requirement in the case of the IBT or any other labor organization.

With reference to the insurance companies which are regulated by the States, we find, for example, in the case of the Illinois Insurance Department, that they require a \$500,000 blanket bond of insurance companies with assets of \$62,450,000.

The Life Insurance Association of America has outlined the typical bond requirements on the basis of representative companies in a letter of February 20, 1963, addressed to Mr. Sidney Zagri.

Example	Admitted assets	Persons covered	Amounts
1.....	\$125, 000, 000	Agents.....	\$10, 000
		Other field personnel.....	20, 000
		Home office personnel.....	1, 000, 000
2.....	145, 000, 000	All employees.....	2 350, 000
3.....	400, 000, 000	do.....	2 500, 000
		Excess coverage for securities.....	1, 000, 000
4.....	4, 000, 000, 000	All employees.....	1, 000, 000

¹ Blanket form for insurance company's No. 25 L.

² Form 25 blanket bond.

³ Blanket fidelity, robbery, burglary, etc.

For a mere matter of \$40 million in assets, we are required to buy \$7,500,000. It seems to me the coverage accorded to banks and insurance companies is much more reasonable than the provisions of the Landrum-Griffin bill.

It is clear from the foregoing that bankers and insurance executives are covered by blanket bonds where the ratio of premiums to assets covered is a fraction of 1 percent.

Further evidence of disparity in treatment between labor organizations and other segments of the commerce community can be found in the bonding provisions of the Welfare and Pension Disclosure Act. Any kind of comparison there indicates the same type of story as the one previously told under the Landrum-Griffin 502.

Under the bonding provisions, the health and welfare provisions, there are complete sections which are exempt, actually, from the matter of bonding at all. It should be noted that on August 21, 1963, Secretary of Labor (Federal Register, vol. 28, p. 9242) amended the basic regulations further exempting banks charged with the administration of welfare and pension plans for bank employees from the bonding requirements of the act. This provides another example of establishing a double standard in bonding requirement—one for banks and the administration of pension funds, which involve much larger sums of money and a greater exposure to risk, and another standard for labor unions and their officers.

I think this was part of the discussion on the part of the Congressman this morning. When you take a look at what justification might exist for setting up such a stringent and inflexible bonding code for labor on the one hand, and granting the aforementioned exemptions from bonding to bankers, brokers, insurance executives, and other directors, the record will certainly not bear out that banks, insurance

companies, or other corporate enterprises are better bonding risks or that officers of these corporate enterprises are less prone to embezzle funds. In fact, the record demonstrates that the reverse is the case.

A specific comparison of losses suffered by companies which furnish bonds to union officers as well as banks, savings and loan firms, and similar financial institutions has been compiled. What does the record show with reference to the following criteria for banks and labor unions?

A. RATIO OF PREMIUMS COLLECTED TO CLAIMS PAID

1. 1961:

Banks: Premiums paid by banks totaled \$23,044,000. Claims paid, \$17,005,000. Loss ratio, 71.4 percent.

Labor Unions: Premiums paid, \$1,463,000. Claims paid, \$257,000. Loss ratio, 17.6 percent.

2. 1960:

Banks: Premiums paid totaled \$21 million. Claims paid, \$17 million. Loss ratio 81 percent.

Labor Unions: Premiums paid, \$1,402,000. Claims paid, \$104,000. Loss ratio 7.4 percent.

In 1960, the ratio of loss to premiums paid was 10 times as great for banks as for labor organizations; in 1961, $4\frac{1}{2}$ times as great.

B. EMBEZZLEMENT

A comparison of the embezzlement records of bankers to trade union officers since the inception of Landrum-Griffin in September 1959, to September 1963, is even more shocking. Embezzlement by trade union officers from unions during the last 4 years amounted to \$463,000; the amount embezzled by bank officers and employees during the past 5 years was \$50,865,000.

In terms of 1 additional year, the relationship is \$463,000 to \$50,865,000.

More money was embezzled from banks in any average 6-month period than was embezzled from the entire trade union movement during the last 4 years. Annual loss per local union, based on the figure of 52,000 local unions in 1963, was \$2.25 per local. The annual loss per bonded trade union officer was 56 cents. The annual loss per bank was approximately \$725. Annual loss per bank officer is approximately \$84.75.

In the light of this kind of experience and these kinds of figures, it is difficult to understand the stringent approach to the trade union, even at the risk of putting them out of business, in comparison with that arrangement given to people with exactly the same fiduciary responsibility in the commercial world.

C. COMPARISON OF CONVICTIONS FOR EMBEZZLEMENT

Bank officers convicted of embezzlement averages 434 per year. Labor union officers convicted of embezzlement averages 26 per year.

The ratio of trade union officers to bank officers is that of 5 to 3. On this basis, it would be necessary for 724 labor union officers to be convicted every year to be on a par with bank officers. Since 724 divided

by 26 would leave us 28, it must be concluded that trade union officers are 28 times as honest, on the average, as bank officers, or the average bank officer is, by the record, 28 times as likely to be larcenous as the average trade union officer.

Trade union officers, on the average, embezzle 56 cents per year, and bank officers embezzle, on the average, \$84.75 per year, then dollar for dollar a trade union officer is 151 times a better risk than a bank officer.

Mr. ROOSEVELT. I hope this committee is not responsible for any bank runs tomorrow morning.

Mr. GIBBONS. The reason we quote them is not because we are mad at bankers, as they are part of the needs of society, and we are not trying to put them out of business or cause any run, but this kind of knowledge and experience should have been translated into the rate structure for trade union officers, certainly if this can be the rate structure for these banks.

The same kind of thing should carry over in terms of trade union officers, unless we are much more concerned about the guy who is a member of the union, against the citizen who is not a member of the union, but merely a bank depositor. This is for the Congress to determine. We think there are other reasons. We think there are other reasons for this overconcern of protecting the members of the unions where it is costly for our unions to operate in the fashion the law prescribes, as well as the possibility of having outside people dictating who our officers shall be.

Surety companies are not permitted to formulate rates based upon experience because of the artificial requirements imposed by section 502(a). Because of the faithful discharge of duty proviso, a surcharge of 25 percent is imposed; because of the multiple penalty requirement, a 13-percent surcharge is required; because of the 10 percent of the assets requirement, the size of the labor organization bonds is much greater than that of other organizations in the community. Because of the individual bonding requirements, aggregate bonding is not permitted.

These are simple, straightforward indictments of that section of the law which cries out for change and improvement in terms of equity to the section of the society composed of labor union members.

There is no basis in justice or commonsense to single out labor unions for special treatment when other segments of the business community afford a much greater exposure of risk, have a much higher ratio of claims to premiums paid, a much greater embezzlement figure in terms of funds embezzled, as well as convictions of officers of banks as compared to trade unions. At the very least, trade union officers should be given the same treatment as the officers of banks, insurance companies, corporations, welfare and pension funds, et cetera.

The legislative history of the Welfare and Pension Disclosure Act, as amended in 1962, which is of a similar nature, only applying to welfare and pension funds, indicates that Congress intended to correct many of the basic defects of section 502(a) of Landrum-Griffin in writing section 13—the bonding provision of Welfare and Pension Disclosure Act.

John F. Fitzgerald, secretary of the American Surety Association, in a letter to the Secretary of Labor of March 21, 1963, succinctly outlines the basic changes resulting:

The adoption of the Welfare and Pension Plans Disclosure Act, amendments of 1962 changed this situation radically so far as welfare and pension plans are concerned by eliminating the multiple penalty requirement, the separate bond requirement, and the faithful discharge of duty requirement with the result that welfare and pension plans may now be covered under an aggregate penalty form of bond on an honesty basis only and more than one insured may be included in a single bond under circumstances prescribed in the regulations of the Secretary of Labor.

These changes in requirements will result in substantial reductions of premium because the cost of multiple penalty coverage is a 13-percentage increase over the cost of comparable aggregate penalty coverage, the elimination of the faithful discharge of duty coverage eliminates the 25-percent surcharge, and coverage on more than one welfare or pension plan in a single bond eliminated the basic charge which is necessarily involved when separate bonds are issued to several insureds.

Incidentally, the surcharge for faithful discharge of duty coverage was originally 50 percent but was reduced to 25 percent on October 4, 1961, after independent surveys were conducted by the AFL-CIO and by the Advisory Committee on the Surety Association of America.

It also provided that the provisions would supersede the Landrum-Griffin provisions to the extent that the two acts overlap. Now we are confronted with the need to establish uniformity between two parallel bonding laws—in some instances covering the same person acting in the dual capacity of a trade union officer and a trustee of a welfare and pension fund.

I agree with Senator Wayne Morse that:

*** There is no reason in commonsense or in justice for continuing any distinction between these parallel laws. It is time to correct our error of 1959, by providing for the more practical and more realistic type of honesty bond described in the 1962 action.

In order to eliminate the disparities and discrimination presently applied to trade union bonding, to establish a uniform bonding policy with reference to all segments of the business community, we support the following amendments to section 502(a) of the Labor-Management Reporting and Disclosure Act of 1959.

We suggest that these are in order in order to bring section 502 into line with what Congress has already put into law in its 1962 amendments to the Health and Welfare Administration plans.

(1) Strike out "faithful discharge of his duties." Substitute therefor "to provide protection against loss by reason of acts of fraud or dishonesty on his part."

There is a consensus among labor, the surety companies, and those charged with the administration of the act, that this provision of section 502(a) be brought into conformity with the simple honesty bonding requirements of the Pension and Welfare Disclosure Act.

Solicitor of Labor Charles Donahue, after 2 years of day-to-day experience in the administration of Landrum-Griffin bonding concludes:

*** The words "faithful performance of duties" are vague and indefinite in character. We have found that the bonding companies will bond under those words only at a very high rate of premium ***

Former Secretary of Labor Mitchell stated in the first annual report of the administration of the act:

Although many facets of the section were susceptible to differing interpretations, neither the act nor the legislative history supplied specific guidance or direction. For terms like "faithful discharge," where legal meaning was sought there was a paucity of case precedents on the subject.

Bonding companies have great difficulty in interpreting "faithful discharge of duties" of trade union officers.

The only parallel for the faithful discharge of duty bonds for labor union officers, was the faithful performance bond of public officials, which conditioned that the principal would perform the duties of his office as defined by law.

On this basis, surety companies had standards which they could apply in establishing the liability for the mishandling of public funds.

It was a more difficult task to establish faithful performance of a duty by a trade union officer since his duties were not as clearly defined. For this reason, surety companies hesitated to issue bonds, and were compelled to impose unreasonably high rates until this provision could be clarified.

The experience of labor unions disclosed that out of a survey of 122 national and international unions, not a single faithful discharge claim has been found. Six affiliated departments of the AFL-CIO reported that not a single faithful discharge claim had been filed.

To this date, John F. Fitzgerald of the Surety Association of America has failed to cite one single claim for a violation of faithful discharge of duties by a trade union officer.

In the case of public officials, the Surety Association of America has promulgated a public employees blanket bond. It is an honesty blanket position bond. It is comparable to the fidelity blanket position bond; in other words, the full amount of the blanket position bond can be recovered on account of losses sustained through fraudulent or dishonesty acts committed by any employee whether acting alone or in collusion with others.

It should also be noted, too, that would bring this section of the act into conformity with the Welfare and Pension Disclosure Act, not requiring faithful performance bonds; but would simply permit protection of those duties from which loss can arise from fraud or dishonesty.

(2) With reference to the need for alternative methods of bonding in the event a surety association on the Treasury list refused to bond a labor union officer, it is recommended that the provision of title 6, United States Code, section 15 be incorporated in lieu of such surety or sureties, deposit a security with the official having authority to approve such bond, U.S. bonds, or other bonds or notes of the United States in a sum equal at their par value to the amount of such bond required to the furnished, together with an agreement authorizing such official to collect or sell such bond or notes deposited in case of any default in performance of any of the conditions of such bond.

This is only, of course, an alternative, a safety valve, where in the event the prescribed companies listed by the Treasury Department turn down the officials of a union in their request for bonding under the law, or if the companies could not be approved by the Secretary of Labor, those who were prepared.

But in any event, it gives us an alternative which today is not available to us. We faced the possibility of not having a bond and being forced out of business as a union. A year ago, we offered to post with the Department of Labor the necessary bonds in terms of U.S. Government bonds, the necessary amounts of bonding, but we were refused that in the letter which I previously read from the Solicitor of Labor.

Mr. ROOSEVELT. In other words, what you are saying is that rather than be vague about it, you prefer that we specifically say what kind of action may be taken so that there could be no question as to what qualifies as a safety valve.

Mr. GIBBONS. It is a discretion that should not necessarily be given to a person to permit him, for example, to turn down U.S. Treasury bonds if by whim he decided that they did not satisfy him in person.

We would like to provide specifics in terms of the alternates. This provision would be in lieu of paragraph (b) of H.R. 4670 which provides that the Secretary of Labor may exempt such labor organization from placing bond if in the opinion of the Secretary, the labor organization has made other bonding arrangements which would provide the protection required by this section.

While this provision may provide for alternative bonding, it is much too vague and general. There is no need to delegate this broad discretionary power to the Secretary of Labor in a matter which can be clearly defined within the statute itself.

H.R. 4671

Under the provision of Landrum-Griffin, foreign surety companies are excluded. The limitation imposed is discriminatory. While excluded under Landrum-Griffin, foreign surety companies have been included by Executive decree under the Welfare and Pension Plans Disclosure Act.

It seems inconsistent that we can do it by Government action in one area closely allied to the other, and yet in the other we exclude the possibility of foreign surety companies.

Section 502(a) provides that—

such surety company shall be a corporate surety which holds a grant of authority from the Secretary of the Treasury under the act of July 30, 1947 (6 U.S.C. 6-13), has an acceptable surety on Federal bonds.

This automatically excludes foreign surety companies. This also excludes those surety companies that have not filed with the U.S. Treasury because they are not principally in the fidelity insurance business, but are reliable and could provide adequate security.

The response to the House Committee on Education and Labor's telegrams to all 231 surety companies in the U.S. Treasury list indicated that only a few were qualified to handle the surety needs of the Teamsters International Union and its 450 affiliated local unions.

In order to avoid the establishment of a restrictive situation, it is suggested that foreign sureties which are qualified under the laws of the State of New York as well as other surety companies which are

capable of meeting the test of admittance to U.S. Treasury list, be permitted to write bonds under section 502(a) of Landrum-Griffin.

The prime objective of the bonding section is to protect the membership against defalcation by its officers. Any arrangements which will meet this test should be approved on the basis of objective standards promulgated by the Secretary.

Mr. ROOSEVELT. If I could interrupt you for a second the objection raised or noted this morning applied to various departments, which was that, No. 1, we single out the State of New York as being the one through which foreign surety companies must be registered in order to qualify.

I would presume that you wouldn't have objection if we said that any recognized state insurance authority should have the same privilege as the State of New York.

Mr. GIBBONS. You are quite right. We would not necessarily have any objection to spreading it. I am sorry that this happened to be just this one State mentioned. We could just as well mention States like Illinois, which maintain high standards, and my own State of Missouri.

Mr. ROOSEVELT. If we go along with the suggestion made this morning, it would appear we would have to go further than that, because if it is the policy of the Congress to recognize that it is the State's right to do business, then we have to go, it seems to me, all the way, and say wherever a State does recognize an insurance company, this company as long as it is solvent, shall be eligible to write this kind of business.

Mr. GIBBONS. Of course, it would have to be solvent to be recognized in that State.

Mr. ROOSEVELT. That is right; that doesn't mean that there may not be insurance companies that become insolvent.

Mr. GIBBONS. That could happen to those on the Treasury list.

Mr. ROOSEVELT. I would say it happens under the Treasury list, too. So we are not trying to eliminate bankruptcies, but trying to operate as nearly as one can in good faith.

Mr. GIBBONS. It is recommended that the words "Without good cause shown in writing" be stricken on lines 2 and 3; inasmuch as alternative bonding arrangements should not be contingent upon good cause existing for a bonding company's refusal to act. The sole criteria should be whether or not adequate arrangements have been made for the protection of union funds against defalcation.

SIZE OF BOND

One of the principal problems in securing a teamster bond was the size of the bond required. As has been noted, each of the 15 members of the executive board of the international was required to be bonded for \$500,000 each, or a total of \$7½ million.

This is entirely out of proportion to bonding requirements in other fields. As previously pointed out in the case of insurance companies, a \$500,000 blanket bond with aggregate penalties is all that is required to protect a fund of \$64 million.

We are paying \$7½ million to protect \$40 million of assets.

Why should \$7½ million in bonds be required to protect a fund of approximately \$40 million as in the case of the Teamsters Union? Comparable situations exist in other internationals.

Built-in internal controls are such that it is next to impossible for embezzlement to take place of international funds unless there were a very high degree of collusion among the general executive board, the general president, and the general secretary-treasurer.

Three studies in the surety industry—1942, 1951, and 1953 indicate that less than 4 percent of all claims filed during that period were losses caused by collusion. According to Richard T. Wood, consultant to Office of Welfare and Pension Plans, U.S. Department of Labor:

Opinions of underwriters of large fidelity writing companies indicated that the vast majority of claims represented single employee losses instead of collusion losses, with one underwriter saying that fidelity losses paid by his company on collusion as opposed to single employee losses would probably run less than 1 percent.

I would suggest it is literally impossible to steal any money at the international level of the International Brotherhood of Teamsters as an individual.

It would take a high degree of collusion, which literally is impossible of attainment, for anyone to get any money out of that international union and then to be able to effectively cover it up.

I can't see how it can be done even with collusion.

But in any event, it indicates that the only risk runs to an individual person and this, I say to you, is literally excluded from 99 percent of the trade unions, in terms of the kind of setups they have for the handling of funds.

Experience of losses in all segments of the business community, including banks, labor organizations, et cetera, indicate that the vast majority of losses occurred on claims between \$1,000 and \$3,000. This usually occurs at the lower level where built-in internal controls are not as foolproof, as in the case of the larger amounts handled at the international level.

It is a general experience of the surety underwriters that a maximum limit of \$100,000 would be sufficient to safeguard the funds.

It is recommended that the maximum limit be reduced from \$500,000 to \$100,000. It is further recommended that the language of section 13(a) of the Welfare and Pensions Disclosure Act, authorizing "blanket forms of bonds" and permitting bonds for the "person, group, or class to be covered" be incorporated into section 502(a). The further provision of section 13(a) which permits aggregate or multiple penalties in form should be incorporated into this section. Present cost of the bonds to the labor movement are tremendous.

I can cite a case where I had a board of 21 people handling funds and dispensing funds and we had to reduce it to 7 because of the tremendous cost involved in trying to bond the whole 21 people. Had it been \$100,000, as Mr. Zagri points out, we probably would not have had a problem because it would have opened up any number of other companies to the possibilities of writing it.

I think 72 companies, it really turns out as a result of our experience in this period, admitted to us they would like to handle our business, but they couldn't handle it because they just didn't have the assets to swing the deal. This is to be found in the records of this committee as a result of their own collection of facts through telegrams.

H.R. 4669

The lack of bond experience under Landrum-Griffin in terms of ratio of bonding costs to claims paid has given rise to the need of requiring annual reporting by the surety companies.

It has been previously pointed out that the ratio of premiums and claims paid by labor unions in 1960 was 7.4 percent—in 1961, 17 percent.

It has been suggested that when insurance companies have to use less than 20 percent of premiums to cover losses on bonds, the following conclusions are indicated:

- (1) The premiums are excessive, and;
- (2) The basis on which the present amounts of bonds is allowed is unrealistic.

It may be enlightening for this committee to attempt to verify the persistent rumors that claims ratio to premiums paid for Landrum-Griffin bonds as well as health and welfare bonds is less than 2 percent.

If such reporting imposes an undue hardship on surety companies, I would suggest that as an alternative, the Surety Association of America summarizes its bonding experience in terms of an annual report to be made available to the Secretary of Labor as a matter of public record.

In conclusion we support:

- (1) The following changes which will conform 502(a) of Landrum-Griffin to section 13 of the Welfare and Pension Disclosure Act, as amended in 1962:

- (a) Eliminate individual bonding requirements with multiple penalties and authorize blanket position bonding which would be either aggregate penalty or multiple penalty in form.

- (b) Eliminate "faithful discharge of duties," bonding and substitute therefor simple fidelity bonding.

- (2) The elimination of the restrictive requirement that bonding must be by a corporate surety on the U.S. Treasury list, and authorization of alternative methods of providing collateral, such as is presently authorized in 6 U.S.C. 15, which permits U.S. bonds or notes of the United States to be furnished as collateral in lieu of corporate surety bonds.

- (3) The authorization of foreign surety companies to do business in the State of New York and any other surety company which complies with minimum standards established by the Secretary of Labor.

- (4) The essential provisions of H.R. 4669, requiring the reporting by surety companies of claims paid and premiums collected, or, in the alternative, require the Surety Association of America to provide this information to the Secretary of Labor annually and make this a matter of public record.

This is our position on the bonding bill and our recommendations on section 502. We hope we have been helpful in helping the committee to come to the kind of decision which will make sense all the way around.

Mr. ROOSEVELT. Thank you very much, Mr. Gibbons.

On page 20, I note that you recommend that if the committee finds undue hardship in suggested reporting, that it authorize the Secretary of Labor to secure from the Surety Association of America a summarization of this bonding experience.

Do you happen to know whether this is available through the association, that they keep these figures?

Mr. GIBBONS. The surety association does get this type of information from its members, and it could be made readily available without much of a handicap to the companies. We are making it in this form rather than asking for detailed financial reporting to the Government on the part of each and every one of the surety companies, which would represent something of a burden to them.

But this kind of a summary which is available to the surety association could be passed on to the Government and demonstrate whether or not there are any inequities of the laws as they relate to these companies.

Mr. ROOSEVELT. As an alternative to the foreign surety companies, to which there has always been some resistance, which I think Mr. Dent perhaps brought out this morning, would a proper alternative to be explored by this committee be—and I frankly would like to make this suggestion also to Mr. Griffin, where if the requirement exists that bonds be secured, that, (a) the individual union or the individual officer concerned who cannot get a bond, should be able to come to the Secretary of Labor and find out why he is not able to get a bond through the Office of the Secretary of Labor, and upon a finding by the Secretary of Labor that there is no good reason for refusing him the bond that then some provisions should be set up for a requirement that a bond be issued to him on some fair basis.

We work this out in the State of New York and the State of California, though I don't know whether you have it in Michigan, where we require some compulsory insurance of certain types, where the individual in this instance for good cause cannot get insurance, we require the insurance companies to set up a pool through which he can get insurance at a better rate. It would seem to me in fairness that something should be done, set up so that we don't run people out of business, so that (a) if there is no good reason to the satisfaction of the Secretary of Labor the company would be required to give him a bond and (b) if there is some good reason, but not some reason sufficiently bad in terms of some of the things which we previously discussed that should require that he not be given bond at all, that then perhaps, if there were other good reasons why he might be some kind of a risk, perhaps arrangements could be made to get him one at a higher premium, a higher rate.

Mr. GIBBONS. In the face of that kind of a situation, assuming the insurance companies did not want to give him a bond, at least he should be given the right to post alternate forms of collateral. The only interest we have in this particular section of the law is the protection of the funds.

Mr. ROOSEVELT. I think the problem raised there, Mr. Gibbons, and I think Mr. Griffin will agree, is where does that collateral come from?

Mr. GIBBONS. Let's assume it comes from the house I happen to own. Let's assume I am the president of a local union of 750 members, and I just can't get a bond. Maybe I was in a holdup or something when I was 20 years old, and I have reestablished myself as a worth-

while citizen and everything, but a bonding company may be sensitive in that instance.

The law requires that I have to have a \$5,000 bond and the bonding companies turn me down, and I may have a house with enough equity. I may have enough friends in the union who will come up with other pieces of property.

Mr. ROOSEVELT. As long as we could establish that it didn't become compulsory, in other words that you couldn't force the members of the union to come up with that—

Mr. GIBBONS. It wouldn't be union funds and it couldn't be compulsory on the part of the union members, I would agree with that also.

Mr. ROOSEVELT. Our question this morning was if it was practical, is the average union official in the position to do this?

Mr. GIBBONS. There may be instances where he can do it, but certainly the true alternative and the best alternative far and away is that if we're required to have a bond, then the industry should be required to issue those bonds, even if the premium is at a higher rate. I don't know how you are going to establish equity in the situation without doing that.

Mr. ROOSEVELT. But unless the surety company could give evidence, which in the opinion of the Secretary of Labor was sufficient for the Secretary of Labor to rule that that individual was just such a bad individual, that nobody should be required to write him.

Mr. GIBBONS. You don't do that. Let's assume I am a citizen of New York and I have 25 accidents in the last 6 weeks or 2 years. I apply for insurance and they have to give me insurance. No matter how bad a reputation a man has, if he is picked by a group of 500 workers, that is made known to them, or they have that knowledge, and they elect him as president. I don't see why, if it is required that he be bonded, that you couldn't necessarily ask them to share that risk. This is an instance which probably never will occur. It will be a very rare thing, if ever. As I pointed out, there is no record to indicate that this is a case. In our own union, there is not a single union officer, and we have over 3,000 officers, who is denied bonding.

Mr. ROOSEVELT. I answered my own question a little bit by forgetting you can't be an officer in a union—

Mr. GIBBONS. The law prescribes certain limitations on your right to be an officer in terms of criminal record, and so on.

Mr. ROOSEVELT. So for those kind of people you wouldn't be asking for a bond anyhow.

Mr. GIBBONS. That is right.

Mr. AYRES. Mr. Gibbons, you mentioned that you had 3,000 officers that come in this category under Landrum-Griffin. You also said you never had a rejection. I realize you can't give an exact figure, but approximately how many individuals are affected by this total expenditure that you make to bond the individuals?

How many people are involved?

Mr. GIBBONS. We are currently bonding about 450 locals plus the international union in this one bond that we are talking about which was held up and which almost put us out of business.

Mr. AYRES. You say 450 locals. It is one officer, in each local?

Mr. GIBBONS. No. We are bonding seven officers who are on the executive board, and we are bonding additional business agents. In addition, we are bonding the girl who handles the cash in the office. We are required to bond every shop steward who collects dues.

Mr. AYRES. About how many individuals are involved?

Mr. GIBBONS. In this particular instance in this 450, I would suggest that a minimum of, let's say, 9 people are involved in each one of those local unions.

Mr. ROOSEVELT. Plus the people at the international headquarters?

Mr. GIBBONS. Yes. That is only half of the international union, roughly. That is roughly 4,000 people.

Mr. AYRES. And your total, your total expenditure is \$750,000?

Mr. GIBBONS. Yes, I think that is the figure we quote, on \$109 million worth of bonding. It is \$745,000 premiums for 3 years. That was prior to the time that we ran into the impasse.

Mr. AYRES. The individual amount of money assessed per employee bonded is pretty high?

Mr. GIBBONS. Well, it runs high when you start dropping in those \$500,000 figures. You may have—

Mr. AYRES. I am getting at the total cost to you per employee, and I am thinking in my own mind to compare this as to what then it costs to get corporate bonds, which I am familiar with. That is the reason I want to get this figure down exactly, Mr. Gibbons. You have 4,000, which is 9 employees per local, and you have 450 locals. You have that 4,000 to start with. Now, how many more individuals are covered by the \$750,000 that you pay for your total bond?

Mr. GIBBONS. Under that particular bond? This is the total under that bond.

Mr. AYRES. 4,000?

Mr. GIBBONS. Yes.

Mr. AYRES. In other words, you pay \$750,000 for 3 years, is that right?

Mr. GIBBONS. Yes. These are estimates. I would have to check the records to give you an absolutely correct figure, but this is a rough estimate.

Mr. AYRES. This is close enough. If my arithmetic would be correct, then, you are paying almost \$200 per employee for a 3-year period for them to be bonded?

Mr. GIBBONS. That is what it amounts to.

Mr. AYRES. That is very high, particularly in view of your losses.

Mr. GIBBONS. If you were to take the other 450 locals, the cost would run even higher.

Mr. ZAGRI. There are some locals where the cost is as high as \$18 per \$1,000, and in many cases \$10 and \$12 per \$1,000.

Mr. ROOSEVELT. Is that because they have elected not to come under yours?

Mr. ZAGRI. They have elected to work through some local operation or arrangement.

Mr. AYRES. The figure that I wanted to arrive at I have arrived at, to find out what it is costing per individual to have them bonded for the 3-year period.

Mr. ROOSEVELT. Mr. Daniels?

Mr. DANIELS. I will pass.

Mr. ROOSEVELT. Mr. Bell.

Mr. BELL. I will pass.

Mr. ROOSEVELT. Mr. Hawkins?

Mr. HAWKINS. I pass.

Mr. ROOSEVELT. Mr. Gill?

Mr. GILL. I pass.

Mr. ROOSEVELT. Mr. Griffin?

Mr. GRIFFIN. May I ask two short questions?

Mr. ROOSEVELT. You have an accumulation of time. Go right ahead.

Mr. GRIFFIN. When you had this impasse, and the difficulty here, not too long ago, about getting this large bond and we had the hearing, finally you got a bond. What company wrote that bond?

Mr. GIBBONS. It is the Niagara Fire Insurance, I believe is the name of it. It is one of the big four, the Loyalty Four group.

Mr. GRIFFIN. One of the things that came out in the hearing on February 1, when Mr. Hoffa was here, was the fact that up to that point, at least, you were placing your bonds through a brokerage firm or an insurance agency, or some kind of an agency, by the name of Dorfman & Wiener out of Chicago. Was this bond with the Niagara Co. placed through that agency?

Mr. GIBBONS. No, it was not.

Mr. GRIFFIN. Was it placed through any agency in which Mr. Dorfman had any kind of an interest?

Mr. GIBBONS. No, it was not.

Mr. GRIFFIN. Thank you.

Mr. ZAGRI. Incidentally, at that time I was asked by the committee to supply the list of the various brokers who had been contacted for the purpose of writing the Teamsters' bonds, and if you turn to page 32 of your report you will note that I supplied the list of approximately 25 brokers from all parts of America. So Mr. Dorfman was certainly a small minority of the brokers who had the opportunity to place these bonds.

Mr. GIBBONS. And the matter of Mr. Dorfman, for the record, should be noted that he was not an obstacle to securing the bonds. It is true that the new bond that we got was not placed through his agency, but that was not a condition, necessarily, of giving it to us.

We talked with the top officials of Niagara. We found that after they thoroughly discussed this with us, in a period of from 9 o'clock in the morning to midnight, we had satisfied all of the requirements, but they never raised any question about the matter of the agency with which it would be placed.

It was either placed directly with the company, without an agency, or if it was placed through an agency it was the agency in New York. In reading in the papers that we were having this difficulty, they went out on their own initiative and sought to get a company to write this up. So probably the reason why the broker that does have it now, if there be a broker, is because he had the initiative to go out and find this company, which no other person did.

But to my knowledge and my recollection at that time the matter of the Dorfman agency was never a condition laid down by our union, and to my knowledge was never an obstacle toward getting the bonds.

Mr. ZAGRI. There were 46 broker firms that were invited. Mr. Fred Krupp wrote me a letter, and an officer of the Western States Insurance

Brokers, in which he advised me that he personally contacted some of the important Fidelity Insurance companies on the west coast and was unsuccessful during the same period. So it couldn't have been Mr. Dorfman. It seemed to be a universal policy that time not to write Teamster bonds.

Mr. GIBBONS. We had open statements on the part of some of these companies that they had political pressure applied against them not to write it. We had others who had a policy they wouldn't write it for people who had taken the fifth. Well, Mr. Hoffa had never taken the fifth and I don't believe any member of our board took the fifth.

But we never could get the bonding from them. Those are the only two reasons that were advanced.

Mr. ROOSEVELT. Thank you very much, Mr. Gibbons.

Mr. Pucinski?

Mr. PUCINSKI. Mr. Chairman, first of all, I would like to clear up the record. At the morning session, Mr. Landrum and I discussed the Department of Labor Report and the Bureau of Labor Management Report.

I find, in reading the report itself, that I think both of us were incorrect. None of the figures that Mr. Landrum referred to involved pension funds which are under the control of the Labor-Management Reporting Disclosure Act, so all of the convictions that Mr. Landrum referred to would be union people. There would have been no management personnel involved in the figures that Mr. Landrum used this morning.

The error apparently came about when this Department was merged and they now call themselves the Department of Labor-Management and Pension Reports. Apparently that is where the confusion came about this morning.

But I would like the record to show that there were no management personnel involved, at least in the figure cited by Mr. Landrum this morning.

Mr. Gibbons, would you be able to give us, outside of your regular statement, the estimate of how much higher are the premiums now to an average local in the Teamsters International?

Mr. GIBBONS. Well, the difference to the minimum change to any local, and in most instances even higher, the change was from 17 cents to \$2.75 per thousand.

Mr. PUCINSKI. From 17 cents to \$2.75?

Mr. GIBBONS. Yes. I don't want to be adding apples and oranges. The 17 cents we paid was for honesty bonding. The \$2.75 includes this fidelity business—faithful performance.

Mr. PUCINSKI. But I think this is one of the main sources of controversy that we had with Mr. Cohen earlier today. Certainly we are talking about two different things.

Prior to Landrum-Griffin, a bonding company sold you an honesty bond, and if a union official absconded with the funds, there was no question as to what that bond covered.

Mr. GIBBONS. Right.

Mr. PUCINSKI. It covered, specifically, the funds removed from the union. Whereas, now, with the ambiguous language of faithful discharge, which nobody seems to be able to interpret—and I see that the cosponsor of the bill is here and perhaps would like to venture a guess what faithful discharge means—with that additional language,

the average local union in your organization is now paying roughly \$2.58 per thousand dollars per year per officer covered; is that correct?

Mr. GIBBONS. Yes, sir, \$2.75.

Mr. PUCINSKI. Well, it is less 17 cents, the extra premium.

Mr. GIBBONS. It was higher than that. It is now down to \$2.75, as of today.

Mr. PUCINSKI. That is another question I wanted to ask you. After the hearing this morning, one of the gentlemen from the surety companies mentioned the fact that they had reduced those rates now that they have lived with the language for a couple of years.

Would you care to tell this committee how much they have reduced those rates? If you know.

Mr. GIBBONS. We initially started out under the law, the coverage required, at \$5.95 per thousand. It is down to \$2.75 today.

Mr. PUCINSKI. What would be the rate if it were an honesty bond?

Mr. GIBBONS. Seventeen cents.

You are talking about prior to the passage of the Landrum-Griffin?

Mr. PUCINSKI. No; right now.

Mr. GIBBONS. If it were just the honesty and not faithful performance? Automatically it would be reduced by 25 percent, and 13 percent would be a further modification of the present requirements.

Mr. PUCINSKI. I think you have lost me, Mr. Gibbons. You were paying, 3 or 4 years ago, 17 cents a thousand for a straight honesty bond.

Mr. GIBBONS. Right.

Mr. PUCINSKI. You are now paying \$2.75.

Mr. GIBBONS. Correct.

Mr. PUCINSKI. And that is for a premium, and obviously we know it includes a lot more than just a straight honesty bond. But this local union has to pay \$2.75.

Mr. GIBBONS. Right.

Mr. PUCINSKI. If this language, "faithful discharge," were to be substituted by something more realistic to protect the funds of that local union, and if the language, for instance, of "honesty bond" or some appropriate language along that line normally accepted in the bonding business were used, do you think you would go back to the 17 cents a thousand? What was that 25-percent business?

Mr. GIBBONS. There are several factors which run the cost up to \$2.75 including the matter of honest performance of your duties. That alone, that one phrase, adds 25 percent to the cost. This adds an additional 25 percent to the cost of the premium.

Mr. PUCINSKI. What are the other things that are covered?

Mr. GIBBONS. The size of the bonds is one example. Ten percent of the assets and income up to \$500,000. That immediately runs it up. The fact that it is not a position bond. It is an individual bond on each person, and there is no aggregate penalty. I think the aggregate penalty alone involves 13-percent surcharge on the rate.

Mr. PUCINSKI. In referring to the report that Mr. Landrum referred to, there were a total of 4,871 alleged violations during the period July 1, 1962, to June 30, 1963, as reported by the Bureau of Labor Management reports.

Mr. GIBBONS. Would you repeat that?

Mr. PUCINSKI. The total figure, total of all alleged violations, and the number of alleged violations means the number of sections of the Labor-Management Reporting and Disclosure Act of 1959 involved in an investigation. Each section of the act involving an investigation has been tabulated as one alleged violation regardless of the number of complaints or the number of persons and organizations involved.

The total number of all alleged violations during the year July 1, 1962, to June 30, 1963, was 4,871. Of this figure 2,920 were closed, and 1,951 are active. Of the 2,920 that were closed, 1,483 were not actionable, 1,290 were cleared up because of voluntary compliance, and only 147 went to some form of legal action.

Mr. GIBBONS. These complaints you are talking about now relate to every bit of the law?

Mr. PUCINSKI. Everything in the act.

Now, the question I am leading up to, these extra fees that your people are paying, aside from the 10 percent that they must cover, aside from that, and aside from the honesty bond, the increase from 17 cents per thousand to \$2.75 a thousand I presume is reflected in the various other provisions of the Landrum-Griffin Act that you are now paying for; are they not?

Mr. GIBBONS. No.

Mr. PUCINSKI. I understood you to say that.

Mr. GIBBONS. I don't see any relationship to the fact that I through some error run an election improperly, and get a call from the Labor Department as a result of a complaint from one of my members, alleging that there is something wrong, and this complaint having been processed by the Labor Department and found to be of no importance, having nothing to do with the outcome of the election and having dropped it, I don't see how that, which is included in the figures that you quoted to me, has anything to do with the rate that I am paying for bonding right now.

Mr. PUCINSKI. I am in complete agreement with you.

What I am trying to find out here now is this. Let us see if we can get this picture down again. You said you used to pay 17 cents a thousand when you bought a straight honesty bond and that was all you had to buy.

You are now paying \$2.75 per thousand. You say that about 25 percent of that \$2.75 is reflected in the difference between an honesty bond and a faithful discharge bond.

Mr. GIBBONS. Right.

Mr. PUCINSKI. Then where does the other \$2 or whatever it is, come from? What accounts for the rest of the increase?

Mr. GIBBONS. Basically, two factors: You have the 13 percent due to the nature of the bond, the coverage of the bond. You have the size of the bond.

Mr. PUCINSKI. But the size of the bond would not alter the 17 cents to \$2.75. It would affect the premium. But it would not affect the per thousand dollar rate, would it?

Mr. GIBBONS. It has to do with the fact that it is an individual bond instead of a blanket coverage.

It has to do with the fact that it is an aggregate penalty, instead of the individual penalty-type bond.

Mr. PUCINSKI. What I am getting at is this, and I cannot quite understand it. Here through the interpretation of this act by the bonding companies, they have raised the per thousand dollar rate from 17 cents a thousand, when you were buying just a straight honesty bond, to \$2.75 a thousand, yet the figures prepared by the Bureau show that out of a total of 4,871 violations filed with the Bureau of Labor Statistics, only 147, and I do not know how small a fraction that is of the total, but I think we can agree it is a pretty small fraction, actually resulted in some litigation.

I am trying to find out, therefore, if we have not really imposed a tremendous cost on these local unions when the statistics prepared by the Bureau of Labor Statistics do not reflect a justification for that big an increase.

Mr. GIBBONS. I would say to you that it is my belief that the average blanket bonding coverage today in this country would run roughly \$1 per thousand, commercial bond. I think that would be where you would say they ran it from \$1 per thousand up to \$2.75 per thousand. As a matter of fact, up to 5 and then they dropped back to \$2.75.

I think if you work from that figure you will come closer to the answer to the problem you are raising.

I don't think we are getting a true picture, when we talk in terms of from 17 cents on up. Among other things, the 17 cents merely reflects honesty bond coverage for a matter of, I think, an average of \$15,000.

Mr. PUCINSKI. That is true, Mr. Gibbons, but in a big international union like your own, and I am sure even in your union, these figures are very significant.

Mr. GIBBONS. Yes, they are.

Mr. PUCINSKI. I am concerned about the small local, and many of those are in my district.

Mr. GIBBONS. We have many with as much as 400 people.

Mr. PUCINSKI. I have locals in my district that have even less members than that. These fellows are paying some pretty stiff fees for the bonds that the law requires them to have, and yet these locals have 50, 60, and 70 years history of no difficulty or defalcations. Many of these locals are made up of immigrants who came to this country 50 and 60 years ago and they would no more think of doing something dishonest than dying, and yet they are paying these very high fees.

I was trying to find out how prevalent is that.

Mr. GIBBONS. Actually, Congressman, I quoted earlier when you were not here the one aspect of this problem, embezzlements. We found that during the past 4 years, embezzlements by trade union officers total \$463,000. Compare that in a period of 5 years, the last 5 years, 1 additional year, on the amount embezzled by bank officers and the figure runs to \$50,865,000 against our \$463,000.

They are not paying for their bonding requirements under the law anything comparable at all to what we are paying. They don't need as much coverage.

I have all the figures on that here, incorporated in my report, and they don't pay the same price per thousand. They are paying less than 50 percent of what we are paying per thousand for our bonding, and they are probably only getting coverage on about 10 percent of what we are required to cover.

Mr. ROOSEVELT. The Chair will have to ask the gentleman from Illinois to conclude shortly.

Mr. PUCINSKI. This was the very point that I was trying to get from figures. These figures prepared by the Labor Department indicate that while there are many complaints lodged, the actual legal action is only a fraction of that.

The question then comes up of whether or not this committee is not completely justified in looking at this whole bonding provision to see whether or not we are forcing an awful lot of unions, 75,000 local unions in this country, big and small, who today pay very high rates, as you pointed out in your testimony, higher than anybody else, for protection that at least on the basis of the experience with the law to this point would indicate that the requirements are excessive.

If you had 4,871 complaints of all types and only 147 went to trial, and in the case of embezzlements we had 65 convictions, according to this report prepared by the Bureau, then the question properly is raised, are these 75,000 local unions around the country paying for a lot of protection that the authors of the bill never intended?

I was impressed to hear the gentleman from Georgia say today that he was primarily concerned with the honesty—with protecting the assets of the union. If that is all we are interested in, and I submit certainly that is a big thing, then changing this to a straight honesty bond would certainly reduce the premiums for these local unions, would it not?

Mr. GIBBONS. It would certainly reduce the cost, and it would make a lot more certain, the changes we are recommending, that the purposes would not be distorted instead of being used for the purpose of protecting the moneys of our membership, to prevent it from being used for the purpose of discriminating against individuals who might otherwise be eligible for office, but a corporate or surety business would turn them down. The figures are astounding when it comes to the risk involved, because in any kind of comparison you want to put up, the trade union movement stands up very favorably with any other segment of the business community, far and away more favorable than the rest of the business community does.

Mr. PUCINSKI. I notice one more thing in this report. Mr. Chairman, I am going to ask that this part of this report become part of the record. I think it is important.

Mr. ROOSEVELT. Without objection, it will be put in at this point.

(The part of the report referred to follows:)

TABLE 2.—*Labor-Management Reporting and Disclosure Act alleged violations, by type and status, July 1, 1962, to June 30, 1963*

Type of alleged violation (and section of act)	Alleged violations			Reasons for closing investigations		
	Total	Active	Closed	Not actionable	Voluntary compliance	Legal action
Total, all alleged violations ¹	2 4, 871	1, 951	2, 920	1, 483	1, 290	3 147
Failure to provide copies of agreements (sec. 104).....	104	17	87	15	72	0
Inadequate reports to BLMR under title II.....	3, 369	1, 414	1, 955	927	987	41
Reports of labor organizations (sec. 201).....	2, 257	864	1, 393	569	791	33
Retention of records (sec. 206).....	3	0	3	0	0	3
Reports of union officers and employees (sec. 202).....	303	160	143	99	44	0
Reports of employers and labor consultants (sec. 203).....	806	390	416	259	152	5
Trusteeships (secs. 301, 302, and 303).....	74	30	44	30	13	1
Illegal election procedures (sec. 401).....	179	49	130	74	41	15
Breach of fiduciary responsibilities by union officers (sec. 501).....	575	251	324	246	0	78
Embezzlement ⁴	471	250	221	143	0	78
Other.....	104	1	103	103	0	0
Inadequate bonding of union officers or employees (sec. 502).....	349	117	232	93	138	1
Illegal loans to, and payments of fines of, union officers or employees (sec. 503).....	10	8	2	2	0	0
Ineligible persons holding union office (sec. 504).....	42	14	28	25	0	3
Under Communist prohibition ⁴	11	1	10	10	0	0
Under convict prohibition ⁴	30	13	17	15	0	2
Applicability of parole board exemption.....	1	0	1	0	0	1
Bribery and extortionate picketing (sec. 602) ⁴	3	3	0	0	0	0
Criminal contempt (sec. 608).....	1	1	0	0	0	0
Illegal discipline of union members (sec. 609).....	1	0	1	1	0	0
Deprivation of members' rights through violence (sec. 610).....	51	19	32	24	0	8
Miscellaneous ⁵	9	3	6	5	1	0
Welfare and pension.....	104	25	79	41	38	0

¹ The number of alleged violations means the number of sections of the Labor-Management Reporting and Disclosure Act of 1959 involved in an investigation. Each section of the act involved in an investigation has been tabulated as one alleged violation regardless of the number of complaints or the number of persons and organizations involved.

² These totals do not include violations of section 201 which were corrected by the assistance of international unions; these violations were previously included because they were corrected by use of the compliance staff.

³ Includes legal action taken by Department of Justice after that agency had received a complaint.

⁴ Under the agreement between the Secretary of Labor and the Attorney General, alleged violations in this category which came to the attention of BLMR have been referred to the Department of Justice.

⁵ Includes instances in which investigations were conducted to ascertain whether or not a specific violation of the act has occurred following receipt of a nonspecific complaint.

Mr. PUCINSKI. I notice in the column on embezzlement, of the 147 cases that justified legal action there were 78 embezzlements, of which 65 ended up in convictions—

Mr. GIBBONS. Sixty-five over a period of what time?

Mr. PUCINSKI. July 1, 1962.

Mr. GIBBONS. A 1-year period.

Mr. PUCINSKI. I notice there is a footnote on this embezzlement which says:

Under the agreement between the Secretary of Labor and the Attorney General alleged violations in this category which came to the attention of BLMR have been referred to the Department of Justice—

which apparently, indicates, as I understand this footnote, any embezzlement complaint that comes into the Labor Department immediately goes to the Justice Department for investigation.

Mr. GIBBONS. My understanding of the files of the labor Department as relates to Landrum-Griffin is that they are closed files until such time as Justice clears them. This is the information which was supplied the American Bar Association committee when they tried to study the operations of the act, and that answer was supplied by the former head of the Section on Reports. I think he has recently resigned.

In other words, every complaint that comes in under this law is a matter for Justice until such time as they clear it, and then it can be handled as a civil matter by the Department.

Obviously, the criminal aspects would be handled by them.

I would say this: that our information compiled from the same source, the Department of Labor, indicates that there are only 26 cases per year on an average for a 5-year period. This 1 year that you are talking about apparently had 65, but actually, it averages out to only 26 officers involved in embezzlement in any average year. That is convictions.

Mr. PUCINSKI. It is rather interesting, and I will have to let you draw your own conclusions, but we hear so much about the Teamsters in this country, and yet it is interesting to note that of the 65 convictions from that period of 1962 to 1963, there were 17 Teamsters and the rest of the unions were split up, the remainder.

The other thing, of course, that is interesting, is that in these embezzlements everything goes right to the Justice Department.

This report does not bear out what you stated, that all complaints go to the Justice Department.

Mr. GIBBONS. All complaints go to the Labor Department, but the file is sealed until such time as it is cleared from the Justice Department. Then it can be processed by the Labor Department.

This is the answer that the American Bar Association committee about a year and a half ago received from a fellow who was running that section on reports. They were very concerned about it after they gave him that answer. As a matter of fact, they contacted the committee and tried to get them to change that answer, and he reported back to the American bar at its meeting that the atmosphere in this situation was literally that of a precinct station. He was very much upset about it, the chairman of that particular bar association committee, and he made that kind of report.

Mr. ROOSEVELT. The Chair regrets that if we are going to hear the other witnesses this afternoon, we will have to call this off.

We want to express to you both the appreciation of the committee for a very informative and helpful afternoon of testimony.

Mr. GIBBONS. Thank you.

Mr. ROOSEVELT. The committee will now hear from Mr. Jeff Kibre, Washington representative of the International Longshoremen's & Warehousemen's Union.

We are happy to have you before the committee again, sir.

I see you have a relatively short statement. Do you want to read it in its entirety?

**STATEMENT OF JEFF KIBRE, WASHINGTON REPRESENTATIVE,
INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S
UNION**

Mr. KIBRE. Mr. Chairman, as you notice, this statement was prepared by Mr. Goldblatt, the secretary-treasurer of the ILWU, because he deemed the issue so important that he wanted to appear here himself.

Mr. Goldblatt was in the city last week for the previous scheduled hearing date but was unable to be here this week. Therefore, I am pinch-hitting.

I think you will notice that our statement, while very brief, does cover the same ground which the committee has already spaded up in some detail.

With the permission of the chairman, I would like to submit the statement for the record and, of course, answer any questions that might be raised.

Mr. ROOSEVELT. Without objection, your statement will be included in its entirety.

(The statement referred to follows:)

**STATEMENT OF LOUIS GOLDBLATT, SECRETARY-TREASURER, INTERNATIONAL LONG-
SHOREMEN'S & WAREHOUSEMEN'S UNION**

My name is Louis Goldblatt. I am secretary-treasurer of the International Longshoremen's & Warehousemen's Union and am speaking on behalf of our members who are concentrated in the States of California, Oregon, Washington, Hawaii, and Alaska.

I am appearing in support of the three bills, H.R. 4669, H.R. 4670 and H.R. 4671, which are now before you. They are designed to correct inequities and to eliminate discriminatory requirements in the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959, more commonly referred to as the Landrum-Griffin Act, and of the Welfare and Pension Plans Disclosure Act. If passed, they would in no degree weaken the protection against fraud and dishonesty which ordinary bonding provisions are designed to provide.

As Senator Morse argued in the Senate during the debate on the conference report, the bonding provisions of Landrum-Griffin had never been very fully discussed and, in his opinion, would be a source of regret to the Congress. Now, with nearly 4 years of experience with the bonding requirements (they became effective January 1, 1960) we think it is time to take a good look at them.

To our union, the most undesirable feature of section 502(a) of Landrum-Griffin is the language in the first sentence requiring that a union officer or employee shall be bonded "for the faithful discharge of his duties." This language was new in the surety business. When it was adopted in 1959 no one knew precisely what it meant or precisely what, if anything, it added to the customary bonding language which is intended to provide "protection against loss by reason of acts of fraud or dishonesty." This latter is the substitute wording proposed in paragraph (2) of H.R. 4670, now before you.

It is true that the Secretary of Labor, in his interpretative bulletin issued December 12, 1959, gave as his opinion that the "duties" referred to in the phrase were confined to "duties * * * in connection with their handling of funds or other property" (sec. 453.11). But we in the labor movement cannot escape the fear that on some occasion, the sanctions of the law will be found by some court to apply to a union officer because, in the regular and otherwise legal performance of his duties, he has engaged in an activity which the court holds is not compatible with the faithful performance of his duties. If such fear is, in the opinion of Congress, fanciful or not supported by congressional intent, we respectfully urge that the language be changed as provided in H.R. 4670.

We have just learned of a case in the State of Washington—not a trade union case—where highway employees of the State and their superiors are being sued under terms of a "faithful performance" bond because they neglected to put out markers to close off the lane of a highway while road equipment was working on it. Because the lane was not marked off a car ran into a piece of equipment and its occupants were injured. As a union, we are fearful that this language opens up the possibility of actions of this sort even though we do not believe that this was the intent of Congress.

Whatever in fact was the intent of Congress, the bonding companies have interpreted the language of section 502(a) to involve responsibilities and duties over and above the strictly financial ones. Accordingly, at the outset, they charged a very substantial premium for this type of bond, 50 percent or more in some instances. Since then, because their experience has, so far as we know, turned up no cases other than those which would have been covered by the usual bonding language, the rates of Landrum-Griffin bonds have been reduced. A differential nevertheless remains. We can see no justification for the resulting discriminatory treatment to which unions are subjected. It results in an added expense which comes out of our members' pockets.

If Congress intended by the first sentence of section 502(a) to provide some unspecified protection over and above that which would be provided by the usual bonding language, the negative experience of the first 4 years shows that the added protection is unnecessary and should be eliminated. If the use of the phrase was inadvertent and actually nothing more was intended than the customary financial protection, then, again, it is time it was changed.

There is the further consideration that the bonding provisions of the Welfare and Pension Plans Disclosure Act, not adopted until 1962, which apply to some of the same persons, though in different capacities, are the customary provisions, limited to "protection against loss by reason of acts of fraud or dishonesty." The purpose of H.R. 4670 is, in fact, to bring the bonding provisions of Landrum-Griffin into conformity with those of the Welfare and Pension Plans Disclosure Act.

The bonding provisions of Landrum-Griffin applied, until 1962, to trustees of welfare and pension plans as well as to union officers and employees. The 1962 amendments to the Welfare and Pension Plans Disclosure Act brought the bonding of trustees under that law. Thus there is the present apparently illogical and clearly discriminatory situation that union officers and employees must be bonded for the "faithful performance of their duties," while the same officers or employees, if they also serve as trustees of welfare or pension plans, are bonded simply against fraud or dishonesty, and at a lower rate.

According to the Surety Association Manual (as revised June 5, 1963) the customary premiums for the "Faithful Performance Form" of blanket fidelity bond is 25 percent higher than for the "Honesty Form" for the same coverage. For example, page MB-70, for "Labor Unions—National or International Union Only—Honesty Form," shows a "Class Rate Modification" of 1, meaning no surcharge. But the "Class Rate Modification" for "Labor Unions—National or International Unions Only—Faithful Performance Form" is 1.25, meaning a 25-percent extra charge. The same 25-percent extra charge applies in the case of faithful performance form bonds for local unions and for health, welfare, and pension plans and trusts.

In extenuation of the surety companies it must be said that the reason they charge more for faithful performance bonds is the uncertainty which surrounds the meaning of that phrase. I should add that some companies, including, I am glad to say, the company with which our union is bonded, are making no extra charge.

The excuse offered by the uncertainty of the meaning of the "faithful performance" phrase, coupled with the restriction of the business to a certain limited number of approved companies, permits some of the surety companies

to charge unnecessarily high premiums and, we are convinced, to reap extra profits. It is for this reason that we support H.R. 4669. This bill would require financial reports by bonding companies providing bonds under both the Landrum-Griffin Act and the Welfare and Pension Plans Disclosure Act. If companies are to be specifically authorized to do business under these laws, they should be publicly accountable for their activities. The same logic which led Congress to enact these laws—to make unions more accountable—should apply to the bonding companies.

Paragraph (b) of H.R. 4670 and H.R. 4671 are both directed at correcting another undesirable feature of section 502(a) of Landrum-Griffin. The last sentence of section 502(a) confines acceptable surety companies to those holding a grant of authority from the Treasury under the act of July 30, 1947. While certain additions have been made to this list since the passage of the law in 1959, the list is still restricted and restrictive. Unions are still exposed to the danger, illustrated by the difficulties experienced earlier this year by the International Brotherhood of Teamsters, that for whatever reasons no one of the approved companies is willing to write a bond. As a consequence, a union is unable to meet the requirements of the act even though the union is seeking a bond and other companies not on the list are perfectly willing to write one.

The remedy, we think, is that set forth in H.R. 4670(b) and H.R. 4671; namely, that the Secretary of Labor be empowered to permit other bonding arrangements if he is satisfied that the required protection will be provided.

The limitation of permitted bonding to a certain list of companies offers not only practical difficulties for a trade union, it also runs counter to one of the basic principles of unionism, that the designation of officers of the union shall be by the membership. This bonding provision gives to a small number of private companies a veto power over the choice of the membership. If no one of these companies is willing to provide a bond for a union so long as individual A is an officer, then, in effect, he is unable to serve. It is ironical that Congress, in adopting a law primarily aimed at protecting the rights of union members, should have by this provision actually set up a requirement that can be used to deny the members their right to be represented by whomever they choose.

Senator Morse, in introducing his companion bill, S. 1638, correctly pointed out that "this is a rigid and inflexible provision which enables the bonding company to decide, in the final analysis, whether an officer or employee of a union may function." It is a provision which cannot be completely corrected simply by the Treasury's adding more companies to the approved list; it can be corrected only by some such provision as is offered in H.R. 4670(b) or in H.R. 4671.

In conclusion, may I express the hope that this subcommittee will start the legislation ball rolling to correct these inequities in what, in our opinion, was an ill-considered provision of the law.

Thank you for your courtesy and for the opportunity to testify.

Mr. KIBRE. I would like to emphasize, Mr. Chairman, why we are here. The element of cost, of course, is highly important, and certainly deserves the kind of discussion that has taken place. However, we feel that far more important than the increased cost to the membership is the fundamental issue that this present bonding provision poses. In our judgment, it poses a threat to the entire labor movement. It does that because it tends to give to the insurance companies a veto right, a veto power, over a fundamental right of union members—the right to select or elect their own officers, their own representatives.

This, as we see it, is the fundamental proposition involved in this particular provision. As presently written, it threatens the security and the existence of the entire labor movement.

For that reason particularly, we feel that the time has come for Congress to change this provision and to confine it to the issue of protecting the funds of the membership against fraud or dishonest activities.

Mr. ROOSEVELT. Thank you very much.

Are there any questions, Mr. Gill?

Mr. GILL. I have one question.

I gather that the gentleman who was going to make this statement, Mr. Goldblatt, felt that both the welfare pension plan language and the Landrum-Griffin language was inadequate. Is that a correct interpretation of the statement?

Mr. KIBRE. The statement points out that the language of the Pension Plans Disclosure Act, as amended last year, is adequate to protect the funds of the membership against fraud or dishonesty, and we suggest that the language of the Landrum-Griffin provision be brought into conformity with that language.

Mr. GILL. In other words, you would accept the amended language of the Welfare Pension Plan Disclosure Act of 1962?

Mr. KIBRE. Precisely. We feel that this would accomplish the job which should be accomplished by the Congress.

Mr. GILL. Thank you.

Mr. KIBRE. May I just add that we feel Congress should not protect the membership of the labor movement to the point where they are going to be protected out of one of their fundamental rights.

Mr. ROOSEVELT. Mr. Bell?

Mr. BELL. No questions.

Mr. ROOSEVELT. Mr. Hawkins?

Mr. HAWKINS. No questions.

Mr. ROOSEVELT. Mr. Pucinski?

Mr. PUCINSKI. No questions.

Mr. ROOSEVELT. Mr. Griffin?

Mr. GRIFFIN. Mr. Kibre, toward the end of Mr. Goldblatt's statement, he objected to this on the basis that it would give the bonding company the power of making a determination as to who is going to serve and who is not going to serve, and then he said, therefore, he thinks this should be amended so that it only required an honesty bond.

I do not quite follow the logic of that.

If we adopted the amendment which you immediately suggest, it would still give the bonding company the same power, would it not?

Mr. KIBRE. Not necessarily. The point that we are making here particularly is that at the present time there is a restricted list of bonding companies, and we are deeply concerned that what happened to the Teamsters should not happen to any other union.

As long as it happens to one, experience has taught us that it could happen to another.

Mr. GRIFFIN. Then to remedy your complaint is not to change the accountability feature. That, in and of itself, does not answer the argument that you made. You want something else done in addition. What is that?

Mr. KIBRE. That is the amendment proposed under H.R. 4670, as I recall.

Mr. GRIFFIN. To allow foreign surety companies to write the bonds?

Mr. KIBRE. To give flexibility, to provide enough flexibility, so that in the event that the existing list of surety companies will not write a bond, that there will be an alternative available to the membership.

Mr. GRIFFIN. Such as a foreign surety company?

Mr. KIBRE. Such as a foreign surety company.

Mr. GRIFFIN. Is it not a fact that foreign surety companies are not regulated so far as their rates are concerned?

Mr. KIBRE. Do you mean within the States?

Mr. GRIFFIN. Yes.

Mr. KIBRE. As far as I have learned from the discussion here, that appears to be the case, except that Lloyd's of London is regulated, for example, in the State of Illinois.

Mr. GRIFFIN. Maybe you are not in the State of Illinois. I think an important consideration here is that, sure, I imagine you can get any kind of a bond; anybody can get a bond or insurance policy from Lloyd's of London as I understand, no matter how great the risk. But how much is it going to cost? Do you think that your suggestion ought to be amended with a condition that the premium would not be any greater than the premium that would be charged by a domestic company?

Mr. ROOSEVELT. If the gentleman will yield, actually the experience shows that the premium of Lloyd's of London is less.

Mr. KIBRE. I was going to mention that this is the experience of the past.

Mr. GRIFFIN. But it is the union members' funds that are going to pay for it.

Mr. ROOSEVELT. I would, for one, simply like to say that I would not oppose such an amendment which required that if a domestic corporation was willing to write it, that the domestic corporation should have the business.

Mr. KIBRE. This would be more than satisfactory to us.

Mr. GRIFFIN. But he was saying that if the domestic company would not, then a foreign company, but then are you going to let the foreign company charge any fee that they want to?

Of course, a lot of union officials would not care what it would cost.

Mr. KIBRE. We are not wedded to any particular alternative. As a matter of fact, I think the discussion here, in the course of the hearing, indicated that some thought should be given to this. All that we are saying is that there should be an alternative, a sound alternative, which would not permit another situation to develop where a union could be put out of business.

This is what we are saying.

Mr. ROOSEVELT. You would not object, would you, if we said that not only should the Secretary be satisfied as to soundness of the surety being provided by the foreign corporation, but that he also should exercise his discretion as to whether the cost was fair?

Mr. KIBRE. Definitely. We wouldn't object to that.

Mr. PUCINSKI. Mr. Chairman, I think the gentleman has raised a very good point. For that reason, perhaps we can work out some agreement on this legislation.

It is obvious that legislation in its present form has created problems and is creating problems that need some form of correction. I am inclined to agree that he is probably right when he says some unions would not object to paying any kind of a fee to a foreign insurance company as long as the money was not coming out of their pockets. There may be a lot of merit to what he is saying.

For that reason, perhaps we could reach some agreement to rewrite this, redefine or at least narrow down the language of "faithful discharge."

Mr. GRIFFIN. You are getting on a different point now.

Mr. PUCINSKI. If I recall the testimony of the witness this morning, my guess was that the failure or refusal of American surety companies

to write the bond was not because of any fear of the honesty of a given union official but, rather, they did not know what they were getting into and what they were covering and what they were insuring in the broad and nondescript language of "faithful discharge."

This is the thing that created the impasse.

Therefore, I say to my colleague from Michigan that he has raised a good point in his observation about permitting a foreign corporation to write this insurance when an American corporation does not. I agree with him. But I also feel in my agreement with him that if we are going to take his viewpoint, we do have to then refine the wording of "faithful discharge" to create some alternative.

You are not going to do it if you just leave the thing as it is.

Mr. GRIFFIN. As I see it, there are two different issues to consider. One is, under what circumstances should it be permissible for a bond to be written by a bonding company that is not on the Treasury approved list. It is altogether conceivable that we should try to work out some way that would be fair so that this could come about.

Perhaps, if the applicant union exhausted the domestic companies, if the Secretary gave the approval of a foreign company, and if the premium did not exceed the premium that a domestic company would charge if they wrote it, that would be, I think, quite an ideal and fair situation.

But then you also have the next question; that is, What is the degree of risk that the bonding company should assume? That question raises the issue: Should it be a faithful discharge or an honesty bond?

Mr. KIBRE. May I interrupt and read to you a paragraph from a statement put out by the Secretary of Labor on November 17, 1959, on the language of this particular section?

This is an official release from the Department of Labor, from the office of James P. Mitchell, Secretary of Labor, dated November 17, 1959. He is discussing bonding and union election provisions, and now referring to the bonding provision, this statement goes on to say:

The law requires that all union officers who handle funds be bonded. The language used in the bonding section of the law, however, is unclear as to what is meant exactly in many instances. For this reason, it has been difficult to prepare and issue interpretations on this section of the act. The Department has had attorneys working constantly since the act was passed in studying the terms of its provisions and its legislative history in an attempt to determine what Congress intended when the law was written.

Mr. GRIFFIN. Thank you very much. I think we knew that at that time. But I would like to go on and say that I am quite impressed with the information developed here that a faithful discharge bond now costs only 25 percent more than an honesty bond would cost if we were to change the law as requested.

Mr. ROOSEVELT. If I could correct the gentleman, I do not think that is the statement.

The statement is that 25 percent of the additional cost is due to that factor. It then pyramids up beyond that.

Mr. GRIFFIN. Twenty-five percent.

Mr. KIBRE. There is a surcharge of 25 percent.

Mr. GRIFFIN. Because you are writing a faithful discharge bond.

Mr. KIBRE. And then there is an additional surcharge of 13 percent for multiple risks.

Mr. GRIFFIN. That does not go to my point. That does not go to the difference between the risks involved. That charge is for another purpose.

The next question is: What does the union get for that extra 25 percent? What does it involve, and how much protection do the union members get because it is there?

As I see it, and as we thought about it at the time this law was passed, a union official who handles a union fund should have a little bit more responsibility—a higher degree of responsibility—than just the responsibility not to steal it himself.

Suppose that I were to put funds into a trust, with a trust officer in a bank, and spell out in a trust agreement certain things that he is supposed to do and is authorized to do, and certain things that he is not authorized to do. The trust officer has to be bonded, and his bonding responsibility goes beyond an obligation not to steal the money.

In other words, suppose he decides that a charitable drive for Hot-tentots some place in another country is a very fine cause, and, therefore, he takes my money out to give it to them. If he does that, he would violate his trust—even though he had not stolen the money for himself—and I could go to the surety company to recover the loss under the bond.

That is what we are talking about.

A union official has a responsibility beyond just not stealing the money.

You say, "Well, yes, but what is it? What is he authorized to do, and what isn't he authorized to do?"

For authority, a union official must look to the constitution of the union, and to the bylaws of the union. If he gets to a point where he does not know whether he is authorized to use funds for a particular purpose, then he had better go back to the rank and file and get authorization.

That is exactly what we intended under the present law. The degree of protection for union members—even though the surety companies may not like it—is substantial and important. It's true that the surety companies may not know the exact limits of their risk—they are a little bit edgy; they may have to come up and pay off a big loss, but at the same time, both the companies and the unions are pretty careful about what they do, and union officials make sure that their actions are authorized.

That is exactly what we intended.

If we should now go back to the point where the only requirement or obligation is that a union official just does not steal the money, that would not be very much protection for the rank and file.

I am impressed with the fact that unions can get this important protection for only 25 percent additional. That is pretty good.

Mr. KIBRE. Of course, it has always been our theory that the best protection that the membership has is the right to elect a man and to unelect him if he is not faithfully discharging his duties. In our union, an officer can be removed by a referendum.

Mr. GRIFFIN. Sometimes in a 3-year period he could get away with a lot of money.

Mr. KIBRE. In our union, an officer can be removed from office by a recall referendum initiated by 15 percent of the membership.

Mr. GRIFFIN. You might say, "Let's not have bonding at all," under that kind of an argument.

Mr. KIBRE. No, I am saying that the fundamental long-range protection resides in the right of the membership to elect or unelect their officers. At the same time, of course, we implicitly believe in the kind of honesty bond that will protect against fraud and dishonesty.

Mr. GRIFFIN. But, you see, because we tolerate compulsory unionism, and because we say it is legal to require in a union agreement that people must belong to a union to hold their jobs, the situation of a union official who handles union funds is in the nature of a public trust. They are much the same as a trust officer in a bank or a county township official who is handling public funds. Such officials are required to be bonded. If they cannot get a bond, you go out and elect a new official, you get somebody who can get a bond. That is what is behind this.

Mr. PUCINSKI. If my colleague will yield, why do we not have Congressmen file a faithful performance bond?

Mr. GRIFFIN. If we were handling public funds, we should.

Mr. ROOSEVELT. We do.

Mr. PUCINSKI. Who handles more public funds than you do?

Mr. GRIFFIN. Wait a minute. The funds do not go through your hands, do they?

Mr. PUCINSKI. No, but I certainly vote on these things.

Mr. GRIFFIN. I do not think that is the same.

Mr. ROOSEVELT. May I ask, Mr. Kibre, whether it would be reasonable to perhaps make it a little broader than first mentioned but make it specific that the liability and the duty is as is provided and laid out by the duties of his office as prescribed by the union constitution, and whatever other document may control his activity?

Mr. KIBRE. That would be adequate as far as our union constitution is concerned. It has very solid safeguards.

Mr. ROOSEVELT. I do not know of any union constitution in which the terms are not set out.

But now, the way the law is written, what is faithful performance? It may be something that has nothing to do with the basic concept of his constitutional duty within the union constitution.

It seems to me that we should be able to spell it out to cover Mr. Griffin's objection very clearly; but I see no reason at all, for instance, why it is not perfectly proper to give it to the Hottentots, if the union votes to give it to the Hottentots and the union man is authorized to do it.

Mr. GRIFFIN. I do not think there would be any question but that there would be no violation under the present law, if there is clear authorization. It would be faithful discharge.

Mr. PUCINSKI. Will the chairman yield?

I think the point the chairman makes was brought out very adequately not only by testimony but the very regard of what happened. When this law was passed, the Secretary could not make up his mind what "faithful discharge" meant and the insurance companies did not know what it means, so their rates were very high. As they lived with this for a while, they brought it down.

Now, they have brought it down to where they think they have it to where they meet these requirements.

I respect my colleague in this matter, but I cannot follow his reasoning on how this \$2.75 per thousand bond, the fee, is going to deal with situations like this, and let us quickly look at the kind of prosecution we had in the last year out of 147 that went to some form of legal action, 41 involved inadequate reports to the Bureau of Labor Reports under title II, 33 involved reports of labor organizations, under section 201, 3 were retention of records, under section 206, 5 were reports of employers and labor consultants, I presume meaning failure to report, under section 203, 1 involving a trusteeship, 15 involving illegal election procedures, under section 401, 78—

Mr. GRIFFIN. I do not see what that has to do with what we are talking about.

Mr. PUCINSKI. I will get to my point.

Seventy-eight involving breach of fiduciary responsibility, under section 501, 78 embezzlements, 1 inadequate bonding, 3 ineligible persons holding union office, and 8 deprivation of members' rights through violence.

All of these things, with the exception of embezzlement, I presume, that in this language "faithful discharge," all of these things somehow or other come into play.

A witness this morning alluded to that fact, that they really did not know what kind of fees to set.

The gentleman is sitting here and is very much impressed that the honesty bond only adds 25 percent more to the cost. The fact of the matter is that these local unions are paying more than 10 times what they were paying before the enactment of this language for coverage that the bond does not do a thing for. In other words, if you had an illegal election, what is the bond going to do with an illegal election?

Mr. GRIFFIN. Nobody said it would.

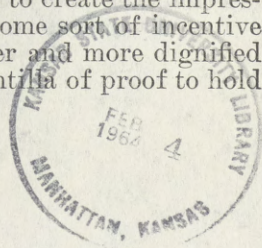
Mr. PUCINSKI. If you have a member holding office illegally, what will the bond do? Will it recompense this local union \$10,000 because they made a mistake? That is not when those bonds pay. These bonds do not pay those damages.

So what you are doing here is saying this, you are saying to these local unions, "If the bonding companies say that you have to pay \$2.75 per thousand under this present law, that is what you have to pay," and they have to pay it under your law.

But what protection are they getting as far as preserving the integrity of the union funds in that union they could not get for 17 cents a thousand.

Mr. GRIFFIN. I would like to ask you the same question. You are assuming that for 17 cents a thousand they were getting the same protection that they would now get under an honesty bond for \$2.75, and I do not think there is any evidence to show that.

Mr. PUCINSKI. If a local union had \$10,000 in a treasury and they bought a \$10,000 surety bond for each of their officers who had access to that money, that \$10,000 was just as deeply protected then as it is today. The gentleman from Michigan is trying to create the impression that written somewhere into this bond is some sort of incentive for a union officer to conduct himself in a better and more dignified manner. I say that there is absolutely not a scintilla of proof to hold up that allegation.



Mr. GRIFFIN. Let me say this. You throw all kinds of things into this situation which are not related.

The bonding goes to the handling of union funds—the handling of funds. All those other things are also of interest.

Mr. PUCINSKI. Then would you kindly tell me why they are spending \$2.75?

Mr. GRIFFIN. When they get ready to do something with the union members' funds, that is when this comes into being, and then they better be sure that they are authorized to do what it is they are going to do with the money. That is all.

Mr. PUCINSKI. But my very gracious colleague insists on ignoring the fact that when they incorporated into the language of this bill the two words "faithful discharge," these surety people are the one who said: "With that language we had no idea what kind of fee is to be established," so taking into consideration all of the things in the whole act from beginning to end, they said, "This is the fee that we want," but the fact remains that if any one of these violations occur, other than embezzlement of funds, there is not one nickel of that surety bond that will pay that union any kind of damages other than if money that belongs to that union is absconded with.

So what you have really said in this law is that these local unions have to pay \$2.75 per thousand as against the 17 cents a thousand previously for a great deal of protection that does not mean a darn thing.

Mr. ROOSEVELT. The Chair would like to state that in order to clarify—

Mr. PUCINSKI. I would like to ask the witness, is this correct?

Mr. KIBRE. It seems to me it is absolutely correct.

Mr. ROOSEVELT. The Chair would like to state that we are going to ask Mr. Fitzgerald, the president of the Surety Association, to discuss this matter with us, and to bring such people as he wants to. We will send him a general résumé of the questions.

I think after he arrives we can decide, with both the gentleman from Illinois and the gentleman from Michigan, just what this money is buying in actual protection, if it is. If it is not, I am sure the gentleman from Michigan would not want to charge the union members this additional premium if it is not buying them anything additionally. This we should be able to establish.

Thank you very much, Mr. Kibre.

Mr. KIBRE. I appreciate the opportunity to appear.

Mr. ROOSEVELT. The Chair will ask Mr. Carroll Young, the vice president of the Niagara Fire Insurance Co., whether he will come forward a minute to correct the record.

Mr. Young, you spoke up this morning at the time a statement was made that there was a period when no insurance companies were willing to write bonds for the Teamsters and that they had changed their position as a result of inquiries by the chairman of this committee, the full committee, and that you wanted to make clear that your company now writes these bonds for the Teamsters' Union and had never at any time changed its mind.

I think the record should be made clear on this.

I want you to state whatever you wish to state.

STATEMENT OF CARROLL R. YOUNG, VICE PRESIDENT, NIAGARA
FIRE INSURANCE CO., NEW YORK, N.Y.

Mr. YOUNG. Thank you very much, Mr. Chairman.

Mr. ROOSEVELT. Are there any other questions along this line?

Mr. PUCINSKI. Has the gentleman cleared the record?

Mr. ROOSEVELT. I think the record is clear that the gentleman's company at no time changed its mind. When it became interested, when the opportunity became known to them, they did confer with the Teamsters Union and then went ahead and wrote it. Is that correct?

Mr. YOUNG. That is correct. And we wrote it through a licensed broker.

Mr. PUCINSKI. When did you find out that the Teamsters were looking for insurance?

Mr. YOUNG. Possibly a week before we visited the Teamsters' headquarters in Washington, D.C.

Mr. ROOSEVELT. How did you find out about it?

Mr. YOUNG. We found out by hearsay. We found out in the press, and laterally by telegrams we received from teamsters.

Mr. PUCINSKI. This was one of the telegrams that the Teamsters sent to 278, I believe, if I recall the press accounts at that time.

Mr. ROOSEVELT. The press account came as a result of Mr. Powell's telegrams, I believe.

Mr. PUCINSKI. This is vague in my recollection, but I recall reading in the press that the president of the Teamsters said that they had solicited every bonding company on the Treasury's list for a bond for their company, to meet the deadline. I believe that is what it was.

Mr. YOUNG. That is correct.

Mr. PUCINSKI. Did you get one of those telegrams?

Mr. YOUNG. Yes, sir. We received several.

Mr. PUCINSKI. How soon after you received the telegram did you notify the Teamsters that you would be willing to underwrite this bond?

Mr. YOUNG. We do not transact business directly with assureds. We deal only through agents and brokers. And when a duly licensed broker approached us in behalf of the Teamsters and exhibited to me his authority to negotiate the business in behalf of the Teamsters, he asked me if I would be willing to go to Washington and discuss the underwriting and decide whether our company would be willing to accept the business.

I told him if he could make such an appointment, that I would be glad to do so.

I think the rest is history. We went to Washington. We thoroughly analyzed the risk, and we authorized it.

Mr. PUCINSKI. How big a bond did you write?

Mr. YOUNG. Our bonds, generally speaking, cover all of the international headquarters officers and also about half of the officers of the locals.

I believe some locals place their bonds independently.

Mr. PUCINSKI. Do you have an estimate of what the premium on all that runs to, or is that a professional matter between you and the insured? If it is, I do not care to know about it.

Mr. YOUNG. It is no secret, but I would like to make it clear that we wrote these bonds at rates which were approved by the Surety Association of America and were filed in our behalf in all States requiring rate filings.

Under law and pursuant to our filings, we can only charge premiums at rates which are filed for us, not any more and not any less.

Mr. PUCINSKI. When were these rates determined?

Mr. YOUNG. When are they determined?

Mr. PUCINSKI. Yes.

Mr. YOUNG. They are determined on a progressive basis as to the various classes of bonding business.

Mr. PUCINSKI. You were here, I believe, throughout the discussion that we had earlier this afternoon. Would you venture an opinion on how this rate is arrived at?

Mr. YOUNG. The rate?

Mr. PUCINSKI. Yes.

Mr. YOUNG. The rate is arrived at actuarially and will be based on contingencies such as faithful discharge of duty. I might say it is my own personal observation that the companies were not entirely in the dark in finding a surcharge for faithful performance of duties because we had written faithful discharge of duty bonds for fraternal organizations for many years, so we did have some inkling of what to expect in losses over what we would pay normally under honesty bonds.

Mr. PUCINSKI. I have been listening to this testimony all day today and I am still trying to find out this point. What in your judgment is faithful discharge of duties as applied to bonds for labor unions?

Mr. YOUNG. I believe it has already been made abundantly clear that the faithful discharge of duty is not definable.

Mr. PUCINSKI. Would you do me the courtesy of trying?

Mr. ROOSEVELT. I do not think we should require the witness to do something he says is impossible.

Mr. PUCINSKI. I just want to make absolutely sure, Mr. Chairman. Here we have a distinguished witness who has written one of the biggest bonds in the company, I assume. I think that is a safe bet.

Mr. YOUNG. I would like to cooperate with the committee and can only answer your question by asking a question.

Mr. ROOSEVELT. What do you mean?

Mr. YOUNG. Say I am treasurer of an organization, and during executive committee meetings it was decided to buy a certain number of shares of stock as an investment. I, as treasurer, am charged with placing that order. On my way back to the office, my secretary tells me my daughter is seriously injured in an automobile accident. I drop everything in the interest of my family, and then I discovered several days later my oversight, and in the meantime the price of that security has gone up. Have I been faithfully discharging my duties under those circumstances?

Mr. PUCINSKI. I do not know.

Mr. YOUNG. I don't, either.

Mr. ROOSEVELT. I think that is exactly why, and I think it is possible to do it even in the context of what the gentleman from Michigan has been talking about, and I hope he will put on his thinking cap, because he is sort of an expert in this line and one of the brightest people on this committee, I think he does not want to include that kind of situation, but I think he has to recognize that this now, under the language which we have written, is something that may come up.

I think we have to help this committee write specifics, so that the insurance companies know what the risks are.

I think this is a reasonable thing for the insurance company to request of us, and I think it is our duty to do so. Otherwise, frankly, Mr. Young, how can you really say that you know that you adequately are charging a premium which is covering the risk that you have assumed? You may be charging too much and you may be charging too little.

Mr. PUCINSKI. He does not set the figures, as I understand.

Mr. YOUNG. I do not set rates.

Mr. ROOSEVELT. The association does that for him and he has to go along for whatever it is. He does not honestly know in his own mind, I do not think, that he would testify that he can be sure that that rate is either adequate or inadequate. Can you, sir?

Mr. YOUNG. No, sir; I think the experience will have to prove it.

Mr. ROOSEVELT. And certainly not the experience of just a couple of years.

Mr. YOUNG. That is correct, yes, sir.

Mr. PUCINSKI. Apropos of that very point, Mr. Young, if the experience over a number of years shows that these rates have been excessive, there is no way of the insured recouping any losses, is there? That is not the way most insurance policies are written, is it?

Mr. YOUNG. Any refunds?

Mr. PUCINSKI. No. We do not have any experience in this field in terms of being accurate that the rate of \$2.75 per thousand is either excessive or insufficient.

We do not know that.

But if experience 5 years from now indicates that these rates have been substantially excessive, there is no way of paying these people back?

Mr. YOUNG. Not to my knowledge.

Mr. PUCINSKI. On the other hand, any other type of insurance or any other type of bond, when the rates are established they are established on more direct and recognizable guidelines than you have in this law here, are they not?

Mr. YOUNG. I think all rates have an element of judgment. In this particular instance, based on my 30-odd years experience in the business and speaking only for myself, in arranging the bonds which were required. I feel that we had to cut the cloth to fit the pattern. We had to use the rates which we had filed.

Mr. PUCINSKI. Which you what?

Mr. YOUNG. Which we had filed in our behalf by the Surety Association of America, which we fully support. We at no time offered to write the business at any other rates, either lower or higher.

So I feel as a surety man that I performed the service that was entirely within the concept of the law that you are presently con-

fronted with, the laws that exist, and my underwriting responsibilities as an officer of my company.

Mr. ROOSEVELT. Mr. Young, you have been pretty close to the picture. Could I ask you whether you think a different type of bond, such as you would ordinarily write in this area, which would cover fraud, embezzlement, and theft, specific hazards, would adequately protect the union worker who obviously Congress was interested in?

Mr. YOUNG. I think it is all a matter of Congress judgment as to what they want. Conventionally, in the commercial field, bonds are on honesty forms.

Mr. ROOSEVELT. So, in general, in the commercial field, what you mean by that, I suppose, are insurance companies and banks, people dealing in fiduciary matters—

Mr. YOUNG. I will include all types of commercial enterprises.

Mr. ROOSEVELT. But they cover people handling fiduciary matters where there is a possibility of misapplication of funds. Has there been a claim that that kind of bond does not give the fullest protection? Are they pretty well satisfied with the protection that they are getting, or is there a demand that you rewrite that type of protection?

Mr. YOUNG. So far as I know, we are fulfilling the demand.

Mr. ROOSEVELT. Mr. Gill.

Mr. GILL. I am very ignorant in this area and very curious as to the example you gave of the gentleman who was treasurer of a particular organization and was told to buy a certain stock and went elsewhere for a couple of days, finding the price had gone up. What type of bond does that person ordinarily carry, honesty or faithful discharge?

Mr. YOUNG. I would expect ordinarily he would carry an honesty bond.

Mr. GILL. Just an honesty bond?

Mr. YOUNG. Yes, sir.

Mr. GILL. So you really would not have a problem with the mistake that the man made?

Mr. YOUNG. That is right.

Mr. GILL. It is an honest mistake and no fraud intended. How about trust company officials who make similar investments on behalf of their clients? What kind of bond do they normally carry?

Mr. YOUNG. I think that would all depend on the type of trust that was being handled and that in some jurisdictions a separate fiduciary bond might be required to be filed with the court which has jurisdiction. In that instance, the bond would cover faithful performance of duty. Yet, if the bond is a conventional type of bond as carried by trust companies, again we would get back into the honesty area.

Mr. GILL. Let us say this is not a trust which is under the jurisdiction of a court, but it is a private trust and someone goes in and arranges with the trust company, with the trust company's officers then administering it, making the necessary investments and collections of funds deposited, and so forth. In that situation, what type of bond does the trustee normally carry?

Mr. YOUNG. Trust companies usually carry honesty forms of bonds.

Mr. GILL. Not faithful performance, just honesty?

Mr. YOUNG. That is correct, unless they are required by law to furnish a separate bond. But let me make it clear for the record that no

form of bond will respond for poor judgment on the part of a principal.

Mr. GILL. The only right you have there is perhaps a common law action or any suit against the officer in court; right?

Mr. YOUNG. Yes, sir.

Mr. GILL. You said you had some experience in faithful performance or faithful discharge bonds with fraternal organizations.

Mr. YOUNG. Yes, sir.

Mr. GILL. What do you insure with fraternal organizations, what types of activities?

Mr. YOUNG. Usually they have a treasurer and a recording secretary, and often these officers are bonded for comparatively nominal amounts of coverage. The bond follows, again, the bylaws of the lodge or whatever the case might be.

Mr. GILL. As long as they live up to the bylaws of the lodge you have no problem?

Mr. YOUNG. That is correct.

Mr. GILL. Has there been much history of losses here from actions other than dishonest or fraudulent actions?

Mr. YOUNG. Yes, sir.

Mr. GILL. What types of actions have they been?

Mr. YOUNG. We have had clear-cut cases of losses not being recoverable under an honesty form which have been paid for lack of faithful performance.

Mr. GILL. These have been violations of the bylaws?

Mr. YOUNG. Yes, sir.

Mr. GILL. Just to go one step further, then, if the bylaws are very broad and allow the officer concerned very wide discretion, it is pretty hard to catch him under a faithful discharge bond, is that not it?

Mr. YOUNG. Let me be sure I understand your question.

Mr. GILL. Let me rephrase it.

Say you have two lodges or two unions. In one the bylaws are extremely strict, that the officer in charge of the fund has to go through certain steps before he can make any disposition of those funds or any investments, or any action involving those funds. But in the second lodge or union the bylaws are quite loose, he is given a great deal of discretion and if anybody questions him he goes back to the board, perhaps, and gets authority.

In those two cases you would have a different type of liability, would you not, under faithful discharge?

Mr. YOUNG. Yes, sir, and our choice would be a matter of underwriting. We may wish to write one of those risks but not the other because of the phraseology of the bylaws.

Mr. GILL. Would it be easier to write the risk where the bylaws are very strict or the risk where the bylaws are very permissive?

Mr. YOUNG. I would say it would be easier to write the risk where the bylaws are clearly definitive.

Mr. GILL. On the other hand, it would be far harder to collect from you as a surety in the situation where the bylaws are very permissive; is that correct?

Mr. YOUNG. That would be reason for us, as underwriters, to avoid a risk on which we could not make a satisfactory settlement of our

claim. It would be poor public relations on our part, to accept a premium and not be able to settle our claim properly.

Mr. GILL. So, part of the problem arises out of what the bylaws of a given organization may provide, part of your decision arises out of what they provide?

Mr. YOUNG. That is correct.

Mr. GILL. Thank you.

Mr. ROOSEVELT. Mr. Pucinski.

Mr. PUCINSKI. Mr. Young, I know you do not have your records here, but could you give an estimate of what would be the premium per \$1,000 on a straight honesty bond?

Mr. YOUNG. Well, I am not evading the question, but the figure—I can't answer your question. I don't know exactly what the rate of premium would be.

Mr. PUCINSKI. Mr. Gibbons testified that they are now paying a premium of \$2.75 per thousand for their bond, which I presume is the premium set by the association because you said when you charged them you charged them the association premium. Would you then be able to venture an estimate? Would a straight honesty bond be substantially lower than \$2.75 the Teamsters are now paying for a faithful discharge bond?

Mr. YOUNG. Yes, sir.

Mr. PUCINSKI. When I use the word, "substantially" could you care to define it a little closer than that?

Mr. YOUNG. How much less premium would be paid?

Mr. PUCINSKI. Yes, sir.

Mr. YOUNG. It would be \$2.75 divided by 4. It would be 25 percent from \$2.75.

Mr. PUCINSKI. The honesty bond would be roughly 25 percent of what the Teamsters are now paying?

Mr. ROOSEVELT. Twenty-five percent lower.

Mr. YOUNG. Lower.

Mr. Congressman, I would like to make one point clear.

Mr. PUCINSKI. I wish you would clear this up for me.

Mr. YOUNG. With no intent to be evasive in what I am saying, we have a good many apples and a good many oranges and a good many bananas mixed up here in our various rating categories.

It is difficult for me to say what the rate would be because I don't know, frankly, how much liability falls within the faithful performance of duty, how much falls in the honesty category, or possibly how much of the liability is in the multiple liability category of risk.

Mr. PUCINSKI. Would you venture a guess as to whether or not a faithful performance bond for a fraternal organization which has specific bylaws, as you discussed with Mr. Gill a moment ago, would that rate per thousand be lower than the \$2.75 the Teamsters are now paying?

Mr. YOUNG. As I remember the rates, the labor union rates would be lower than what we have charged on the faithful performance for fraternal order forms.

Mr. PUCINSKI. Why would that be?

Mr. YOUNG. In rating processes, one of the factors is weight of premium and the size of bonds purchased by labor unions far exceed the size of bonds required by fraternal organizations.

Mr. PUCINSKI. In other words, then, if the fraternal were to buy as high a bond as the Teamsters, the fraternal bond actually might be lower than the Teamsters?

Mr. YOUNG. That is correct.

Mr. PUCINSKI. You have been here, I believe, most of the day.

Mr. YOUNG. I have, sir.

Mr. PUCINSKI. I have been having trouble understanding one thing, and I confess I do not know too much about the bonding business. I have been wondering if somebody, and perhaps you would be the right man to do this, would offer at least to me a concise opinion on why should there be such a large difference between the bond that a union has to buy now in 1963, per \$1,000, as contrasted to a simple, straight honesty bond that that same union purchased 4 years ago before the Landrum-Griffin bill was passed. As has been testified to here, 17 cents a thousand. What would make up this large difference based on your 32 years of experience in the bonding business?

Mr. ROOSEVELT. I do not want to preempt your answer, but I think the object of your answer is that what we did when we wrote this law is that we took the principle of what might be called trusteeship and faithful performance of a man who had all kinds of options and we applied that to the man who under ordinary circumstances would have none of these.

We asked the surety company who had the ordinary trustee-type operation. Nobody really knows what this means.

So you have a tremendous difference because you suddenly raised a man who ordinarily would be covered by a straight and ordinary honesty-type bond and you required that he be bonded on a trustee-ship principle.

Mr. PUCINSKI. Let the witness say if you are correct.

Assuming that one of the bonds that you wrote for one of these Teamster officials—assuming that one of these Teamster officials was tried and convicted for denying a member of his local a right to speak out at a meeting, and the member filed a complaint and carried the thing through. The Justice Department got a conviction and this man has now gone to jail for 3 years.

Would your bonding company pay a penny to that local?

Mr. YOUNG. No, sir. Our bond covers money or property of the local.

Mr. PUCINSKI. You would not pay a penny, but in arriving at the \$2.75-per-thousand rate, all of these things were taken into account because, as the chairman has tried to explain here, that man that you are now bonding is more than just a custodian of money; he is now a trustee, and the law has imposed all sorts of responsibilities on him, including the right of free speech for all his members, honest elections, honest nominations, and a lot of other things, filing extensive reports.

Am I correct that all of these things were taken into consideration when the actuaries sat down to arrive at the figure of \$2.75 per thousand that the labor people are now paying for the insurance?

Mr. YOUNG. No, sir; I would not expect them to take those contingencies into consideration. They would consider only those which would bear upon a possible loss under the bond, which would involve money or property of the union.

Mr. ROOSEVELT. I think the gentleman from Illinois is a little off base because he is bringing things into it which are certainly not

brought into it in the consideration of setting the rate, because he is talking about things that have no fiduciary relationship of any kind.

Mr. PUCINSKI. Exactly, Mr. Chairman, you are absolutely right. I agree with that.

But I am trying to find out, and I wish some member of this distinguished committee, including the coauthor of the bill, would explain to me, or the witness would explain to me, that before this law was passed a union could get a bond and if, on the basis of the fiduciary relationship that that union officer had with his membership he did something that caused money that belong to that union to be either illegally spent or embezzled or absconded with, or what have you, the bonding company paid that union the losses, it covered the losses, and—

Mr. ROOSEVELT. I think the weakness of the gentleman's argument is that he is using words not in that bond.

Mr. PUCINSKI. The bonding company charged 17 cents per thousand. I am trying to find out what has happened that has raised the rate to \$2.75 per thousand. Perhaps the witness can tell me.

Mr. ROOSEVELT. Mr. Young, I will give you one more chance to try to explain to the gentleman.

Mr. YOUNG. Mr. Chairman, I think you have explained the problem most eloquently yourself, if I may say so.

Mr. ROOSEVELT. It has not satisfied the gentleman from Illinois.

Mr. PUCINSKI. Would you please tell me, forgetting now about the words "faithful discharge," because these are the key words, what responsibility do you as a bonding company for the Teamsters have today in covering any possible illegal losses from the treasury of that union, what additional responsibilities do you have today that you would not have had 5 years ago had you written the same bond?

Mr. ROOSEVELT. The gentleman gave you the answer. He gave you a specific answer.

Mr. PUCINSKI. The gentleman has not spoken once.

The Chair has given me an answer.

Here is an expert, a man who has been in the business 32 years and a man who wrote the insurance on the Teamsters.

I would like to find out what is different today, in 1963, when he is charging the Teamsters or any other union \$2.75 per thousand, what is different today in 1963 than it was in 1958 for the same kind of a bond?

Mr. YOUNG. I think the difficulty is the faithful performance of duty provision.

Mr. PUCINSKI. Which duties?

Mr. YOUNG. On the part of the bonded officer.

Mr. PUCINSKI. Exactly, Mr. Witness. So what you are saying to me now is this: that while in 1958 you were concerned with only one thing, you were concerned when money disappeared from the treasury. It was your responsibility as a bonding company to restore the losses; is that correct?

Mr. YOUNG. No, sir; I cannot say that is correct.

Mr. PUCINSKI. Well, today, take a bank, you insure a bank.

Mr. YOUNG. We insure many banks.

Mr. PUCINSKI. And a teller goes south with \$200,000. Your responsibility as a bonding company is to restore the losses; is it not?

Mr. YOUNG. If it is covered under the bond, yes.

Mr. PUCINSKI. That is right. But now I suspect that what is happening, and this is what I have been trying to find out, and this is why I have been trying to find out what the words "faithful discharge" mean, is that you have to now take a vast number of other things into consideration in the conduct of that union officer. But if he does any of these things that you must take into consideration, such as denying a member the right to vote, or various other things, you have no responsibility, no dollarwise responsibility?

Mr. YOUNG. That is right.

Mr. PUCINSKI. So, Mr. Chairman, it has taken us a long time to get here but I submit that the very thing we have been talking about is the reason why these companies are now charging \$2.75, is because to play it safe, and I have no quarrel with them, I am amazed that they can keep their price down low, is because they have to take into account everything that has been written into this law, even though everything except the embezzlement or illegal removal of money from that union they have no responsibility for. But they take them all into consideration under the present language of the law.

Is that a fair conclusion, Mr. Witness?

Mr. YOUNG. That is a very lengthy question.

Mr. PUCINSKI. Is it a fair conclusion?

Mr. YOUNG. I can only get back to the statement I made earlier that in the particular instance in which we are interested we cut our cloth to suit the pattern at standard rates which we filed in each rating jurisdiction, and which were not unfairly discriminatory or excessive and had the approval of the State rating bodies.

Mr. PUCINSKI. I won't belabor this point any more, because you said the fee that you charge the Teamsters and other organizations was set by the association.

Mr. YOUNG. That is correct.

Mr. PUCINSKI. I certainly hope that when the witness for the association comes before this committee, he is going to be able to give some answers as to how they arrived at this tremendous difference between 17 cents a thousand and \$2.75 per thousand.

Mr. YOUNG. Mr. Chairman, I think you can understand my inability to answer your questions regarding rates from an actuarial standpoint as that is not one of my functions.

Mr. PUCINSKI. Mr. Young, you have been very helpful.

Mr. YOUNG. I hope so.

Mr. ROOSEVELT. Thank you very much, Mr. Young. We think the record is now clear.

The committee will stand adjourned, subject to the call of the Chair.

(Whereupon, at 5:10 p.m., the subcommittee recessed, subject to the call of the Chair.)

BONDING PROVISIONS OF FEDERAL LABOR LAWS

THURSDAY, OCTOBER 24, 1963

HOUSE OF REPRESENTATIVES,
GENERAL SUBCOMMITTEE ON LABOR OF THE
COMMITTEE OF EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 11:05 a.m., pursuant to call, in room 429, Cannon Building, Washington, D.C., Hon. James Roosevelt (chairman of the subcommittee) presiding.

Present: Representatives Roosevelt, Gill, Ayres, and Martin.

Also present: Jay H. Foreman, Jr., counsel; Ray Rodgers, minority counsel for labor; and Adrienne Fields, clerk.

Mr. ROOSEVELT. The committee will come to order, please.

The committee meets this morning to hear Mr. J. F. Fitzgerald, the secretary of the Surety Association of America.

I think the Chair should say that, of course, this is a continuation of the hearings on H.R. 4669, H.R. 4670, and H.R. 4671, to amend the Landrum-Griffin and Welfare Pension Plans Disclosure Acts. We have asked Mr. Fitzgerald to come to us to help us in an area in which we felt the record was not complete, and in which we wanted to get some specific answers to some questions which recognizing that we all are not experts in the insurance field, might prove of help to us.

Mr. Fitzgerald, would you come forward, sir? I understand, sir, that you have a prepared statement. Would you prefer to make that first—I notice it isn't too long—and then let us question you as we go along, or would you rather complete it and then have us question you?

Mr. FITZGERALD. Whichever you prefer. It makes no difference to me.

Mr. ROOSEVELT. All right, we will try not to interrupt you, but if something comes up that we just don't understand as you are going along, we will reserve the privilege to ask your forbearance to let us ask a question at that point.

STATEMENT OF JOHN F. FITZGERALD, SECRETARY, THE SURETY ASSOCIATION OF AMERICA, NEW YORK, N.Y.

Mr. ROOSEVELT. You go right ahead, sir.

Mr. FITZGERALD. Thank you, sir.

Mr. Chairman, members of the committee, I am John F. Fitzgerald, secretary of the Surety Association of America, which is a voluntary, nonprofit, unincorporated association of companies engaged in the business of suretyship and currently has 94 member companies, 50 subscriber companies, and 56 other companies purchasing its services;

the last mentioned are not obligated in any way to adopt or comply with the rules, forms, rates, and rating procedures of the association.

The surety association is licensed by the various States as a rating organization for the fidelity and surety business and it has been designated by the State insurance departments as statistical agent for fidelity, surety, guarantee, and forgery bonds.

In that capacity, it represents a total of 227 companies and has the statutory duty to gather for such insurance departments all loss and expense data and to make compilations thereof as required by law.

To avoid any confusion, it should be remembered that the Association of Casualty & Surety Companies represents the membership of the Surety Association of America on legislative matters and accordingly, this statement and any testimony given in connection therewith should not be deemed in any way to amend or modify the statement by the Association of Casualty & Surety Companies on the three bills which are the subject of this hearing.

The letter from the chairman of this subcommittee inviting me to testify and enclosing a series of questions to be answered was not received until yesterday, October 23, 1963, and consequently, there has been little time to engage in any research on the questions presented. If this statement is not as concise as we would all like it to be I hope I will have your indulgence.

Mr. ROOSEVELT. Mr. Fitzgerald, I think that the first thing we should do is consult the Post Office Department, and see why your letter didn't arrive. When was it postmarked, do you know?

Mr. FITZGERALD. No, I didn't see the envelope, actually. It is opened in the mail room, and I just received the letter, but it is stamped when it was received, and it was stamped yesterday.

Mr. ROOSEVELT. Well, it was sent considerably before that. I am sorry you didn't get it sooner.

Mr. FITZGERALD. The questions submitted to me referred to premium rates. It should be stated at the outset that the words "premium" and "rate" are words of art in the bonding business. There are substantial differences between a premium and a rate. The "premium" may be said to be the charge made to an insured for coverage under an insurance contract or bond and the "rate" is the charge for units of coverage or other rating factors applicable to the insured, the sum total of which makes up the premium for the risk.

This distinction is mentioned at the outset only because it may well be that the failure to recognize the difference between a premium and a rate is the cause of much of the confusion stemming from the reference in previous testimony to the charge of \$0.17 per \$1,000 prior to the enactment of the Labor-Management Reporting and Disclosure Act and the \$2.78 per \$1,000 thereafter.

It is inaccurate and incorrect to refer to blanket bond rates as a rate per \$1,000. In the procedures of the Surety Association of America rates for individual and schedule bonds are on a rate per \$1,000 basis and are on a graduated basis with the larger amounts of coverage having a lesser rate per \$1,000 than the smaller amounts of coverage.

However, in blanket bonding, due to the nature of the coverage, the rate is not established on a rate per \$1,000 basis but is based upon the form of coverage, the number and classification of employees

covered thereunder, the classification of the insured, the amount of coverage, and other factors.

RATEMAKING

In the rate regulatory statutes of the various States, the factors which must be taken into consideration in making rates are specifically set forth. A typical provision taken at random from the insurance laws of one of the States (sec. 205.05 of the Wisconsin Statutes as repealed and recreated by laws of 1961, ch. 354) reads as follows:

Section 205.05 Ratemaking

(1) All rates shall be made in accordance with the following:

(a) Due consideration shall be given to past and prospective loss experience within and outside this State, to catastrophe hazards if any, to a reasonable margin for underwriting profit and contingencies, to dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers, to past and prospective expenses both countrywide and those specially applicable to this State, and to all other relevant factors within and outside this State;

(b) Risks may be grouped by classifications for the establishment of rates and minimum premiums. Classification rates may be modified to produce rates for individual risks in accordance with rating plans which establish standard measuring variations in hazards or expense provisions, or both. Such standards may measure any difference among risks that can be demonstrated to have a probable effect upon losses or expenses;

(c) Rates shall not be excessive, inadequate, or unfairly discriminatory.

The rates and rating procedures for fidelity coverage are filed in all States by the Surety Association of America on behalf of its members and subscribers. However, one or more insurance departments may refuse to approve a filing or may require a modification of it in the State concerned.

RATES BEFORE AND AFTER L-G

The rates of the Surety Association of America for comparable coverage were the same after the adoption of the Labor-Management Reporting and Disclosure Act as they were before such act with one principal difference—prior to the adoption of this act, it was not customary to give faithful discharge of duty coverage to labor unions; thereafter, such coverage was mandatory and it was necessary to develop a form of coverage to comply with the requirements of the act and to rate it.

Accordingly, there were prepared and promulgated three special bonds for labor organizations: Labor organization bond, name schedule form; labor organization bond, position schedule form; and labor organization bond, consolidated form.

Rating by analogy is a recognized principle of ratemaking. Since the Surety Association of America had for many years given faithful performance of duty coverage to fraternal orders with a 50-percent surcharge for such coverage, the same rate was filed with State supervisory authorities for faithful discharge of duties coverage given to labor organizations required to be bonded by the act.

Mr. ROOSEVELT. If I may interrupt there so I understand that, what you say is that you didn't try to go through the whole process then, you just filed a 50-percent surcharge over the rate that was already in effect for faithful discharge of duty coverage.

Mr. FITZGERALD. That is correct, sir. We had a rate for honesty coverage. We also had a rate for honesty coverage for fraternal

orders. In addition, in the fraternal order field, we had a surcharge over the honesty rate when faithful performance of duty coverage was given. This surcharge was 50 percent over the rate for honesty coverage.

We applied the same procedure to labor organizations. Since the adoption of the Labor-Management Reporting and Disclosure Act, Surety Association has had many conferences with the Department of Labor in an effort to be helpful in its administration of the bonding provision of the act and has also developed a liaison with the AFL-CIO.

As a result of meetings held with a committee of secretary-treasurers of the AFL-CIO, independent studies were conducted by the secretary-treasurers on this committee and by members of an advisory committee of the Surety Association of America. It was as a result of these studies that it was concluded that the surcharge for faithful discharge of duties coverage could reasonably be reduced from 50 percent to 25 percent. This change was made effective in October 1961.

Mr. ROOSEVELT. Did you also reduce it for fraternal organizations at the same time?

Mr. FITZGERALD. No, sir, we did not. However, subsequently, we have.

To avoid a violation of the statutory provision that rates may not be unfairly discriminatory, it is necessary that there be some surcharge for faithful discharge of duty coverage because such coverage provides protection for losses which would not be covered under a dishonesty bond. A 25-percent surcharge on the basis of our best judgment is reasonable and adequate and this surcharge has now been applied uniformly to such coverage given to fraternal orders, labor organizations, and public officials.

FAITHFUL DISCHARGE OF DUTY COVERAGE COMPARED WITH HONESTY COVERAGE

Faithful performance of duty coverage has been available for many years. While it may not be possible to predetermine precisely the application of faithful performance of duty coverage to a given situation, such coverage is not, therefore, so indeterminate that the nature of the coverage cannot be understood or an appropriate rate established for it. In my opinion, it is no more indefinite or uncertain than insurance based upon negligence or legal liability.

The courts have defined the failure to perform duties as "anything which the law does not excuse." There are a multiplicity of cases largely in the public official area applying the duty to faithfully perform to varying circumstances and this whole body of law is available to companies and to labor organizations in order to determine the application of faithful discharge of duty coverage to specific circumstances.

Perhaps one or two examples would help to clarify the application of this coverage to situations in which dishonesty is not involved. For example, a secretary-treasurer of a labor organization is by constitutional provision made personally responsible for the funds and other property of the union. A subordinate of the secretary-treasurer causes loss through dishonesty.

The secretary-treasurer is liable under the faithful discharge of duty requirement for the acts of his subordinates by reason of the duties imposed upon him by the constitution and therefore, recovery could be had under his bond for his failure faithfully to discharge his duties even though he was not personally dishonest.

Another instance—a secretary-treasurer leaves money belonging to the union in his desk overnight. In the morning the money is gone. Assuming that the regulations and procedures of the union required him to deposit this money in the bank or to take other safeguarding measures, he would be responsible for the loss of this money under the faithful performance of duty requirement even though he was not dishonest in any way. The same would apply if the money were lost by reason of a fire in the building during the night or by any other catastrophe.

STATISTICS

Statistics are maintained by the Surety Association of America on the basis of codes assigned to various classes of bonds, classes of insured or nature of coverage. Statistical information is reported by companies using the services of the Surety Association as statistical agent and as stated previously, the Surety Association of America has a statutory duty to compile statistics and report them to the various State insurance departments as required by law.

These reports are available to the Department of Labor or any other governmental agency. It would merely duplicate the work already being done in a much more comprehensive manner to require the filing of special statistics with the Secretary of Labor.

Mr. ROOSEVELT. Mr. Fitzgerald, on that point, you do this voluntarily, now, upon their request, is that correct?

Mr. FITZGERALD. Yes, sir.

Mr. ROOSEVELT. However, there is no statutory requirement that you furnish copies to the Department of Labor?

Mr. FITZGERALD. No, sir.

Mr. ROOSEVELT. There would be no duplication if we simply required that of all copies of reports submitted to the State authorities, a copy be submitted to the Secretary of Labor. There would be no duplication there, would there?

Mr. FITZGERALD. It is my understanding that when we file these statistics with insurance departments, they are a matter of public record, and as a public record, would be available.

Mr. ROOSEVELT. Well, that is not my point. I don't want the Secretary of Labor to have to go to some State official and ask him for his copy. It would be much easier all the way around, and more direct, and would save money for the taxpayer, if in the making of the copies that you send to the State regulatory agencies, which you say are available anyhow, you were to send one to the Department of Labor. Any objection to that?

Mr. FITZGERALD. I would have no objection to that, sir.

Mr. ROOSEVELT. There would certainly be no duplication, except for the cost of the one extra copy that you are going to make, and that would be infinitesimal, wouldn't it?

Mr. FITZGERALD. The cost would not be prohibitive. In that area, the problem of cost comes into the picture in making special statistics for the Department of Labor.

Mr. ROOSEVELT. Right, so if we didn't ask for special statistics, but merely the same ones that you are sending to State authorities, the cost would be infinitesimal. We would even reduce that because obviously the Department of Labor doesn't need all of the reports. They need the ones they are specifically interested in, which have to do with labor unions, and I would presume that part of your breakdown of—let me use the correct word here—of classes of bond, classes of insured, that under classes of insured, certainly if you are writing them for labor unions that that would be a category, would it not?

Mr. FITZGERALD. We have classification experience and labor unions would be one of the categories.

Mr. ROOSEVELT. Right, so that if they are there anyhow, let's get it to the Secretary, I think is our point of view.

Mr. FITZGERALD. Yes, sir.

The comment that has been made now throws out of context my next comment in the memorandum, but if I may go back to the original bill requiring special statistics for the Department of Labor, the next comment is apropos to that.

Mr. ROOSEVELT. If I may comment in relation to that, I think part of that probably comes from our ignorance. That is part of the reason that we are happy to have you here, because we did not realize that there was in existence a breakdown which would be available on the basis of codes assigned to various classes of bonds, classes of insureds, and nature of coverage. As long as that is available, that is all basically that we want.

Mr. FITZGERALD. Yes, sir.

Returning to the memorandum, the additional expense could not be estimated at this time but whatever it is, it ultimately would have to be charged against the bonding costs paid by labor organizations and labor union welfare and pension plans.

For more than 50 years, the Towner Rating Bureau and its successor in ratemaking, the Surety Association of America, established rates and rating procedures with due consideration to the many relevant factors involved.

Despite the continuous studies being given to rates and rating procedures, the Surety Association of America for the past several years has been engaged in a greatly intensified study to develop improved procedures for the rating of mercantile fidelity risks which would include labor organizations and welfare and pension plans other than those established by financial institutions.

Recently, rate filings for such mercantile risks have been made in the various States and have been approved in all but three. The new rates and rating procedures are expected to result in very substantial reductions in bonding costs paid by labor organizations.

TREASURY DEPARTMENT QUALIFICATION

In the testimony before this committee, comment has been made concerning the Treasury Department qualifying amounts and the limiting effect such qualifications have on the number of companies qualified to write large risks. The maximum bond required by the Labor Management Reporting and Disclosure Act or by the Welfare and Pension Plans Disclosure Act is \$500,000.

It is my understanding that the qualifying amounts established by the Treasury Department relate to the net limit on any one risk which would mean the penal sum of the bond.

Thus, any company with a qualifying power of \$500,000 or more could write a bond which would comply with the maximum coverage required by these acts and would at the same time satisfy the Treasury Department's requirements.

Mr. ROOSEVELT. Well, let me get that straight. I don't think that's quite correct, because it might satisfy the Treasury Department's requirements if they had applied to get on the Treasury list. I mean, they don't automatically qualify just because they have a qualifying power of \$500,000. They must specifically ask to get on the Treasury list. Is that not correct?

Mr. FITZGERALD. I am assuming in this comment that the company is on the Treasury Department list, and that the company has a qualifying power of \$500,000 or more.

Mr. ROOSEVELT. Yes. Well, that is a little different. The implication here, though, is that any company would automatically qualify as being on the Treasury list which had a \$500,000-qualifying power. I don't think that is quite what you mean.

Mr. FITZGERALD. No, sir; that is not what I mean. I am assuming that the company is on the Treasury list, and has a qualifying power of \$500,000 or more.

Mr. ROOSEVELT. Right.

Mr. FITZGERALD. Any question concerning the correctness of this conclusion, if there be a question, should be resolved by the Secretary of the Treasury.

Gentlemen, that concludes my prepared statement. I will be happy to answer any question, if I can.

Mr. ROOSEVELT. Thank you, Mr. Fitzgerald. You certainly have helped.

Now I do have a number of questions. Perhaps some of the other members would like to inquire first.

Mr. GILL, do you want to inquire first?

Mr. GILL. Go ahead.

Mr. ROOSEVELT. Mr. Martin, do you want to inquire first?

Mr. MARTIN. You go ahead.

Mr. ROOSEVELT. My first question would deal with the—you give us the basis of ratemaking. You point out that this includes a blanket bond—

due to the nature of the coverage, rate is not established on a rate per thousand basis but is based upon the form of coverage, the number and classification of employees covered thereunder, classification of the insured, the amount of coverage, and other factors.

Now what are the other factors, under normal circumstances? That is a pretty broad phrase.

Mr. FITZGERALD. Well, one that occurs to me offhand, there might be a location charge for an insured which had a number of different locations. There might be an additional charge for locations.

Mr. ROOSEVELT. Let me ask you this: Would another factor be that a man had a bad reputation, a bad record, or something of that kind?

Mr. FITZGERALD. No, sir. That is not a matter of rating consideration. The underwriting consideration would determine whether or not it—the company would write a bond for an individual.

Mr. ROOSEVELT. That doesn't go into the rate.

Mr. FITZGERALD. That does not go into the rate. The rate presumes that the man is bondable.

Mr. ROOSEVELT. Is it possible for a company to add to the 25-percent surcharge on the basis of a finding that "We are willing to write it, but because we are worried about the reputation of the individuals covered, we think it has to carry a higher rate." Would they have to go and file a new rate with you, and then get that approved by the Commission?

Mr. FITZGERALD. There is a procedure in some of the States whereby a rate in excess of manual may be filed. This requires the consent of the insured, a letter addressed to the insurance department, stating the agreed premium which is in excess of manual, and that is all filed and approved.

There is a procedure for getting an excess of manual rate, but I have never heard of that being done on the basis of an individual's lack of integrity. If there is a question of integrity, the individual should not be bonded.

Mr. ROOSEVELT. Right.

However, in a position where, let's say, the Teamsters, to make it specific, found themselves unable at one point, without discussing the reasons, to get a renewal of their bond, it might have been possible for somebody to have said to them, "Well, we will bond you, but for a number of reasons that we won't specify, if you will agree to an additional surcharge, we will go through the necessary procedures to get that surcharge and then we will bond you."

Mr. FITZGERALD. That would be possible under these laws that I have mentioned in some of the States.

I might say, I have never heard of that being done except where the risk had a bad loss experience. I don't know whether the State might require a bad loss experience in order to justify the excess of manual rate.

Mr. ROOSEVELT. Thank you. Now the rates are uniform throughout the country, except—are they uniform? Or do you find different rates in different States?

Mr. FITZGERALD. We file the same rate in all States. There may be variations or State exceptions by reason of requirements laid down by various State insurance departments. Our effort is to make our rates uniform countrywide.

Mr. ROOSEVELT. So the power then rests, however, within the individual State to say, "Well, we don't approve of this, but if you charge 10 percent more, let's say, we will approve the rate for Iowa, or any State." They would have that power.

Mr. FITZGERALD. Yes, sir; a State has the power to require a modification.

Mr. ROOSEVELT. You see, what I am worried about is, it is a basic principle that I am talking about. We require under these acts a bond, but we have no control over the bonding situation. As you describe it, it substantially depends upon what the State commissioners decide. They have almost unlimited power over the requirement that we have insisted a union fulfill in order to be able to qualify under these Federal acts. The thing that bothers me, Mr. Fitzgerald, is I can think of one or two instances where a State could make it pretty rough for someone to fulfill the Federal statute, almost un-

reasonably, perhaps. The organization would have—they and the Federal Government would have—no recourse, that I can see at the present time, to require reasonableness in the final application of those rates.

Mr. MARTIN. Will the gentleman yield?

Mr. FITZGERALD. I have never known—

Mr. ROOSEVELT. Would you just wait a moment, sir? And I will be glad to yield.

What did you say?

Mr. FITZGERALD. I have never known an insurance department to take an unreasonable attitude, and certainly where—

Mr. ROOSEVELT. Well, you have three States now, you say, that haven't approved—

Mr. FITZGERALD. The new rating procedures.

Mr. ROOSEVELT (continuing). The new rating procedures.

Mr. FITZGERALD. But they have approved the old ones. The old ones are still in force in those States, and we have to go through the process of a hearing. I hope ultimately they will approve the new rates in all States, but we have hearings scheduled now in some of those States, and we hope that we will get approval without a hearing in some.

Mr. ROOSEVELT. But there is no assurance of that. In other words, the leeway, the possibility is still there. I hope you are right, that it has never been misused, but the possibility is certainly there.

I yield to my colleague from Nebraska. I just came back from Nebraska. It is a lovely State.

Mr. MARTIN. Thank you.

Mr. FITZGERALD, in regard to this line of questioning, do you know of any States that have arbitrarily approved exorbitant rates in regard to bonds for the unions in the country?

Mr. FITZGERALD. No, sir. Under statutory requirements, it is required that rates be adequate, and not excessive, and not unfairly discriminatory, and that is a statutory requirement, which is fairly uniform in all States.

Mr. MARTIN. And on page 2 here, under "Ratemaking," you quoted as a typical example, the ratemaking provisions of the laws of Wisconsin, which seem to be fair and protect all interests involved in this thing, and that is typical, as I understand it, of most of the other States in the Union. Is that correct?

Mr. FITZGERALD. Yes, sir, I believe it is a typical statute.

Mr. MARTIN. So I don't think we have this problem, Mr. Chairman, that you are concerned about, because I think the State insurance directors are honorable men, and from experience and testimony have done a fine job in looking into all facets of ratemaking to protect all the interests involved.

Mr. ROOSEVELT. Let's explore it a little further before we reach that all-sweeping conclusion. The gentleman may be right, but there are a number of other things that I would want to be satisfied about before I would agree with him.

How often are the rates reviewed?

Mr. FITZGERALD. So far as labor organizations and welfare, and pension plans are concerned, they literally have been under constant review ever since the adoption of the Labor Management Reporting and Disclosure Act.

Mr. ROOSEVELT. I don't mean that. Is there any statutory requirement that they are periodically reviewed?

Mr. FITZGERALD. There is no statutory requirement imposing upon us the obligation to review a rate at any given time, but we as a rating organization are subject to examination by the State insurance departments once every 5 years, so that our whole operation and procedures are reviewed by the States, usually in a convention or invitational examination, by two or more States, which is then accepted by all States as being adequate for their purposes. We are currently undergoing an examination by the State of New York with California participating.

Mr. ROOSEVELT. What you are saying is that at least once every 5 years there is an automatic review, but except for that, there is no automatic statutory review. Now you also state in your opening remarks that in the capacity which the States have granted you to act as their statistical agent, you collect and gather for insurance departments all loss-and-expenses data, and you make compilations thereof as required by law.

Assuming that the loss-and-expense data showed that, let's say, there was less loss than had originally been used as a basis or as a part of the basis of making the rate—where in the process is there a requirement that there then be a revision of the rate?

Mr. FITZGERALD. There is no statutory requirement. However, it—the States are under obligation to have all rates adequate and not excessive, and not unfairly discriminatory, and if there is a disproportion in the rating procedures, these are undoubtedly brought to our attention by the supervisory authorities for corrective measures.

Now along that line—

Mr. ROOSEVELT. But this is a hit or miss thing. There is no set time that the assured, for instance, can come in and say, "Look, last year, the last 3 years, my loss ratio has been negligible. I want a revision in my rate."

Is there any set procedure through which this can be accomplished?

Mr. FITZGERALD. In ratemaking, it is necessary to have a large body of premium in order to have any credible statistics at all, so that an individual insured, or the rate on an individual risk would never be the subject for a rate revision. Theoretically, at least, the problem of a particular insured is taken into consideration in the experience rating of the risk. In other words, if the experience has been good, they get a reduction in premium by reason of good experience.

Mr. ROOSEVELT. What do you mean, "theoretically, at least?"

Mr. FITZGERALD. The experience rating applies to a given risk, to the circumstances of a given risk, rather than to change a whole rate structure by reason of the circumstances of a given risk.

Mr. ROOSEVELT. Now who makes that? You, in the association?

Mr. FITZGERALD. The Surety Association has promulgated experience rating procedures which are applied, and which are filed, with the various States for application. They are mandatorily applied where required.

Mr. ROOSEVELT. But then who follows them through? Does the company at the request of the assured?

Is it forced to follow these procedures in order to acquire a better experience rating?

Mr. FITZGERALD. The companies under the requirements of the State rating regulatory laws are required to charge the premiums in accordance with the filings that have been made on behalf of that company. Included would be the experience rating plan.

Mr. ROOSEVELT. But you still haven't answered my question. Suppose that as an official I feel that the union's record has been tremendous, and that you haven't given it the experience rating which you have charged against me a sufficient weight to the actual experience. How do I go about getting a hearing?

Mr. FITZGERALD. I know of no situation that has ever arisen, but—

Mr. ROOSEVELT. What you are saying to me is you don't know of any way in which I could do it?

Mr. FITZGERALD. No, not quite, sir, if I may say so.

Mr. ROOSEVELT. Well, then, tell me how I could do it. I don't care if it has arisen or not. I want to know how I could do it.

Mr. FITZGERALD. Any insured would also have the right to go to an insurance department and question the propriety of the rate and the insurance department would then take it up with the filing authority, so there is recourse, but again, it comes to a question of rating and individual risk rather than rating the business as a whole.

Mr. ROOSEVELT. But he would do this in 50 instances, and there is no assurance there from the statutory point of view that he has any right to demand this. Anybody can turn him down cold and say, "Thanks very much, we think things are all right just as they are." He has really no standing, does he? As a matter of right. It may work out that he goes to the State Department in New York, and they are very nice about it, and they go over it with him. This is a sort of a nice thing that they do if they feel like it.

Mr. MARTIN. Will the gentleman yield?

Mr. ROOSEVELT. Yes.

Mr. MARTIN. In regard to that, that would create an untenable and impossible situation, I believe, Mr. Chairman, because if you are going to allow individuals, individual businesses or unions, whichever it might be, to complain about their particular rates because they have had a history of no losses over the last year or the last few years, you create an impossible situation.

For instance, I am in the retail lumber business in Nebraska. There are 500-some retail lumberyards. I perhaps haven't had a loss for say, 5 years, and under this kind of a proposition, if you want to provide for individuals to go in and complain about the rate because they haven't had losses, I could go in and 500 other retail lumbermen in Nebraska could do the same thing, and you would have a multiplicity of this problem, greatly multiplied throughout the entire country with all of the State insurance directors. It is just a situation that you can't do. I agree completely with Mr. Fitzgerald, that you have to—

Mr. ROOSEVELT. My good friend, you astound me. On Davis-Bacon you have insisted that judicial review be given to each and every contractor across the United States. And now you tell me that a fellow who is paying a substantial amount of money—\$750,000 in one of the cases before us—that he has no right to do this.

Mr. MARTIN. It is not comparable situation. You have to look, as Mr. Fitzgerald stated, at the overall picture of all the money coming in, being paid in under the rates prescribed by the State insurance structure in that particular field.

Mr. ROOSEVELT. Well, if that is true, then why is there experience rating?

Mr. MARTIN. They base their expense rating——

Mr. ROOSEVELT. On the individual risk.

Mr. MARTIN. On the toto of all those involved in that particular industry.

Mr. ROOSEVELT. No, they don't, they set the rate on the basis of the toto, and then the individual experience rating applies to the individual company concerned or risk concerned.

Now if you are going to give him an individual experience rating at all, then certainly he has some rights in it. If what you say is true that it is all on the overall average, then there should never be any question of an individual experience rating. The logic just isn't there, my good friend.

Mr. MARTIN. I don't think you can base it on individual experience rating.

Mr. ROOSEVELT. Then why do they try? Then you convince them to change the way they do it.

Mr. MARTIN. I think we have got to do it the way Mr. Fitzgerald has testified they do it.

Mr. ROOSEVELT. No, he has testified that they do have individual experience rating.

Mr. MARTIN. What is your comment, Mr. Fitzgerald?

Mr. FITZGERALD. My comment was that the experience rating plan applies to the loss experience of a particular insured.

Mr. ROOSEVELT. Well, stop right there.

Would you please read that back to Mr. Martin, those exact words? (The record was read.)

Mr. FITZGERALD. If I may go on.

Mr. ROOSEVELT. Yes.

Mr. FITZGERALD. This applies to all insureds.

Mr. ROOSEVELT. Yes; of course.

I am not asking that it apply to a few. I want it to apply to everybody.

Mr. FITZGERALD. That is right. It applies to all insureds, in accordance with their experience.

Mr. ROOSEVELT. Now Mr. Fitzgerald, this is what happens, isn't it? Because I know something about this business.

You set a rate, based upon the overall picture of the particular category and the other factors that you have mentioned. Now when you have set that, you also recognize that there are good and bad risks, and that therefore there has to be a little leeway as to where you charge a little more because of bad loss experience, or where you give a little less, because of good loss experience, and that is why you have experience rating in individual cases, isn't it?

Mr. FITZGERALD. We have experience rating in order to recognize the good experience of certain insureds and the bad experience of other insureds, and in an effort to equalize——

Mr. ROOSEVELT. Right. Now that covers the point, and all I have said is that this now, of course, be firmly established as the case, that then you have brought the individual into it in a way in which he, in my opinion, has some rights. Now the gentleman may say he has no rights. That is a different matter.

Mr. MARTIN. Certainly he is brought in on an individual basis, but they add up all of the individual bases in one particular field and average them out in setting a rate, just the same as they do with automobile insurance, or any other branch of insurance.

Mr. ROOSEVELT. That is the basic rate, and then you vary from it.

Mr. FITZGERALD. May I state that in the statistics that we receive, we get the net premiums which would be the premiums written after the application of experience rating.

In other words, we don't get gross premiums without experience rating. We get the premiums to which experience rating has been applied.

Mr. ROOSEVELT. Right.

Mr. Fitzgerald, you make these reports in your statistical capacity to the various insurance departments, and they include all loss and expense data, and they are broken down by category. Do you state that they are public documents after they are filed?

Mr. FITZGERALD. Yes, sir.

Mr. ROOSEVELT. Would you please furnish to this committee at your earliest opportunity the breakdown of those reports for labor unions in the categories that are now under statutory requirements for those labor unions under the acts which we are discussing here?

Mr. FITZGERALD. Yes, sir; we would be very happy to furnish you with that information.

Following are copies of the classification experience for fidelity bonds issued to labor organizations and labor union welfare and pension plans for the calendar years 1960 and 1961. In the compilations furnished to insurance departments, reference is made merely to code numbers, and it is necessary then to obtain, from the rate manual, the classifications to which the code numbers apply. In an effort to be helpful, I have described in the attached compilations the character of bonds to which each of the codes applies. I hope that this will be self-explanatory, but if there are any questions with respect thereto, please do not hesitate to call upon us for amplification.

Classification experience, all companies, fidelity bonds issued to labor organizations and labor union welfare and pension plans

CALENDAR YEAR 1960

Class code	Premiums ¹	Losses ²	Loss ratio
Individual and schedule bonds covering railroad, telegraph, telephone, and railway mail employees not classified fraternal and beneficial orders:			
67. Local unions—Honesty coverage.....	\$6,585	\$7,552	114.7
68. Local unions—Faithful performance coverage.....	13,313	160	1.2
69. National-international—Honesty coverage.....	7,416	86	3.1
70. National-international—Faithful performance coverage.....	11,957	2,663	22.3
Individual and schedule bonds covering all trade organizations of wage earners except railroad, telegraph, and telephone and railway mail employees:			
71. Local unions—Honest coverage.....	100,379	1,657	1.7
72. Local unions—Faithful performance coverage.....	167,962	13,401	8.0
73. National-international—Honesty coverage.....	35,245	15,164	
74. National-international—Faithful performance coverage.....	160,706	14,888	9.3
Blanket bonds honesty coverage—Local unions only:			
771. Blanket position bond.....	2,468	85	3.2
871. Commercial blanket bond.....	1,018	4,000	392.9
971. Blanket crime policy.....	254	504	198.4
Blanket, faithful performance coverage—Local unions only:			
772. Blanket position bond.....	390,469	18,249	4.7
872. Commercial blanket bond.....	3,196	327	3.8
972. Blanket crime policy.....	2,325	351	32.2

Classification experience, all companies, fidelity bonds issued to labor organizations and labor union welfare and pension plans—Continued

CALENDAR YEAR 1960—Continued

Class code	Premiums ¹	Losses ²	Loss ratio
Blanket, honesty coverage—National and international unions, including locals:			
773. Blanket position bond.....	\$1,712		
873. Commercial blanket bond.....	1		
973. Blanket crime policy.....			
Blanket, faithful performance coverage—National-international unions, including locals:			
774. Blanket position bond.....	723,520	\$33,332	4.6
874. Commercial blanket bond.....	3,564	³ 457	³ 12.8
974. Blanket crime policy.....	3,218	³ 4	³ 1.1
Blanket bonds, honesty coverage for labor union welfare and pension plans and trusts:			
775. Blanket position bond.....	22,763	³ 6	
875. Commercial blanket bond.....	4,846	450	9.3
975. Blanket crime policy.....	³ 59		
Blanket, faithful performance coverage—Labor union welfare and pension plans and trusts:			
776. Blanket position bond.....	452,863	70	
876. Commercial blanket bond.....	6,613	³ 1,170	³ 17.7
976. Blanket crime policy.....	2,752	³ 109	³ 4.0

CALENDAR YEAR 1961

Individual and schedule bonds covering railroad, telegraph, telephone, and railway mail employees not classified fraternal and beneficial orders:			
67. Local unions—Honesty coverage.....	\$5,391	\$1,904	35.3
68. Local unions—Faithful performance coverage.....	8,140	1,175	14.4
69. National-international—Honesty coverage.....	5,892	216	3.7
70. National-international—Faithful performance coverage.....	6,299	4,510	71.6
Individual and schedule bonds covering all trade organizations of wage earners except railroad, telegraph, and telephone and railway mail employees:			
71. Local unions—Honesty coverage.....	87,385	³ 21,648	³ 24.8
72. Local unions—Faithful performance coverage.....	126,982	16,674	13.1
73. National-international—Honesty coverage.....	3,836	3,990	
74. National-international—Faithful performance coverage.....	118,580	26,906	22.7
Blanket bonds honesty coverage—Local unions only:			
771. Blanket position bond.....	2,226	3,660	164.4
871. Commercial blanket bond.....	1,105		
971. Blanket crime policy.....	³ 872	4,637	
Blanket, faithful performance coverage—Local unions only:			
772. Blanket position bond.....	346,392	67,830	19.6
872. Commercial blanket bond.....	10,227	45,056	440.6
972. Blanket crime policy.....	10,651	21,922	205.8
Blanket, honesty coverage—National and international unions, including locals:			
773. Blanket position bond.....	4,485	725	16.2
873. Commercial blanket bond.....	³ 3,475	50	
973. Blanket crime policy.....			
Blanket, faithful performance coverage—National and international unions, including locals:			
774. Blanket position bond.....	706,878	184,433	26.1
874. Commercial blanket bond.....	260,776	³ 1,278	³ 5
974. Blanket crime policy.....	2,714	609	22.4
Blanket bonds, honesty coverage for labor union welfare and pension plans and trusts:			
775. Blanket position bond.....	13,953		
875. Commercial blanket bond.....	6,275	³ 499	³ 8.0
975. Blanket crime policy.....	³ 59	43,039	
Blanket, faithful performance coverage—Labor union welfare and pension plans and trusts:			
776. Blanket position bond.....	565,346	8,706	1.5
876. Commercial blanket bond.....	7,213	³ 3,088	³ 42.8
976. Blanket crime policy.....	7,253		

¹ Gross direct premiums written less cancellation and return premiums.

² Net losses incurred including claim and salvage expense.

³ Credit.

NOTE.—Statistics for individual or schedule bonds on both honesty and faithful performance forms covering labor union welfare and pension plans and trusts are included in the statistics for benevolent and charitable organizations and other similar organizations.

Mr. ROOSEVELT. I think that will be of great assistance to us.

Mr. FITZGERALD. If I may just say, we do not have the classification experience yet for 1962, so that the latest classification experience we have would be for the calendar year 1961.

Mr. ROOSEVELT. When will you have it for 1962?

Mr. FITZGERALD. Usually, it is out in November, but we have had so many problems in connection with the changeover of our rating procedures for mercantile fidelity risks that it may be a little delayed this year.

Mr. ROOSEVELT. Well, now, why did you have such a tremendous problem in changeover from your ratings when you tell me that all these things were already well established, that all you did was to reduce to 25 percent the surcharge you were applying to fraternal orders? What suddenly required all this tremendous changeover?

Mr. FITZGERALD. As I have testified in the prepared statement, we have recently revised all our blanket bond rates for mercantile establishments, and have made filings in all States, and have obtained approvals in all but three.

Mr. ROOSEVELT. Have those gone into effect?

Mr. FITZGERALD. They are in effect in all but three States, yes, sir.

Mr. ROOSEVELT. But when did they go into effect? In the year 1963—or—

Mr. FITZGERALD. Yes, sir, in this year.

Mr. ROOSEVELT. This year?

Mr. FITZGERALD. We made our filings originally as of June 5, if I recall correctly, June 5, 1963.

Mr. ROOSEVELT. So they would not affect the experience of 1962?

Mr. FITZGERALD. No; it is a question of compiling these statistics.

Mr. ROOSEVELT. I see; it is just a question of your internal manpower situation?

Mr. FITZGERALD. Yes, sir.

Mr. ROOSEVELT. OK.

Now we are correct, are we not, that where there is a recovery by the union from a surety or faithful performance bond—could you describe to us what I would call a subrogation right, the difference, if there is any difference, between the faithful performance bond and the honesty bond?

Mr. FITZGERALD. Insofar as subrogation is concerned, I would see no difference between a faithful discharge of duty coverage and an honesty coverage. The basic purpose of a fidelity bond is to protect the insured for specified acts of an employee. Now the employee is primarily responsible so that there would be subrogation or recourse to the employee under normal legal procedures.

Mr. ROOSEVELT. And the normal procedure is to attempt to make that recovery; is it not?

Mr. FITZGERALD. Yes, sir.

Mr. ROOSEVELT. And whatever the recovery is, is this included in your eventual loss ratio figures?

Mr. FITZGERALD. Losses are reported by us on a net basis; that is, less salvage that has been collected.

Mr. ROOSEVELT. In the report is it broken down as to what part of that net figure is arrived at by the recovery figure?

Is there any way to know how much the recovery is?

Mr. FITZGERALD. No, sir.

Mr. ROOSEVELT. No way to know?

Mr. FITZGERALD. We receive—my understanding is that in our classification loss experience, we report on a net basis. In other words, we report losses less salvage. However, we obtain separate salvage statistics from companies for which we act as statistical agent.

Mr. ROOSEVELT. You see, again my point is that suppose you have an assured, and you have a loss under the bond, and let's say it is \$5,000; then inside of a reasonable period of time, you collect back the \$5,000 less the expense that it took to get it back. The true loss ratio would be considerably affected; wouldn't it?

Mr. FITZGERALD. That is right.

Mr. ROOSEVELT. And it would seem to me to be rather important that somewhere you would be able to make sure that that had been properly taken into consideration. How does he do it?

Mr. FITZGERALD. Well, on the individual risk, it would be taken into consideration.

Mr. ROOSEVELT. On the individual risk, it would be considered.

Mr. FITZGERALD. That is right.

Mr. ROOSEVELT. How does the assured know that? Does he get a copy of this?

Mr. FITZGERALD. Insured doesn't get a copy of any report such as this; no. He would know it because he would be involved in it. It would be his employee. He would have personal knowledge of this whole situation.

Mr. ROOSEVELT. Yes, but how would he know whether you put it into your figures when you filed your reports with the department?

Mr. FITZGERALD. I think he would have to depend upon the department in that area.

Mr. ROOSEVELT. He is under those 50 departments. He has got himself into a—talk about the difficulty of getting on to home base with the Government, I know of no more difficult problem than has been described.

Mr. FITZGERALD. But this is the procedure that has been established by law. This is recognized in Public Law 15, and we have to comply with the requirements as they are set up by the States and by the Federal Government.

Mr. ROOSEVELT. That is what we are looking into, to see if we can't improve it.

An example was given to us the other day of a possible loss under a faithful performance bond, and I think you partly answered by the examples that you gave. If a faithful performance bond would go further in some areas, some of which are not perhaps completely ascertained, it would be an honesty bond; wouldn't it?

Mr. FITZGERALD. Faithful discharge of duty coverage goes beyond honesty.

Mr. ROOSEVELT. Right.

Mr. MARTIN. Will the gentleman yield for one question?

Mr. ROOSEVELT. Yes.

Mr. MARTIN. If the head of the union, or the treasurer—let's take an illustration—invested some union funds, well, we will say, in a gambling casino out in Las Vegas, and some of these funds were lost and dissipated, and the union was not able to recover them, under

faithful performance bond, would your people pay off in a case like that?

Mr. FITZGERALD. Every case has to be decided on its own merits and its own facts. I would not want to put myself up as the arbiter of the industry, to specify what loss would be paid and what loss would not be paid. I can only go on the basic principles that are involved, which relate to the failure of an official of a union to perform his duties faithfully. If this investment was a failure to perform faithfully as set forth in the constitution or regulations or the procedures of the organization, or as required by law, there would be a liability.

Mr. MARTIN. Well, would there be under a bond providing against fraud or dishonesty on the part of the treasurer of the union? Would it be covered under that type of a bond?

Mr. FITZGERALD. Conceivably; there could be coverage under certain circumstances. If this was part of a fraudulent scheme to deprive the union of its money or funds or assets, yes; it may be recoverable under dishonesty coverage. If it could be established that this was part of a fraudulent scheme.

Mr. ROOSEVELT. Let me ask you, where would this committee find the experience under the Landrum-Griffin Act, and any figures? We won't get it, I suppose, until your 1962 figures come in. But do you happen to have any information available which would show us since the requirement for a faithful performance or faithful discharge of duties bond has been required whether the loss experience has been any greater than it was under the honesty bond provisions?

Mr. FITZGERALD. We would have classified experience for the calendar year 1960 and 1961.

Mr. ROOSEVELT. You will in November have it for 1962?

Mr. FITZGERALD. We hope to have it, or at least shortly thereafter. It must be kept in mind that there have been changes since the Landrum-Griffin Act was passed.

In other words, that act originally covered welfare and pension plans or trusts in which a labor organization was interested. Now by reason of the adoption of the Welfare and Pension Plans Disclosure Act, those welfare and pension plans have been taken out from under Landrum-Griffin and have been put in under Welfare and Pension, and with the result that the multiple penalty feature is no longer required for them, the faithful discharge of duty is no longer required, and this creates a difference in specifics, and so we would question at this point the credibility of any statistics dealing with labor organizations under Landrum-Griffin or welfare and pension plans under the Welfare and Pension Plans Disclosure Act.

Mr. ROOSEVELT. But you still must know whether there is a sizeable loss figure under the so-called faithful performance bond.

Mr. FITZGERALD. And I am going to give you the statistics on that for 1960 and 1961.

Mr. ROOSEVELT. I hope that will be in a form—we may have to get you down here to interpret them for us. Make them as clear as you can, because you know what we are interested in, naturally, is the portion that applies to this hearing.

Mr. FITZGERALD. Yes, sir, I believe that they can be set forth so that they will be understandable without referring to code numbers and so forth.

Mr. ROOSEVELT. Good. Thank you.

Now as a result of the liaison which you have described, you have reduced the 50-percent surcharge by 50 percent, down to 25. Now what were the facts that induced you to do that? That the AFL-CIO brought out that induced you to do it?

Mr. FITZGERALD. As I stated, an independent survey was conducted by the AFL-CIO, by the secretary-treasurer on their committee, and at the same time, through the members on our advisory committee, we conducted a similar survey, and the purpose of that was to find out how many of these claims that are being presented are being presented on the faithful discharge of duty feature, or do they involve dishonesty. The information that was collected—and this was a very, very informal survey—was to the effect that most of the claims that were being presented involved dishonesty. As a result, we felt that we could safely reduce the charge, and we did.

Mr. ROOSEVELT. In other words, you were satisfied—and I want the record to be very clear on this—you were satisfied that the vast majority of the claims being made were dishonesty claims?

Mr. FITZGERALD. Yes, sir.

Mr. ROOSEVELT. And therefore somewhat supporting the judgment of those who say that the real thing that we have to protect here, can be reached through a dishonesty bond because even when we broaden its features, we still come up with the majority of the claims or the important ones being of a dishonesty character. Is that not right?

Mr. FITZGERALD. The survey we conducted would indicate that that was so at that time. Whether that will always be true, I don't know.

Mr. ROOSEVELT. Have you got any indications that would lead you to any other conclusion at this time?

Mr. FITZGERALD. I have had comment from some of the companies to the effect that the claims being presented are presented on the faithful discharge of duties basis, but when the investigation is conducted, the investigation indicates that dishonesty is involved.

Now whether or not any of these claims turn out to be true faithful discharge of duty coverage, I am not prepared to state at this time.

Mr. ROOSEVELT. The witness would tend to support the original statement, I think.

Now the statement has been made that the 1958 Teamsters honesty bond cost them 17 cents a thousand dollars, and that the 1963 bond, which was not a straight honesty bond, cost them \$2.78 a thousand. Now the increase from 1958 to 1963, according to my understanding, then, must be based upon factors, I suppose, primarily due to the increase in the loss ratio in this area.

Now, specifically, I want to ask you to give to the committee why or what your reports to the State commissioners show justified the increase from 17 cents to \$2.78. If the \$2.78 figure reflects a 50-percent surcharge or a 25-percent surcharge, take it out, but it still shows a tremendous increase. We would like to know upon what this was based, so we have some idea in this category why there is this tremendous increased cost in the last 5-year period.

Mr. FITZGERALD. As I pointed out or tried to point out in my original statement, blanket bond rates are not on a per thousand basis, a rate per thousand basis. They involve many other factors. And the only conclusion that I can come to concerning this figure of \$2.78—it is not a figure that we ever put out. It is probable a conversion of a premium on some basis in order to have it stated on a dollar per thousand basis. I don't know what conversion factors may have been used or how it was arrived at.

Mr. ROOSEVELT. Well, I can tell you. It is very simple, they figure it on the basis of a thousand dollars of coverage that they were forced to buy. They do buy it on the basis of coverage. Total amount then that they could collect back. Isn't that correct?

Mr. FITZGERALD. The premium factors are not on a——

Mr. ROOSEVELT. I didn't say the premium factors. I said the bond is written on the basis of what the assured can get back, so he knows \$500,000, \$25,000, \$50,000, or what ever it may be, and he totals it all up, and says, "I have this amount of coverage in these different areas," and he can quickly break it down as to what the cost to him per thousand is.

You may not determine your premium on that basis, because that as you have described it isn't the way they do it. But this is naturally the way that he determines what the cost to him of the insurance per the amount that he can recover is based.

Mr. FITZGERALD. I would question the validity of that type of approach in this area.

Mr. ROOSEVELT. Well, let me put it the other way, then. Has there been any increase in the rates, based on the way you make the rates, between 1958 and 1963?

Mr. FITZGERALD. None at all.

Mr. ROOSEVELT. None at all?

Mr. FITZGERALD. None at all, except as I stated that we did not have faithful discharge of duty.

Mr. ROOSEVELT. Except for the surcharge.

Mr. FITZGERALD. Except for the surcharge.

Mr. ROOSEVELT. In other words, you are saying that the cost of the insurance to the assured is the same as it was before, except for the surcharge, and you are talking now about lowering it. Is that right?

Mr. FITZGERALD. Yes, sir.

Mr. ROOSEVELT. Now I think we would like to therefore see these particular categories, see the breakdown in the filing of the rates with the commissioners during this period, and any changes that have been made, to substantiate that statement.

Mr. FITZGERALD. I will be glad to submit them to you.

(Mr. Roosevelt requested copies of our rate filings with insurance departments prior to and after the adoption of the Labor-Management Reporting and Disclosure Act. In compliance, we enclose herewith copies of the following:)

1. Manual page F-81 and F-82 as revised to September 14, 1953, and as subsequently revised to April 25, 1960, and October 4, 1961,

and manual pages F-51 and F-52 as revised to June 5, 1963, which contain current rates comparable to those on pages F-81 and F-82;

2. Manual page F-40 as revised to September 15, 1947; April 25, 1960; October 4, 1961, and June 5, 1963, setting forth classified rate table No. 5 since this is the rate table referred to on manual pages F-81 and F-82;

3. Manual pages F-25 to F-30 inclusive, setting forth the basic rates in effect prior to the revision of June 5, 1963, for a blanket position bond or commercial blanket bond (the reference to option A or option B of the CDDD policy is merely a reference to the coverage in a comprehensive dishonesty, disappearance and destruction policy insuring agreement I of which corresponds to the coverage given under a blanket position bond or commercial blanket bond, as the case may be);

4. Manual pages ME-15 to ME-20 inclusive and ME-46 to ME-54 inclusive. These pages set forth the blanket bond premiums under the rate revision of June 5, 1963.

With respect to item 3 above, the rate pages attached do not set forth all the rates and rating procedures which apply but it is hoped that they will be sufficient for your purposes. It should also be remembered that under the rating procedures in effect prior to the revision of June 5, 1963, there were separate charges for each elected official of local unions ranging from \$7.50 for coverage in the amount of \$2,500 to \$55 for coverage in the amount of \$100,000. These separate charges for elected officials have been eliminated in the rate revision of June 5, 1963. In addition, under the rates and rating procedures as revised to June 5, 1963, the experience rating plan has been improved and it now includes an underwriting table under which credits or debits are available to an insured on the basis of its audit procedures, internal controls, management and personnel, and unique or unusual conditions of exposure or hazard.

With respect to item 4, it should also be noted that the rates are set forth on a 3-year term basis whereas the rates prior to June 5, 1963, were on an annual basis.

I hope the enclosures will be sufficient to demonstrate the rates and rating procedures prior to the adoption of the Labor-Management Reporting and Disclosure Act and those in effect thereafter.

Revised September 14, 1953

F-81

Fidelity—Classified Lines

Column 1 is Rate per \$1,000 per annum; 2 is Annual Minimum;
3 is Annual Earned Minimum; 4 is Classification Code.

1. Kiwanis Clubs.

Classified Rate Table No. 5.

1	2	3	4
		Form A	56
		Form B	57
		BP	756
		PC	856
		EC	956

2. Labor Unions.

Any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work.

A. Individual or Schedule:

A1. Organizations of Railroad, Telegraph, Telephone and Railway Mail Employees not classified as Fraternal and Beneficial Orders.

All Officers and Employees of National, International or Local Unions:

Honesty Form (Form A).....	\$5.00	\$2.50	See
†Faithful Performance (Form B).....	7.50	3.75	Note
Schedule of \$1,000,000 and over:			
Honesty Form	3.75	1.85	
†Faithful Performance	5.63	2.80	

Note: Code for "Local" unions on Form "A" is 67; on Form "B"—68. Code for "National" and "International" unions on Form "A" is 69; on Form "B"—70.

A2. All Other Trade Organizations of Wage Earners.

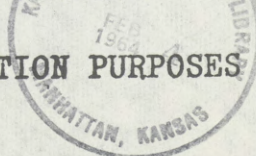
All Officers and Employees of National, and International Unions:

Honesty Form	7.50	7.50	—	73
†Faithful Performance	11.25	11.25	—	74
Local Unions—Officers and Employees:				
Honesty Form	7.50	3.75	—	71
★ †Faithful Performance	11.25	4.60	—	72

† The Surety shall not be liable in any way for the loss of funds or other personal property, for which any officer or employee is responsible to a Labor Union, through failure of any bank, trust company, building and loan association, or any other financial institution, or any other place where funds are deposited, notwithstanding any provision to the contrary in the Constitution and By Laws of a Labor Union.

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REMOVE ONLY TEMPORARILY FOR DUPLICATION PURPOSES



Revised September 14, 1953

F-82**Fidelity—Classified Lines**

Column 1 is Rate per \$1,000 per annum; 2 is Annual Minimum;
3 is Annual Earned Minimum; 4 is Classification Code.

1. Labor Unions—Cont'd.

	1	2	3	4
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- A3. Collectors, Shop Chairmen, Stewards or others collecting dues, (not applicable to bonds of President, Vice-President, Secretary, Treasurer, Deputy Organizer or other similar Officers or Employees of Local Unions).

Honesty Form:

Bonds of \$375 or less	\$10.00	\$1.00		
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Bonds over \$375	7.50	3.75		
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† Faithful Performance: Increase above rates and minimums 50%.

— 71

— 72

† See foot-note p. F-81.

- A4. Schedules of \$1,000,000. or more issued in favor of a National or International Labor Union where such organization has jurisdiction and power to and does award all or part of the bonds of the organization are eligible for experience rating. Where total corporate suretyship under these conditions is \$1,000,000. or more independent of coverage placed by subordinate or local unions such schedules must be submitted to the Association for separate rating.

B. Blanket—

BP 728

- B1. Local Unions — Each Local Separately Bonded—Basic rates plus 150% of Basic Premium for Class "A" employees.

PC 828

EC 928

- B2. National and International Unions *only*—Basic rates. There shall be attached to such bonds the Standard Rider by which "employees are limited to those who perform their principal duties at the home or head office and those who perform the duties of auditors and adjusters traveling out of such home or head office."

- ★ B3. *National and International Unions Including Local Unions Under a Single Blanket Bond*

Apply to Association for rates.

2. Laundries—Retail or Wholesale

Classified Rate Table No. 4.

Note—Blanket Bonds covering 1,000 or more Special Class "A" employees—Apply to Association.

In 94

Out 137

BP 794

PC 894

EC 994

Revised April 25, 1960

F-81

Fidelity—Classified Lines**1. Kiwanis Clubs.**

Classified Rate Table No. 5.

Codes—Form A-56, Form B-57, BP-756, PC 856, BCP-956

2. Labor Union Pension and Welfare Plans and Trusts.

Classified Rate Table No. 5 Codes—Officers & Employees—

Honesty—Ind. or Sched.-56, BP-775, CB-875, BCP-975

Faith. Perf.—Ind. or Sched.-150, BP-776, CB-876, BCP-976

3. Independent Professional Administrators of Labor Union Welfare Plans and Trusts—as Principals

Section A4—Rate Table No. 5

Code—Honesty-47, Faith Perf.-120

Labor Unions.

A. The following rules govern the application of the Individual or Schedule bond rates.

Where a National or International Union has jurisdiction and power to, and does award all or part of the bonds of the Union the total corporate fidelity suretyship which it places independently of that placed by subordinate or local jurisdictions determines the rate of that jurisdictional unit.

Where a Regional, District, State Body or Local Council has jurisdiction and power to, and does award all or part of the bonds of subordinate units of such body, the total corporate fidelity suretyship which it places independently all other jurisdictions determines the rate of that jurisdictional unit.

Where a local or subordinate body procures its own suretyship independently the National or International or other jurisdiction the amount of Suretyship placed by such local or subordinate body determines the rate of that jurisdictional unit.

Schedules of \$500,000 and over exclusive of any blanket bond liability must be submitted to the Association for separate rating.

1. All Trade Organizations of Wage Earners *except* Railroad, Telegraph, Telephone and Railway Mail Employees—

Faithful Performance of Duty Coverage

Individual or Schedule Liability per Jurisdictional Unit	Rate per M per Annum	Annual Minimum Per Person or Position at	
		Nat'l or Internat'l	State or Local
Up to but not \$ 5,000,000..	\$11.25	\$11.25	\$5.60
5,000,000 " " 7,500,000..	10.00	10.00	5.00
7,500,000 " " 15,000,000..	7.50	7.50	3.75
15,000,000 " " 25,000,000..	6.25	6.25	3.10
25,000,000 and over.....	5.00	5.00	2.50
Honesty Coverage			
Up to but not \$ 5,000,000..	\$ 7.50	\$ 7.50	\$3.75
5,000,000 " " 7,500,000..	6.65	6.65	3.30
7,500,000 " " 15,000,000..	5.00	5.00	2.50
15,000,000 " " 25,000,000..	4.15	4.15	2.50
25,000,000 and over.....	3.35	3.35	2.50

Code for "Local" unions on Honesty Form is 71; on Faithful Performance Form - 72. Code for "National or International" Unions on Honesty Form is 73; on Faithful Performance Form - 74.

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Revised April 25, 1960

F-82**Fidelity—Classified Lines****1. Labor Unions—Cont'd.****A2. Organizations of Railroad, Telegraph, Telephone and Railway Mail Employees not classified Fraternal and Beneficial Orders.**
Faithful Performance of Duty Coverage

Liability per Jurisdictional Unit Individual or Schedule	Rate per M per Annum	Annual Minimum per person or position
Up to but not \$1,000,000.....	\$7.50	\$3.75
\$1,000,000 " " 5,000,000.....	5.60	2.80
5,000,000 " " 7,500,000.....	5.00	2.50
7,500,000 and over.....	3.75	2.50
Honesty Coverage		
Up to but not \$1,000,000.....	\$5.00	\$2.50
\$1,000,000 " " 5,000,000.....	3.75	1.85
5,000,000 " " 7,500,000.....	3.30	1.65
7,500,000 and over.....	2.50	1.65

Code for "Local" unions on Honesty Form is 67; on Faithful Performance Form—68. Code for "National" and "International" unions on Honesty Form is 69; on Faithful Performance Form—70.

	Code	
	Honesty	Faith. Perf.
B1. Blanket — Honesty Form — Local	BP 771	BP 772
Unions — Each Local Separately	PC 871	PC 872
Bonded — Basic rates plus 50% of Basic Premium for Class "A" employees.	BCP 971	BCP 972

B2. Blanket—Faithful Performance Form—Increase premium for Class A and Class B employees under B1. by 50%.

	Code	
	Honesty	Faith. Perf.
B3. Blanket — Honesty Form — National and International Unions <i>only</i> — covering only "employees who perform their principal duties at the home or head office and those who perform the duties of auditors and adjusters traveling out of such home or head office."—Basic rates.	BP 773	BP 774
	PC 873	PC 874
	BCP 973	BCP 974

B4. Blanket—Faithful Performance Form—Increase premium for Class A and Class B employees under B3. by 50%.

	Code	
	Honesty	Faith. Perf.
* B5. National and International Unions Regions, Districts, State Bodies or Local Councils Including their Subordinate Local Unions Under a Single Blanket Bond	BP 773	BP 774
	PC 873	PC 874
	BCP 973	BCP 974

Apply to Association for rates.

3. Laundries—Retail or Wholesale**Classified Rate Table No. 4.**

Note—Blanket Bonds covering 1,000 or more Special Class "A" employees—Apply to Association.

Code
In 94
Out 137
BP 794
PC 894
EC 994

Revised October 4, 1961

F-81**Fidelity—Classified Lines****1. Kiwanis Clubs.**

Classified Rate Table No. 5.

Codes—Form A-56, Form B-57, BP-756, PC 856, BCP-956

2. Labor Union Pension and Welfare Plans and Trusts.

Classified Rate Table No. 5 Codes—Officers & Employees—

Honesty—Ind. or Sched.-56, BP-775, CB-875, BCP-975

Faith. Perf.—Ind. or Sched.-150, BP-776, CB-876, BCP-976

3. Independent Professional Administrators of Labor Union Welfare Plans and Trusts—as Principals

Section A4—Rate Table No. 5

Code—Honesty-47, Faith Perf.-120

4. Labor Unions.

A. The following rules govern the application of the Individual or Schedule bond rates.

Where a National or International Union has jurisdiction and power to, and does award all or part of the bonds of the Union the total corporate fidelity suretyship which it places independently of that placed by subordinate or local jurisdictions determines the rate.

Where a Regional, District, State Body or Local Council has jurisdiction and power to, and does award all or part of the bonds of subordinate units of such body, the total corporate fidelity suretyship which it places independently of all other jurisdictions determines the rate of that jurisdictional unit.

Where a local or subordinate body procures its own suretyship independently of the National or International or other jurisdiction the amount of Suretyship placed by such local or subordinate body determines the rate of that jurisdictional unit.

Schedules of \$500,000 and over exclusive of any blanket bond liability must be submitted to the Association for separate rating.

A1. All Trade Organizations of Wage Earners *except* Railroad, Telegraph, Telephone and Railway Mail Employees—

Faithful Performance of Duty Coverage

	Individual or Schedule Liability per Jurisdictional Unit	Rate per M per Annum	Annual Minimum Per Person or Position at	
			Nat'l or Internat'l	State or Local
★	Up to but not \$ 5,000,000..	\$9.40	\$9.40	\$4.70
★	\$ 5,000,000 " " 7,500,000..	8.30	8.30	4.15
★	7,500,000 " " 15,000,000..	6.25	6.25	3.10
★	15,000,000 " " 25,000,000..	5.20	5.20	2.60
★	25,000,000 and over.....	4.15	4.15	2.50
Honesty Coverage				
	Up to but not \$ 5,000,000..	\$ 7.50	\$ 7.50	\$3.75
	\$ 5,000,000 " " 7,500,000..	6.65	6.65	3.30
	7,500,000 " " 15,000,000..	5.00	5.00	2.50
	15,000,000 " " 25,000,000..	4.15	4.15	2.50
	25,000,000 and over.....	3.35	3.35	2.50

Code for "Local" unions on Honesty Form is 71; on Faithful Performance Form - 72. Code for "National or International" Unions on Honesty Form is 73; on Faithful Performance Form - 74.

Revised October 4, 1961

F-82**Fidelity—Classified Lines****1. Labor Unions—Cont'd.**

A2. Organizations of Railroad, Telegraph, Telephone and Railway
Mail Employees not classified Fraternal and Beneficial Orders.

Faithful Performance of Duty Coverage

Liability per Jurisdictional Unit Individual or Schedule	Rate per M per Annum	Annual Minimum per person or position
★ Up to but not \$1,000,000	\$6.25	\$3.10
★ \$1,000,000 " " 5,000,000	4.70	2.50
★ 5,000,000 " " 7,500,000	4.15	2.50
★ 7,500,000 and over	3.15	2.50

Honesty Coverage

Up to but not \$1,000,000	\$5.00	\$2.50
\$1,000,000 " " 5,000,000	3.75	1.85
5,000,000 " " 7,500,000	3.30	1.65
7,500,000 and over	2.50	1.65

Code for "Local" unions on Honesty Form is 67; on Faithful Performance Form—68. Code for "National" and "International" unions on Honesty Form is 69; on Faithful Performance Form—70.

	Honesty Code	Faith. Perf. Code
B1. Blanket—Honesty Form—Local Unions—Each Local Separately	BP 771 PC 871	BP 772 PC 872
Bonded—Basic rates plus 50% of Basic Premium for Class "A" employees.	BCP 971	BCP 972
B2. Blanket—Faithful Performance Form—Increase premium for Class A and Class B employees under B1. by 25%.		

	Honesty Code	Faith. Perf. Code
B3. Blanket—Honesty Form—National and International Unions <i>only</i> —covering only "employees who perform their principal duties at the home or head office and those who perform the duties of auditors and adjusters traveling out of such home or head office."—Basic rates.	BP 773 PC 873 BCP 973	BP 774 PC 874 BCP 974

★ B4. Blanket—Faithful Performance Form—Increase premium for Class A and Class B employees under B3. by 25%.		
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	Honesty Code	Faith. Perf. Code
B5. <i>National and International Unions, Regions, Districts, State Bodies or Local Councils Including their Subordinate Local Unions Under a Single Blanket Bond</i>	BP 773 PC 873 BCP 973	BP 774 PC 874 BCP 974

Apply to Association for rates.

2. Laundries—Retail or Wholesale

Classified Rate Table No. 4

Note—Blanket Bonds covering 1,000 or more Special Class "A" employees—Apply to Association.

Code
In 94
Out 137
BP 794
PC 894
EC 994

Revision of June 5, 1963.

F-51

Fidelity—Individual and Schedule Bonds Classified Lines

1. *Kiwanis Clubs.*

Classified Rate Table No. 5.
Codes—Form A-56, Form B-57

2. *Labor Union Pension and Welfare Plans and Trusts.*

Classified Rate Table No. 5
Codes—Officers & Employees—Honesty-56, Faith. Perf.-150

3. *Independent Professional Administrators of Labor Union Welfare Plans and Trusts—as Principals.*

Section 4—Rate Table No. 5
Code—Honesty-47, Faith. Perf.-120

4. *Labor Unions.*

a. The following rules govern the application of the Individual or Schedule bond rates.

Where a National or International Union has jurisdiction and power to, and does award all or part of the bonds of the Union the total corporate fidelity suretyship which it places independently of that placed by subordinate or local jurisdictions determines the rate.

Where a Regional, District, State Body or Local Council has jurisdiction and power to, and does award all or part of the bonds of subordinate units of such body, the total corporate fidelity suretyship which it places independently of all other jurisdictions determines the rate of that jurisdictional unit.

Where a local or subordinate body procures its own suretyship independently of the National or International or other jurisdiction the amount of Suretyship placed by such local or subordinate body determines the rate of that jurisdictional unit.

Schedules of \$500,000 and over exclusive of any blanket bond liability must be submitted to the Association for separate rating.

b. All Trade Organizations of Wage Earners *except* Railroad, Telegraph, Telephone and Railway Mail Employees—

Individual or Schedule Liability per Jurisdictional Unit Faithful Performance of Duty Coverage	Rate per M per Annum	Annual Minimum Per Person or position at	
		Nat'l or Internat'l	State or Local
Up to but not \$ 5,000,000....	\$9.40	\$9.40	\$4.70
\$ 5,000,000 " " 7,500,000....	8.30	8.30	4.15
7,500,000 " " 15,000,000....	6.25	6.25	3.10
15,000,000 " " 25,000,000....	5.20	5.20	2.60
25,000,000 and over.....	4.15	4.15	2.50
Honesty Coverage			
Up to but not \$ 5,000,000....	\$7.50	\$7.50	\$3.75
\$ 5,000,000 " " 7,500,000....	6.65	6.65	3.30
7,500,000 " " 15,000,000....	5.00	5.00	2.50
15,000,000 " " 25,000,000....	4.15	4.15	2.50
25,000,000 and over.....	3.35	3.35	2.50

Code for "Local" Unions on Honesty Form is 71; on Faithful Performance Form - 72. Code for "National or International" Unions on Honesty Form is 73; on Faithful Performance Form - 74.

Revision of June 5, 1963.

F-52

Fidelity—Individual and Schedule Bonds **Classified Lines**

1. Labor Unions—Cont'd.

- a. Organizations of Railroad, Telegraph, Telephone and Railway
Mail Employees not classified Fraternal and Beneficial Orders.

Liability per Jurisdictional Unit Individual or Schedule Faithful Performance of Duty Coverage	Rate per M per Annum	Annual Minimum per person or position
Up to but not \$1,000,000	\$6.25	\$3.10
\$1,000,000 " " 5,000,000	4.70	2.50
5,000,000 " " 7,500,000	4.15	2.50
7,500,000 and over	3.15	2.50
Honesty Coverage		
Up to but not \$1,000,000	\$5.00	\$2.50
\$1,000,000 " " 5,000,000	3.75	1.85
5,000,000 " " 7,500,000	3.30	1.65
7,500,000 and over	2.50	1.65

Code for "Local" unions on Honesty Form is 67; on Faithful Performance Form—68. Code for "National" and "International" unions on Honesty Form is 69; on Faithful Performance Form—70.

2. Laundries—Retail or Wholesale.

Classified Rate Table No. 4

Code
In 94
Out 137

3. Laundromats—Self-Service Laundries.

Individual or Schedule

If operating less than six locations—

Basic Rates

If operating six or more locations—

Sections 2 and 3.

Classified Rate Table No. 1.

In 94
Out 137

Revision of September 15, 1947.

F-40**Fidelity—Classified Lines****Classified Rate Table No. 5**

Column 1 is Rate per \$1,000 per annum; 2 is Annual Minimum

3 is Annual Earned Minimum

	1	2	3
A. Individual or Schedule			
A1. Officers and Bursars, Directors or Trustees	\$ 2.50	\$ 5.00	\$2.50
A2. Employees—(In determining volume add coverage on officers and apply minimums below to officers)			
★ Up to but not \$30,000.....	4.00	4.00	2.00
★ \$ 30,000 up to but not \$100,000.....	3.00	3.00	1.50
★ 100,000 up to but not 250,000.....	2.75	2.50	1.25
★ 250,000 and over	2.50	2.50	1.25
Schedules of \$100,000 and over must be submitted to Bureau for separate rating.			
A3. Faithful Performance: Increase above rates and Minimums 50%.			
A4. Ticket Agents			
★ Up to but not \$50,000.....	12.50	12.50	5.00
\$50,000 and over	10.00	10.00	5.00
Schedules of \$250,000 and over must be submitted to Bureau for separate rating.			
A5. Directors, Trustees or Members of Finance Committees having custody of the Institution's funds or securities where two or more members are separately bonded as members of such committee:			
Honesty Form:			
For Committee Members having power to sign checks (at least two signatures being required)	2.00	5.00	—
For Committee Members not authorized to sign checks (where at least two members are required to obtain access to securities)	1.50	5.00	—
Faithful Performance: Increase rates and minimums 50%.			
B. Blanket—Basic rates less 10% of Basic premium for Class "A" employees.			

Revised April 25, 1960

F-40

Fidelity—Classified Lines
Classified Rate Table No. 5

Column 1 is Rate per \$1,000 per annum; 2 is Annual Minimum
 3 is Annual Earned Minimum

	1	2	3
A. Individual or Schedule—Honesty Form			
A1. Officers and Bursars, Directors or Trustees	\$ 2.50	\$ 5.00	\$ 2.50
A2. Employees—(In determining volume add coverage on officers and apply minimums below to officers)			
Up to but not \$30,000.....	4.00	4.00	2.00
\$ 30,000 up to but not \$100,00.....	3.00	3.00	1.50
100,000 up to but not 250,000.....	2.75	2.50	1.25
250,000 and over	2.50	2.50	1.25
Schedules of \$100,000 and over must be submitted to Association for separate rating.			

- A3. Members of Finance Committees having custody of the Insured's funds or securities where two or more members are separately bonded as members of such committee: Committee members having power to sign checks (at least two signatures being required)—**\$2.00** per \$1,000 per annum. Annual Minimum **\$5.00**.

Committee members not authorized to sign checks (at least two members being required to obtain access to securities)—**\$1.50** per \$1,000 per annum. Annual Minimum **\$5.00**.

★ A4. Independent Professional Administrators

	1	2	3
Up to but not \$50,000.....	\$ 4.00	\$ 4.00	\$ 5.00
\$ 50,000 up to but not \$100,00.....	3.50	3.50	3.50
100,000 up to but not 250,000.....	3.00	3.00	3.00
250,000 up to but not 500,000.....	2.50	2.50	2.50
500,000 and over	2.00	2.00	2.00

- A5. Faithful Performance Form: Increase rates and minimums in Sections A1, A2, A3 and A4 by 50%.

- B1. Blanket—Honesty Form—Basic rates less 10% of Basic premium for Class "A" employees.

★ B2. Blanket—Faithful Performance Form—Increase premium for Class A and Class B employees under B1 by 50%

THESE ARE OFFICE COPIES - PERMANENT RECORDS

REMOVE ONLY TEMPORARILY FOR DUPLICATION PURPOSES

Revised October 4, 1961

F-40

Fidelity—Classified Lines**Classified Rate Table No. 5**

Column 1 is Rate per \$1,000 per annum; 2 is Annual Minimum
3 is Annual Earned Minimum

	1	2	3
A. Individual or Schedule—Honesty Form			
A1. Officers and Bursars, Directors or Trustees	\$ 2.50	\$ 5.00	\$ 2.50
A2. Employees—(In determining volume add coverage on officers and apply minimums below to officers)			
Up to but not \$30,000.....	4.00	4.00	2.00
\$ 30,000 up to but not \$100,00.....	3.00	3.00	1.50
100,000 up to but not 250,000.....	2.75	2.50	1.25
250,000 and over	2.50	2.50	1.25
Schedules of \$100,000 and over must be submitted to Association for separate rating.			
A3. Members of Finance Committees having custody of the Insured's funds or securities where two or more members are separately bonded as members of such committee: Committee members having power to sign checks (at least two signatures being required)—\$2.00 per \$1,000 per annum. Annual Minimum \$5.00.			
Committee members not authorized to sign checks (at least two members being required to obtain access to securities)—\$1.50 per \$1,000 per annum. Annual Minimum \$5.00.			
A4. Independent Professional Administrators			
	1	2	3
Up to but not \$50,000.....	\$ 4.00	\$ 4.00	\$ 5.00
\$ 50,000 up to but not \$100,00.....	3.50	3.50	3.50
100,000 up to but not 250,000.....	3.00	3.00	3.00
250,000 up to but not 500,000.....	2.50	2.50	2.50
500,000 and over	2.00	2.00	2.00
A5. Faithful Performance Form: Increase rates and minimums in Sections A1, A2, A3 and A4 by 25%.			
★ B1. Blanket—Honesty Form—Basic rates less 10% of Basic premium for Class "A" employees.			
★ B2. Blanket—Faithful Performance Form—Increase premium for Class A and Class B employees under B1. by 25%.			

Revision of June 5, 1963.

F-14**Fidelity—Individual and Schedule Bonds****Classified Rate Table No. 5**

Column 1 is Rate per \$1,000 per annum; 2 is Annual Minimum;
3 is Annual Earned Minimum

	1	2	3
Individual or Schedule—Honesty Form			
1. Officers and Bursars, Directors or Trustees	\$ 2.50	\$ 5.00	\$ 2.50
2. Employees—(In determining aggregate volume include coverage on officers if any and apply minimums below to officers)			
Up to but not \$30,000.....	4.00	4.00	2.00
\$ 30,000 up to but not \$100,000.....	3.00	3.00	1.50
100,000 up to but not 250,000.....	2.75	2.50	1.25
250,000 and over.....	2.50	2.50	1.25
Schedules of \$100,000 and over must be submitted to Association for separate rating.			
3. Members of Finance Committees having custody of the Insured's funds or securities where two or more members are separately bonded as members of such committee:			
a. Committee members having power to sign checks (at least two signatures being required)— \$2.00 per \$1,000 per annum. Annual Minimum \$5.00 .			
b. Committee members not authorized to sign checks (at least two members being required to obtain access to securities)— \$1.50 per \$1,000 per annum. Annual Minimum \$5.00 .			
4. Independent Professional Administrators			
	1	2	3
★ Up to but not \$50,000.....	\$ 4.00	\$ 4.00	\$ 4.00
\$ 50,000 up to but not \$100,000.....	3.50	3.50	3.50
100,000 up to but not 250,000.....	3.00	3.00	3.00
250,000 up to but not 500,000.....	2.50	2.50	2.50
500,000 and over.....	2.00	2.00	2.00
5. Faithful Performance Form: Increase rates and minimums in Sections 1, 2, 3 and 4 by 25%.			

Revised September 14, 1953

F-25

Fidelity—Blanket Bonds**Basic Rates****Blanket Position Bonds****and****Primary Commercial Blanket Bonds**

Where Insureds have more than one shift of employees working during a twenty-four hour day the total number of employees working on all shifts should be used in computing the premium.

Class "A" Employees—

- (a) The Annual premium is determined from the tables on the following pages. For permissible amounts between any two amounts shown in the tables, premium is determined by adding to the premium for the smaller amount a pro rata part of the difference between the premium for the smaller and the premium for the larger amount.
- (b) In computing premiums in accordance with the Basic rates, all Class "A" employees are to be included. The Special "A" classification as defined in the preceding pages is applicable only to certain of the Classified lines and is to be used only when computing premiums for a Classified Insured for whom there is a separate rate for Special Class "A" employees. For all other Insureds, employees of the Special "A" type are to be counted as regular Class "A".
- ★ (c) When Insureds subject to Special Class "A" rating carrying a *P. C. B. B. or B. P. B. of \$10,000. or more* have less than 25 Regular Class "A" employees, a sufficient number of Special Class "A" employees are to be charged for as Regular Class "A" or Special Class "A", whichever is lower, to make up a total of 25 or less. Any Special Class "A" employees exceeding this total of 25 should be charged for at the Special Class "A" charge.

Revised September 14, 1953

F-26**Fidelity—Blanket Bonds****Basic Rates****Blanket Position Bonds****and****Primary Commercial Blanket Bonds***Class "A" Employees, Cont'd.*

- (d) When the total number of Regular Class "A" employees on any bond amount is less than 5 subtract a sufficient number from either Special Class "A" or "B" employees to make up 5.
- (e) The Basic Rates in the following pages are applicable without modification to the Class "A" employees of Insureds engaged in a business or activity which is not listed among the Classified Lines and to the Class "A" employees of Classified Insureds for whom the Basic Rate is specified.
- (f) The Basic Rates modified by the appropriate designated percentage "Surcharge" or "Discount" are applicable to the Class "A" employees of Insureds which are listed among the Classified Lines.

Class "B" Employees—

Charge \$0.85 for each "B" employee under the Blanket Position Bond and \$0.81 for each "B" employee under the Primary Commercial Blanket Bond for all bonds of whatever size.

- ★ Whenever a lower premium is produced by applying the Class "A" charge to Class "B" employees, then all Class "B" employees shall be treated as Class "A". This is applicable only where total Blanket (Primary or Primary and Excess) Bond coverage does not exceed \$25,000. on an Unclassified Insured.

Class "C" Employees—

No charge.

Revision of September 15, 1947.

F-27

Fidelity—Blanket Bonds
Basic Rates—Code BP 797
Blanket Position Bond or Option B-CDDD Policy

No. of A Employees	\$2,500 BOND	\$5,000 BOND	\$7,500 BOND	\$10,000 BOND	\$15,000 BOND
5 or less	\$ 53.55	\$ 73.10	\$ 92.65	\$112.20	\$151.30
6	57.56	78.57	99.59	120.62	162.65
7	61.57	84.06	106.54	129.03	174.00
8	65.59	89.53	113.48	137.45	185.34
9	69.60	95.01	120.43	145.86	196.69
10	73.61	100.49	127.37	154.28	208.04
11	77.62	105.97	134.32	162.69	219.39
12	81.63	111.44	141.26	171.11	230.73
13	85.65	116.93	148.21	179.52	242.08
14	89.66	122.40	155.15	187.94	253.43
15	93.67	127.88	162.10	196.35	264.78
16	97.68	133.36	169.04	204.77	276.12
17	101.69	138.84	175.98	213.18	287.47
18	105.71	144.31	182.93	221.60	298.82
19	109.72	149.80	189.87	230.00	310.17
20	113.73	155.27	196.82	238.41	321.51
21	117.74	160.75	203.76	246.81	332.85
22	121.75	166.23	210.71	255.22	344.19
23	125.77	171.71	217.65	263.63	355.53
24	129.78	177.19	224.60	272.03	366.87
25	133.79	182.67	231.56	280.44	378.21
26	137.00	187.06	237.12	287.17	387.29
27	140.22	191.45	242.67	293.90	396.36
28	143.43	195.83	248.23	300.64	405.44
29	146.64	200.22	253.79	307.37	414.52
30	149.85	204.60	259.35	314.10	423.60
31	153.07	208.99	264.91	320.83	432.68
32	156.28	213.38	270.47	327.56	441.75
33	159.49	217.76	276.03	334.30	450.83
34	162.71	222.15	281.59	341.03	459.91
35	165.92	226.53	287.15	347.76	468.99
36	169.13	230.92	292.71	354.49	478.07
37	172.35	235.31	298.26	361.22	487.14
38	175.56	239.69	303.82	367.96	496.21
39	178.77	244.08	309.38	374.69	505.30
40	181.98	248.46	314.94	381.42	514.38

CHARGE FOR EACH ADDITIONAL CLASS "A" EMPLOYEE

Each next 10	3.21	4.39	5.56	6.73	9.08
Each next 50	2.14	2.92	3.71	4.49	6.05
Each next 100	1.07	1.46	1.85	2.24	3.03
Each next 100	.85	1.16	1.48	1.79	2.42
Each next 200	.64	.88	1.11	1.35	1.83
Each next 500	.54	.73	.93	1.12	1.51
Each next 1500	.42	.59	.75	.91	1.22
Each next 2500	.31	.43	.55	.67	.91
Each over 5000	.21	.30	.38	.46	.61

CHARGE \$0.85 FOR EACH CLASS "B" EMPLOYEE

Revision of September 15, 1947.

F-28**Fidelity—Blanket Bonds****Basic Rates—Code BP 797****Blanket Position Bond or Option B-CDDD Policy**

No. of A Employees	\$20,000 BOND	\$25,000 BOND	\$50,000 BOND	\$75,000 BOND	\$100,000 BOND
5 or less	\$190.40	\$229.50	\$413.10	\$596.70	\$757.35
6	204.68	246.71	430.31	613.91	774.56
7	218.96	263.93	447.53	631.13	791.78
8	233.24	281.14	464.74	648.34	808.99
9	247.52	298.35	481.95	666.55	826.20
10	261.80	315.56	499.16	682.76	843.41
11	276.08	332.78	516.38	699.98	860.63
12	290.36	349.99	533.59	717.19	877.84
13	304.64	367.20	550.80	734.40	895.05
14	318.92	384.41	568.01	751.61	912.26
15	333.20	401.63	585.23	768.83	929.48
16	347.48	418.84	602.44	786.04	946.69
17	361.76	436.05	619.65	803.25	963.90
18	376.04	453.26	636.86	820.46	981.11
19	390.32	470.48	654.08	837.68	998.33
20	404.60	487.69	671.29	854.89	1015.54
21	418.88	504.90	688.50	872.10	1032.75
22	433.16	522.11	705.71	889.31	1049.96
23	447.43	539.33	722.93	906.53	1067.18
24	461.70	556.54	740.14	923.74	1084.39
25	475.97	573.75	757.35	940.95	1101.60
26	487.40	587.52	773.19	958.16	1119.50
27	498.92	601.29	789.02	975.37	1137.40
28	510.25	615.06	804.86	992.59	1155.30
29	521.67	628.83	820.69	1,009.80	1173.20
30	533.09	642.60	836.53	1,027.01	1191.10
31	544.52	656.37	852.36	1,044.22	1,209.01
32	555.94	670.14	868.20	1,061.44	1,226.91
33	567.37	683.91	884.03	1,078.65	1,244.81
34	578.79	697.68	899.87	1,095.86	1,262.71
35	590.21	711.45	915.70	1,113.07	1,280.61
36	601.64	725.22	931.54	1,130.29	1,298.51
37	613.06	738.99	947.38	1,147.50	1,316.41
38	624.49	752.76	963.21	1,164.71	1,334.31
39	635.91	766.53	979.05	1,181.92	1,352.21
40	647.33	780.30	994.88	1,199.14	1,370.11

CHARGE FOR EACH ADDITIONAL CLASS "A" EMPLOYEE

Each next 10	11.42	13.77	15.84	17.21	17.90
Each next 50	7.62	9.18	10.56	11.48	11.93
Each next 100	3.81	4.59	5.28	5.74	5.97
Each next 100	3.05	3.67	4.22	4.59	4.78
Each next 200	2.29	2.75	3.17	3.44	3.58
Each next 500	1.90	2.29	2.64	2.87	2.98
Each next 1500	1.53	1.84	2.11	2.29	2.39
Each next 2500	1.15	1.38	1.58	1.73	1.79
Each over 5000	.76	.92	1.05	1.15	1.19

CHARGE \$0.85 FOR EACH CLASS "B" EMPLOYEE

Revised July 8, 1957

Fidelity—Blanket Bonds**F-29****Basic Rates—Code PC 897****Primary Commercial Blanket Bond or
Option A-CDDD Policy**

No. of A Employees	\$10,000 BOND	\$20,000 BOND	\$25,000 BOND	\$50,000 BOND	★\$75,000 BOND
5 or less	\$ 81.00	\$162.00	\$202.50	\$364.50	\$526.50
6	89.10	174.82	217.67	379.67	541.67
7	97.20	187.63	232.83	394.83	556.83
8	105.30	200.45	248.00	410.00	572.00
9	113.40	213.26	263.16	425.16	587.16
10	121.50	226.08	278.33	440.33	602.33
11	129.60	238.90	293.49	455.49	617.49
12	137.70	251.71	308.66	470.66	632.66
13	145.80	264.53	323.82	485.82	647.82
14	153.90	277.34	338.99	500.99	662.99
15	162.00	290.14	354.15	516.15	678.15
16	170.10	302.95	369.32	531.32	693.32
17	178.20	315.76	384.48	546.48	708.48
18	186.30	328.56	399.65	561.65	723.65
19	194.40	341.37	414.81	576.81	738.81
20	202.50	354.18	429.98	591.98	753.98
21	210.60	366.98	445.14	607.14	769.14
22	218.70	379.79	460.31	622.31	784.31
23	226.80	392.60	475.47	637.47	799.47
24	234.90	405.41	490.64	652.64	814.64
25	243.00	418.21	505.80	667.80	829.80
26	248.84	428.26	518.40	682.22	845.44
27	254.68	438.30	530.55	696.19	860.62
28	260.52	448.34	542.70	710.17	875.81
29	266.36	458.39	554.85	724.14	891.00
30	272.20	468.43	567.00	738.11	906.19
31	278.05	478.48	579.15	752.08	921.37
32	283.89	488.52	591.30	766.06	936.56
33	289.73	498.56	603.45	780.03	951.75
34	295.57	508.61	615.60	794.00	966.94
35	301.41	518.65	627.75	807.97	982.12
36	307.25	528.70	639.90	821.95	997.31
37	313.09	538.74	652.05	835.92	1,012.50
38	318.93	548.78	664.20	849.89	1,027.69
39	324.77	558.83	676.35	863.86	1,042.87
40	330.61	568.87	688.50	877.84	1,058.06

CHARGE FOR EACH ADDITIONAL CLASS "A" EMPLOYEE

Each next 10	5.84	10.04	12.15	13.98	15.19
Each next 50	3.89	6.70	8.10	9.32	10.13
Each next 100	1.94	3.35	4.05	4.65	5.06
Each next 100	1.56	2.68	3.24	3.73	4.05
Each next 200	1.17	2.01	2.43	2.79	3.03
Each next 500	.97	1.67	2.02	2.32	2.53
Each next 1500	.77	1.34	1.62	1.86	2.02
Each next 2500	.58	1.01	1.21	1.39	1.51
Each over 5000	.39	.67	.81	.93	1.01

CHARGE \$0.81 FOR EACH CLASS "B" EMPLOYEE

Revision of May 29, 1957

F-30**Fidelity—Blanket Bonds****Basic Rates—Code PC 897****Primary Commercial Blanket Bond or
Option A-CDDD Policy**

No. of A Employees	\$100,000 BOND	\$150,000 BOND	\$200,000 BOND	\$250,000 BOND	\$500,000 BOND
5 or less	\$668.25	\$ 911.25	\$1,154.25	\$1,397.25	\$2,612.25
6	683.42	926.42	1,169.42	1,412.42	2,627.42
7	698.58	941.58	1,184.58	1,427.58	2,642.58
8	713.75	956.75	1,199.75	1,442.75	2,657.75
9	728.91	971.91	1,214.91	1,457.91	2,672.91
10	744.08	987.08	1,230.08	1,473.08	2,688.08
11	759.24	1,002.24	1,245.24	1,488.24	2,703.24
12	774.41	1,017.41	1,260.41	1,503.41	2,718.41
13	789.57	1,032.57	1,275.57	1,518.57	2,733.57
14	804.74	1,047.74	1,290.74	1,533.74	2,748.74
15	819.90	1,062.90	1,305.90	1,548.90	2,763.90
16	835.07	1,078.07	1,321.07	1,564.07	2,779.07
17	850.23	1,093.23	1,336.23	1,579.23	2,794.23
18	865.40	1,108.40	1,351.40	1,594.40	2,809.40
19	880.56	1,123.56	1,366.56	1,609.56	2,824.56
20	895.73	1,138.73	1,381.73	1,624.73	2,839.73
21	910.89	1,153.89	1,396.89	1,639.89	2,854.89
22	926.06	1,169.06	1,412.06	1,655.06	2,870.06
23	941.22	1,184.22	1,427.22	1,670.22	2,885.22
24	956.39	1,199.39	1,442.39	1,685.39	2,900.39
25	971.55	1,214.55	1,457.55	1,700.55	2,915.55
26	987.79	1,232.01	1,476.22	1,720.44	2,941.51
27	1,003.59	1,249.02	1,494.45	1,739.88	2,967.03
28	1,019.38	1,266.03	1,512.67	1,759.32	2,992.54
29	1,035.18	1,283.04	1,530.90	1,778.76	3,018.06
30	1,050.97	1,300.05	1,549.12	1,798.20	3,043.57
31	1,066.77	1,317.06	1,567.35	1,817.64	3,069.09
32	1,082.56	1,334.07	1,585.57	1,837.08	3,094.60
33	1,098.36	1,351.08	1,603.80	1,856.52	3,120.12
34	1,114.15	1,368.09	1,622.02	1,875.96	3,145.63
35	1,129.95	1,385.10	1,640.25	1,895.40	3,171.15
36	1,145.74	1,402.11	1,658.47	1,914.84	3,196.66
37	1,161.54	1,419.12	1,676.70	1,934.28	3,222.18
38	1,177.33	1,436.13	1,694.92	1,953.72	3,247.69
39	1,193.13	1,453.14	1,713.15	1,973.16	3,273.21
40	1,208.92	1,470.15	1,731.37	1,992.60	3,298.72

CHARGE FOR EACH ADDITIONAL CLASS "A" EMPLOYEE

Each next 10	15.80	17.01	18.23	19.44	25.52
Each next 50	10.53	11.34	12.15	12.96	17.01
Each next 100	5.27	5.67	6.07	6.48	8.50
Each next 100	4.21	4.54	4.86	5.18	6.80
Each next 200	3.16	3.40	3.64	3.89	5.10
Each next 500	2.63	2.83	3.04	3.24	4.25
Each next 1500	2.11	2.27	2.43	2.59	3.40
Each next 2500	1.58	1.70	1.82	1.94	2.55
Each over 5000	1.05	1.13	1.21	1.29	1.70

CHARGE \$0.81 FOR EACH CLASS "B" EMPLOYEE

Revision of June 5, 1963.

ME-15

Blanket Fidelity Bonds—Mercantile Establishments

General Rules—Basis for Premium Charges

1. Classification of Insureds.

The premium rates applicable to Blanket Fidelity Bonds for Mercantile Establishments depend upon the *predominant* business or activity engaged in by the employer (Insured). The Fidelity Industrial Class Code & Rate Modification Table which appears in the following pages contains a listing of businesses and activities together with the Class Rate Modifications, Class Code number and Statistical Code number applicable in each instance. For convenience an Alphabetical Index of the Fidelity Industrial Class Code has also been provided.

2. Classification of Employees.

All officers and Employees of Insureds are classified according to their positions and are designated as either Class 1 or Class 2 or a combination of both in accordance with the following:

- a. Class 1 Employees consist of those heretofore known as Class A (except Special Class A) plus a percentage of *those other* employees formerly treated as Class B and C.
- b. Class 2 Employees of certain Insureds consist of those heretofore known as "Special Class A" employees to which reference is found in the Class Code & Rate Modification Table.

3. Employees Added or Eliminated During Premium Period.

There are no charges or credits for an increase or decrease in the number of employees during the premium period except where a merger or consolidation takes place or where an Insured's personnel is subject to violent fluctuations in numbers because of seasonal or part time activity or where one or more joint Insureds are eliminated mid-term.

4. Additional Location Charge.

There is an Additional Location Charge for each location other than the home office of Insureds classified as Retail Trade, Personal Services, Collection Agents, Motion Pictures and Drive-In Theatres and Amusement Enterprises and for each retail location other than the home office of Insureds classified as Manufacturers and Processors or Wholesalers and Distributors to which reference is found in the Class Code and Rate Modification Table. This also applies to Pawn Brokers, Personal Finance Companies, Factors, Currency Exchanges and Check Cashers.

5. Basic Premium or Rate Tables.

Separate Tables of Basic 3-Year Term Prepaid Premiums or Rates are provided for the Commercial Blanket Bond or CDDD Policy—Agreement I—Form A, the Blanket Position Bond or CDDD Policy—Agreement I—Form B and the Blanket Crime Policy—Agreement I for both Class 1 and Class 2 employees. After including the Location Charges where applicable, these premiums are subject to the Class Rate Modifications.

6. Experience Risk Modification of Premiums.

Premiums for the coverages referred to herein are subject to an Experience Rating Plan the application of which is described under Rating Procedures.

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ME-16**Blanket Fidelity Bonds—Mercantile Establishments****General Rules—Classification of Employees**

For either the Blanket Position Bond or the Commercial Blanket Bond, the **entire** personnel of the Insured formerly divided into classes "A", "Special A", "B" and "C" are used as the basis for developing the number of Class 1 employees.

Class "A"—Executives, officials and all employees who, as a part of their regular duties, handle or have custody of money, securities or merchandise, including in any event the positions listed below: (See Rule at foot of next page)

Accountants (Senior) for Accounting firms	Meter Readers who collect Paymasters and Asst. Pay- masters
Adjusters	President
Appraisers and Clerks acting as appraisers	Professors having custody of money or securities
Attorneys	Purchasing Agents and Asst. Purchasing Agents
Auditors and Ass't Auditors	Receiving Clerks
Bookkeepers	Refinery Gaugers of Oil Com- panies handling refined gas- oline and oils.
Branch Managers and Assist- ant Managers	All Salesmen (inside and out- side) of Automobile Sales Agencies or Dealers
Bursars and Asst. Bursars	Salesmen—outside, who collect Sales Managers and Asst. Sales Managers
Bus Drivers transporting freight only or freight and passengers	Secretary and Asst. Secre- taries
Buyers and Assistant Buyers	Service Station Attendants
Cashiers and Assistant Cash- iers	Shipping Clerks
Chairmen	Stock Clerks
Chauffeurs	Superintendents and Asst. Superintendents
Collectors	Taxi Drivers
Comptrollers and Asst. Comp- trollers	Teachers having custody of money or securities
Custodians	Timekeepers and Asst. Time- keepers
Demonstrators	Treasurers and Asst. Treas- urers
Department Managers and Asst. Managers	Vice Presidents
Dieticians who order food	Warehousemen
Drivers and Drivers Helpers	Watchmen
Factory Sup'ts. and Asst. Sup'ts.	
Floor Walkers	
Instructors having custody of money or securities	
Manager and Asst. Managers	
Messengers—outside	

(Continued)

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Blanket Fidelity Bonds—Mercantile Establishments**General Rules—Classification of Employees****Class "A"
for Hospitals**

Adjuster
 Administrator
 Asst. Manager
 Asst. Superintendent
 Auditor
 Bookkeeper
 Buyer
 Cashier
 Checker
 Collector
 Comptroller
 Custodian
 Dieticians (who order)
 Department Manager
 Executives (Pres., Vice-Pres.,
 Sec'y., Treas., Ass't.
 Sec'y., Ass't. Treas.)
 Head Pharmacist
 Laundry Superintendent
 Linen Room Manager
 Manager
 Medical Director
 Messenger (outside)
 Office Manager
 Operating Manager
 Paymaster
 Purchasing Agent
 Receiving Clerk
 Research Manager
 Restaurant Manager
 Service Manager
 Stewards (who order)
 Stock Clerks
 Storekeeper
 Superintendent
 Supervisor—Out Patients
 Timekeeper
 Truck Driver
 Watchman

**Class "A"
for Hotels and Restaurants**

Accountants & Assts.
 Adjusters
 Auditors & Assts.
 Bookkeepers
 Beverage Checkers
 Cashiers
 Chefs who order food
 Collectors
 Credit Clerks
 Credit Managers
 Detectives
 Executives (Pres., Vice-Pres.,
 Sec'y., Treas., Sec'y. &
 Treas., Ass't. Sec'y., Ass't.
 Treas.)
 Food Checkers
 Food Inspectors
 House Officers
 Ledger Keepers
 Locker Room Men
 Maitre d'Hotel & Assts.
 Managers & Assts.
 Messengers (Outside)
 Operators and Cashiers
 Pay Station Telephone
 Paymasters & Assts.
 Purchasing Agents
 Receiving Clerks
 Round Men
 Salesmen (Outside who collect)
 Shipping Clerks
 Stewards who order
 Storekeepers
 Storeroom Men
 Superintendents & Assts.
 Timekeepers
 Watchmen
 Wine Cellar Men
 Wine Steward

Class 1 Employees to be used in determining Insured's premium will consist of *all* Class "A" (except Special Class A) employees *plus* 5% of the first 100 of those other employees (formerly "B" and "C") *plus* 1% of all in excess of 100, disregarding fractions. See next page for Class 2 (formerly known as Special Class A) employees.

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ME-18**Blanket Fidelity Bonds—Mercantile Establishments****General Rules—Classification of Employees**

Class 2 (formerly known as Special Class "A") Employees—This Class embraces Canvassers (for all Insureds) Chauffeurs, Collectors, Demonstrators, Drivers, Drivers' Helpers (other than Drivers' Helpers for Brewery Companies which take regular Class "A" classification), Outside Salesmen and other similar positions. The Class 2 and former Special Class "A" employee classifications apply to those Insureds whose business description appears in the Fidelity Industrial Class Code & Rate Modification Table with an asterisk preceding the Class Code number.

The charges for Class 2 employees appear in separate Basic Premium Tables and are graduated according to bond amounts between \$10,000-\$25,000. The charges for a \$10,000 bond apply to bond amounts of \$10,000 or less and the charges for a \$25,000 bond apply to bond amounts of \$25,000 or more.

General Rules—Rating Procedures

1. *Determine number of Class 1 employees (or Class 1 and Class 2 where applicable) and refer to Basic Premium Tables for basic premiums for Form and Amount of coverage desired.*
2. *Refer to Fidelity Industrial Class Code & Rate Modification Table for Additional Location reference, Class 2 Employee reference and applicable Class Rate Modification.*
3. *Refer to Excess Indemnity Rate Table if Specific Excess Indemnity coverage is desired.*
4. *Add basic premiums for Class 1 (including Additional Locations, if any, where applicable), Class 2 if any, Excess Indemnity if any, and apply appropriate Class Rate Modification to the total basic premium.*
5. *Apply Experience Risk Modification to the total manual term premium.*
6. *Allow Underlying Fidelity coverage credit, if any. See applicable rule.*
7. *Employees Added or Eliminated During Premium Period—Exceptions.*

There are no charges or credits for an increase or decrease in the number of employees during the premium period, except as follows:

- (a) Where a merger or consolidation takes place, compute premium on the new combined total of employees. The difference between this premium and the premium prior to the merger when pro rated from date of merger to next premium anniversary date is the charge for the additional employees.
- (b) Where one or more Joint Insureds are eliminated midterm, compute premium on the new reduced total of employees. The

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Blanket Fidelity Bonds—Mercantile Establishments**General Rules—Rating Procedures**

difference between this premium and the premium prior to the elimination pro rated from the date of elimination to next premium anniversary date, is the return premium.

- (c) Where an Insured's personnel is subject to violent fluctuations in numbers because of seasonal or part-time activity compute premium on the maximum number of employees. The difference between this premium and the premium computed on the normal personnel when pro-rated for the period of seasonal or part-time activity is the charge for the additional employees.

8. Exclusion of Class 2 (formerly known as Special Class "A") Employees.

It is permissible, by rider, to exclude Class 2 (formerly known as Special Class "A") employees. Where this rider is attached premium is computed in the regular manner excluding, however, from the premium computation those employees whose positions are listed in the rider.

9. Exclusion of other Class 2 Type of Employees.

For an Insured to whom the Class 2—Employee Classification does not apply, it is permissible by rider to exclude employees of the type included in the Class 2—Employee Classification. When this rider is attached, premium is computed in the regular manner, excluding however from the premium computation all employees whose positions are listed in the rider.

10. Exclusion of Owner-Officers.

It is permissible, by rider, to exclude officers of a corporate employer where such officers own the majority of the capital stock. Relatives of such officers may also be excluded. Premium is computed in the regular manner on all employees other than those excluded by this rider.

11. Exclusions of Certain Types of Employees.

It is permissible, in certain of the classified lines, to exclude by rider, certain types of employees. When this rider is attached premium is computed in the regular manner, excluding however, from the premium computation those employees whose positions are listed in the rider.

12. Specific Excess Indemnity Over B.P.B. or C.B.B.

It is permissible to write Specific Excess Indemnity over a B.P.B. or C.B.B. The applicable rate is developed as follows:

First determine a theoretical aggregate liability or "volume" for the Blanket Fidelity coverage by multiplying the B.P.B. or C.B.B. amount, but in no event using an amount greater than \$100,000, by the number of Class 1 employees covered under the blanket fidelity bond and add the actual amount of Specific Excess In-

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demnity coverage. Refer to the following Excess Indemnity Rate Table and apply the "volume" rate appropriate to the total of "theoretical" and actual liability to the desired excess indemnity. The resultant premium is subject to the Insured's Class Rate Modification and Experience Risk Modification.

Excess Indemnity Basic 3-Year Term Prepaid Rate Table

<u>Volume of Coverage</u>		<u>Per \$1,000</u>
Up to but not including	\$ 50,000.....	\$8.00
\$ 50,000 to but not including	100,000.....	6.75
100,000 to but not including	250,000.....	5.50
250,000 to but not including	500,000.....	4.25
500,000 to but not including	1,000,000.....	3.00
1,000,000 and over.....		2.50

13. Fidelity Coverage Underlying to C.B.B.

If Fidelity coverage is written as underlying to a C.B.B. allow a credit on the *final* C.B.B. premium (after experience modification) of twenty-five percent (25%) of the Fidelity premium but not to exceed twenty-five percent (25%) of the C.B.B. premium.

14. Statutory Fidelity Coverage Underlying to B.P.B.

B.P.B. may be issued to act as Excess over *Statutory Fidelity Bonds only*, required in certain States.

Where this occurs credit shall be allowed in the same manner as provided for Fidelity Coverage Underlying to C.B.B.

15. C.B.B. or B.P.B. as Excess Coverage.

The C.B.B. may be issued as Excess over a bond on the same form; over a B.P.B. or over a Deductible of \$2,500. or multiples thereof up to \$25,000. and over \$25,000. in multiples of \$5,000.

The B.P.B. may be issued as Excess over a B.P.B. or over a deductible of \$2,500. or more, provided the aggregate amount of Primary and Excess (or Deductible and Excess) shall not exceed \$100,000.

Compute premium as follows:

- Compute manual premium *without* experience risk modification for a bond *on the form of the desired Excess bond* in an amount equal to the total of the actual Primary bond (or Deductible) and the desired Excess bond.
- From the premium so computed subtract the manual premium *without* experience risk modification for a bond *on the form of the desired Excess bond* in an amount equal to the Primary bond (or Deductible).

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Blanket Fidelity Bonds — Mercantile Establishments

**THIS SPACE RESERVED
FOR FUTURE USE**

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Revision of June 5, 1963

Blanket Fidelity Bonds — Mercantile Establishments
Commercial Blanket Bond or
CDDD Policy (Ins. Agr. I-Form A)
Basic 3-Year Term Prepaid Premiums or Rates
CLASS 1 EMPLOYEES

No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000
Loc. Charge	\$ 31.05	\$ 33.75	\$ 36.45	\$ 41.85	\$ 47.25
5 or less	\$278.38	\$295.31	\$317.25	\$361.13	\$405.00
6	297.00	320.63	344.25	391.50	438.75
7	320.63	345.94	371.25	421.88	472.50
8	344.25	371.25	398.25	452.25	506.25
9	367.88	396.66	425.25	482.63	540.00
10	391.50	421.88	452.25	513.00	573.75
11	415.13	447.19	479.25	543.38	607.50
12	438.75	472.50	506.25	573.75	641.25
13	462.38	497.81	533.25	604.13	675.00
14	486.00	523.13	560.25	634.50	708.75
15	509.63	548.44	587.25	664.88	742.50
16	533.25	573.75	614.25	695.25	776.25
17	556.88	599.06	641.25	725.63	810.00
18	580.50	624.38	668.25	756.00	843.75
19	604.13	649.69	695.25	786.38	877.50
20	627.75	675.00	722.25	816.75	911.25
21	651.38	700.31	749.25	847.13	945.00
22	675.00	725.63	776.25	877.50	978.75
23	698.63	750.94	803.25	907.88	1,012.50
24	722.25	776.25	830.25	938.25	1,046.25
25	745.88	801.56	857.25	968.63	1,080.00

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000
Each of next					
25 (26-50)	\$23.625	\$25.3125	\$27.00	\$30.375	\$33.75
50 (51-100)	18.90	20.25	21.60	24.30	27.00
50 (101-150)	14.175	15.1875	16.20	18.225	20.25
50 (151-200)	9.45	10.125	10.80	12.15	13.50
100 (201-300)	7.56	8.10	8.64	9.72	10.80
200 (301-500)	5.67	6.075	6.48	7.29	8.10
500 (501-1000)	4.725	5.0625	5.40	6.075	6.75
500 (1001-1500)	3.78	4.05	4.32	4.86	5.40
1000 (1501-2500)	2.835	3.0375	3.24	3.645	4.05
2500 (2501-5000)	1.89	2.025	2.16	2.43	2.70
5000 (5001-10,000)	1.4175	1.5188	1.62	1.8225	2.025
over 10,000	.945	1.0125	1.08	1.215	1.35

Total No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000
All of First					
50	\$ 1,336.50	\$ 1,434.38	\$ 1,532.25	\$ 1,728.00	\$ 1,923.75
100	2,281.50	2,446.88	2,612.25	2,943.00	3,273.75
150	2,990.25	3,206.25	3,422.25	3,854.25	4,286.25
200	3,462.75	3,712.50	3,962.25	4,461.75	4,961.25
300	4,218.75	4,522.50	4,826.25	5,433.75	6,041.25
500	5,352.75	5,737.50	6,122.25	6,891.75	7,661.25
1000	7,715.25	8,263.75	8,822.25	9,929.25	11,036.25
1500	9,605.25	10,293.75	10,982.25	12,359.25	13,736.25
2500	12,440.25	13,331.25	14,222.25	16,004.25	17,786.25
5000	17,165.25	18,393.75	19,622.25	22,079.25	24,536.25
10,000	24,252.75	25,987.50	27,722.25	31,191.75	34,661.25

NOTE: For Class 2 Employee Basic Premiums see manual page ME-47

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Blanket Fidelity Bonds — Mercantile Establishments
Commercial Blanket Bond or
CDDD Policy (Ins. Agr. I-Form A)
Basic 3-Year Term Prepaid Premiums or Rates
CLASS 2 EMPLOYEES

No. of Class 2 Employees	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000 or more
1	\$ 23.63	\$ 25.31	\$ 27.00	\$ 30.38	\$ 33.75
2	47.25	50.63	54.00	60.75	67.50
3	70.88	75.94	81.00	91.13	101.25
4	94.50	101.25	108.00	121.50	135.00
5	118.13	126.56	135.00	151.88	168.75
6	141.75	151.88	162.00	182.25	202.50
7	165.38	177.19	189.00	212.63	236.25
8	189.00	202.50	216.00	243.00	270.00
9	212.63	227.81	243.00	273.38	303.75
10	236.25	253.13	270.00	303.75	337.50
11	259.88	278.44	297.00	334.13	371.25
12	283.50	303.75	324.00	364.50	405.00
13	307.13	329.06	351.00	394.88	438.75
14	330.75	354.38	378.00	425.25	472.50
15	354.38	379.69	405.00	455.63	506.25
16	378.00	405.00	432.00	486.00	540.00
17	401.63	430.31	459.00	516.38	573.75
18	425.25	455.63	486.00	546.75	607.50
19	448.88	480.94	513.00	577.13	641.25
20	472.50	506.25	540.00	607.50	675.00

No. of Class 2 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000 or more
Each of next					
" 30 (21-50)	\$23.625	\$25.3125	\$27.00	\$30.375	\$33.75
" 50 (51-100)	18.90	20.25	21.60	24.30	27.00
" 50 (101-150)	14.175	15.1875	16.20	18.225	20.25
" 50 (151-200)	9.45	10.125	10.80	12.15	13.50
" 100 (201-300)	7.56	8.10	8.64	9.72	10.80
" 200 (301-500)	5.67	6.075	6.48	7.29	8.10
" 500 (501-1000)	4.725	5.0625	5.40	6.075	6.75
" 500 (1001-1500)	3.73	4.05	4.32	4.86	5.40
" 1000 (1501-2500)	2.835	3.0375	3.24	3.645	4.05
" 2500 (2501-5000)	1.89	2.025	2.16	2.43	2.70
" 5000 (5001-10,000)	1.4175	1.5188	1.62	1.8225	2.025
" over 10,000	.945	1.0125	1.08	1.215	1.35

Total No. of Class 2 Employees	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000 or more
All of First					
" 50	\$ 1,181.25	\$ 1,265.63	\$ 1,350.00	\$ 1,518.75	\$ 1,687.50
" 100	2,126.25	2,278.13	2,430.00	2,733.75	3,037.50
" 150	2,835.00	3,037.50	3,240.00	3,645.00	4,050.00
" 200	3,307.50	3,543.75	3,780.00	4,252.50	4,725.00
" 300	4,063.50	4,353.75	4,644.00	5,224.50	5,805.00
" 500	5,197.50	5,568.75	5,940.00	6,682.50	7,425.00
" 1000	7,560.00	8,100.00	8,640.00	9,720.00	10,800.00
" 1500	9,450.00	10,125.00	10,800.00	12,150.00	13,500.00
" 2500	12,285.00	13,162.50	14,040.00	15,795.00	17,550.00
" 5000	17,010.00	18,225.00	19,440.00	21,870.00	24,300.00
" 10,000	24,097.50	25,818.75	27,540.00	30,982.50	34,425.00

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Revision of June 5, 1963

**Blanket Fidelity Bonds — Mercantile Establishments
Commercial Blanket Bond or
CDDD Policy (Ins. Agr. I-Form A)
Basic 3-Year Term Prepaid Premiums or Rates
CLASS 1 EMPLOYEES**

No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
Loc. Charge	\$ 51.30	\$ 59.40	\$ 67.50	\$ 87.75	\$ 101.25
5 or less	\$ 435.38	\$ 496.13	\$ 556.88	\$ 691.88	\$ 776.25
6	471.15	535.95	600.75	742.50	830.25
7	506.93	575.78	644.63	793.13	884.25
8	542.70	615.60	688.50	843.75	938.25
9	578.48	655.43	732.38	894.38	992.25
10	614.25	695.25	776.25	945.00	1,046.25
11	650.03	735.08	820.13	995.63	1,100.25
12	685.80	774.90	864.00	1,046.25	1,154.25
13	721.58	814.73	907.88	1,096.88	1,208.25
14	757.35	854.55	951.75	1,147.50	1,262.25
15	793.13	894.38	995.63	1,198.13	1,316.25
16	828.90	934.20	1,039.50	1,248.75	1,370.25
17	864.68	974.03	1,083.38	1,299.38	1,424.25
18	900.45	1,013.85	1,127.25	1,350.00	1,478.25
19	936.23	1,053.68	1,171.13	1,400.63	1,532.25
20	972.00	1,093.50	1,215.00	1,451.25	1,586.25
21	1,007.78	1,133.33	1,258.88	1,501.88	1,640.25
22	1,043.55	1,173.15	1,302.75	1,552.50	1,694.25
23	1,079.33	1,212.98	1,346.63	1,603.13	1,748.25
24	1,115.10	1,252.80	1,390.50	1,653.75	1,802.25
25	1,150.88	1,292.63	1,434.38	1,704.38	1,856.25

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
Each of Next					
" 25 (26-50)	\$35.775	\$39.825	\$43.875	\$50.625	\$54.00
" 50 (51-100)	28.62	31.86	35.10	40.50	43.20
" 50 (101-150)	21.465	23.895	26.325	30.375	32.40
" 50 (151-200)	14.31	15.93	17.55	20.25	21.60
" 100 (201-300)	11.448	12.744	14.04	16.20	17.28
" 200 (301-500)	8.586	9.558	10.53	12.15	12.96
" 500 (501-1000)	7.155	7.965	8.775	10.125	10.80
" 500 (1001-1500)	5.724	6.372	7.02	8.10	8.64
" 1000 (1501-2500)	4.293	4.779	5.265	6.075	6.48
" 2500 (2501-5000)	2.862	3.186	3.51	4.05	4.32
" 5000 (5001-10,000)	2.1465	2.3895	2.6325	3.0375	3.24
" over 10,000	1.431	1.593	1.755	2.025	2.16

Total No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
All of First					
" 50	\$2,045.25	\$ 2,288.25	\$ 2,531.25	\$ 2,970.00	\$ 3,206.25
" 100	3,476.25	3,881.25	4,286.25	4,995.00	5,366.25
" 150	4,549.50	5,076.00	5,602.50	6,513.75	6,986.25
" 200	5,265.00	5,872.50	6,480.00	7,526.25	8,066.25
" 300	6,409.80	7,146.90	7,884.00	9,146.25	9,794.25
" 500	8,127.00	9,058.50	9,990.00	11,576.25	12,386.25
" 1000	11,704.50	13,041.00	14,377.50	16,638.75	17,786.25
" 1500	14,566.50	16,227.00	17,887.50	20,688.75	22,106.25
" 2500	18,859.50	21,006.00	23,152.50	26,763.75	28,586.25
" 5000	26,014.50	28,971.00	31,927.50	36,888.75	39,386.25
" 10,000	36,747.00	40,918.50	45,090.00	52,076.25	55,586.25

NOTE: For Class 2 Employee Basic Premiums see manual page ME-47

Revision of June 5, 1963

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Blanket Fidelity Bonds — Mercantile Establishments
Commercial Blanket Bond or
CDDD Policy (Ins. Agr. I-Form A)
Basic 3-Year Term Prepaid Premiums or Rates
CLASS 1 EMPLOYEES

No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$125,000	\$150,000	\$200,000	\$250,000	\$500,000
Loc. Charge	\$ 108.00	\$ 114.75	\$ 128.25	\$ 141.75	\$ 209.25
5 or less	\$ 818.44	\$ 860.63	\$ 936.56	\$1,012.50	\$1,392.19
6	874.13	918.00	995.63	1,073.25	1,461.88
7	929.81	975.38	1,054.69	1,134.00	1,530.66
8	985.50	1,032.75	1,113.75	1,194.75	1,599.75
9	1,041.19	1,090.13	1,172.81	1,255.50	1,668.94
10	1,096.88	1,147.50	1,231.88	1,316.25	1,738.13
11	1,152.56	1,204.88	1,290.94	1,377.00	1,807.81
12	1,208.25	1,262.25	1,350.00	1,437.75	1,876.50
13	1,263.94	1,319.63	1,409.06	1,498.50	1,945.69
14	1,319.63	1,377.00	1,468.13	1,559.25	2,014.88
15	1,375.31	1,434.38	1,527.19	1,620.00	2,084.06
16	1,431.00	1,491.75	1,586.25	1,680.75	2,153.25
17	1,486.69	1,549.13	1,645.31	1,741.50	2,222.44
18	1,542.38	1,606.50	1,704.38	1,802.25	2,291.63
19	1,598.06	1,663.88	1,763.44	1,863.00	2,360.81
20	1,653.75	1,721.25	1,822.50	1,923.75	2,430.00
21	1,709.44	1,778.63	1,881.56	1,984.50	2,499.19
22	1,765.13	1,836.00	1,940.63	2,045.25	2,568.38
23	1,820.81	1,893.38	1,999.69	2,106.00	2,637.56
24	1,876.50	1,950.75	2,058.75	2,166.75	2,706.75
25	1,932.19	2,008.13	2,117.81	2,227.50	2,775.94

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$125,000	\$150,000	\$200,000	\$250,000	\$500,000
Each of Next					
“ 25 (26-50)	\$55.6875	\$57.375	\$59.0625	\$60.75	\$69.1875
“ 50 (51-100)	44.55	45.90	47.25	48.60	55.35
“ 50 (101-150)	33.4125	34.425	35.4375	36.45	41.6125
“ 50 (151-200)	22.275	22.95	23.625	24.30	27.675
“ 100 (201-300)	17.82	18.36	18.90	19.44	22.14
“ 200 (301-500)	13.365	13.77	14.175	14.58	16.605
“ 500 (501-1000)	11.1375	11.475	11.8125	12.15	13.8375
“ 500 (1001-1500)	8.91	9.18	9.45	9.72	11.07
“ 1000 (1501-2500)	6.6825	6.885	7.0875	7.29	8.3025
“ 2500 (2501-5000)	4.455	4.59	4.725	4.86	5.535
“ 5000 (5001-10,000)	3.3413	3.4425	3.5438	3.645	4.1513
“ over 10,000	2.2275	2.295	2.3625	2.43	2.7675

Total No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$125,000	\$150,000	\$200,000	\$250,000	\$500,000
All of First					
“ 50	\$ 3,324.38	\$ 3,442.50	\$ 3,594.38	\$ 3,746.25	\$ 4,505.63
“ 100	5,551.88	5,737.50	5,956.88	6,176.25	7,273.13
“ 150	7,222.50	7,458.75	7,728.75	7,998.75	9,348.75
“ 200	8,336.25	8,606.25	8,910.00	9,213.75	10,732.50
“ 300	10,118.25	10,442.25	10,800.00	11,157.75	12,946.50
“ 500	12,791.25	13,196.25	13,635.00	14,073.75	16,267.50
“ 1000	18,360.00	18,933.75	19,541.25	20,148.75	23,186.25
“ 1500	22,815.00	23,523.75	24,266.25	25,008.75	28,721.25
“ 2500	29,497.50	30,408.75	31,353.75	32,298.75	37,023.75
“ 5000	40,635.00	41,883.75	43,166.25	44,448.75	50,861.25
“ 10,000	57,341.25	59,096.25	60,885.00	62,673.75	71,617.50

NOTE: For Class 2 Employee Basic Premiums see manual page ME-47

Revision of June 5, 1963

ME-50**Blanket Fidelity Bonds — Mercantile Establishments****Commercial Blanket Bond or
CDDD Policy (Ins. Agr. I-Form A)****Basic 3-Year Term Prepaid Premiums or Rates****CLASS 1 EMPLOYEES**

No. of Class 1 Employees	AMOUNT OF COVERAGE				Each \$100,000 Over \$5,000,000
	\$1,000,000	\$1,500,000	\$2,500,000	\$5,000,000	
Loc. Charge	\$ 344.25	\$ 411.75	\$ 498.15	\$ 660.15	\$ 4.32
5 or less	\$2,126.25	\$2,505.94	\$3,005.44	\$3,942.00	\$24.98
6	2,207.25	2,595.38	3,108.38	4,070.25	25.65
7	2,288.25	2,684.81	3,211.31	4,198.50	26.33
8	2,369.25	2,774.25	3,314.25	4,326.75	27.00
9	2,450.25	2,863.69	3,417.19	4,455.00	27.68
10	2,531.25	2,953.13	3,520.13	4,583.25	28.35
11	2,612.25	3,042.56	3,623.06	4,711.50	29.03
12	2,693.25	3,132.00	3,726.00	4,839.75	29.70
13	2,774.25	3,221.44	3,828.94	4,968.00	30.38
14	2,855.25	3,310.88	3,931.88	5,096.25	31.05
15	2,936.25	3,400.31	4,034.81	5,224.50	31.73
16	3,017.25	3,489.75	4,137.75	5,352.75	32.40
17	3,098.25	3,579.19	4,240.69	5,481.00	33.08
18	3,179.25	3,668.63	4,343.63	5,609.25	33.75
19	3,260.25	3,758.06	4,446.56	5,737.50	34.43
20	3,341.25	3,847.50	4,549.50	5,865.75	35.10

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE				Each \$100,000 Over \$5,000,000
	\$1,000,000	\$1,500,000	\$2,500,000	\$5,000,000	
Each of Next					
“ 30 (21-50)	\$81.00	\$89.4375	\$102.9375	\$128.25	\$.675
“ 50 (51-100)	64.30	71.55	82.35	102.60	.54
“ 50 (101-150)	48.60	53.6625	61.7625	76.95	.405
“ 50 (151-200)	32.40	35.775	41.175	51.30	.27
“ 100 (201-300)	25.92	28.62	32.94	41.04	.216
“ 200 (301-500)	19.44	21.465	24.705	30.78	.162
“ 500 (501-1000)	16.20	17.8875	20.5875	25.65	.135
“ 500 (1001-1500)	12.96	14.31	16.47	20.52	.108
“ 1000 (1501-2500)	9.72	10.7325	12.3525	15.39	.081
“ 2500 (2501-5000)	6.48	7.155	8.235	10.26	.054
“ 5000 (5001-10,000)	4.86	5.3663	6.1763	7.695	.0405
“ over 10,000	3.24	3.5775	4.1175	5.13	.027

Total No. of Class 1 Employees	AMOUNT OF COVERAGE				Each \$100,000 Over \$5,000,000
	\$1,000,000	\$1,500,000	\$2,500,000	\$5,000,000	
All of First					
“ 50	\$ 5,771.25	\$ 6,530.63	\$ 7,637.63	\$ 9,713.25	\$ 55.35
“ 100	9,011.25	10,108.13	11,755.13	14,843.25	82.35
“ 150	11,441.25	12,791.25	14,843.25	18,690.75	102.60
“ 200	13,061.25	14,580.00	16,902.00	21,255.75	116.10
“ 300	15,653.25	17,442.00	20,196.00	25,359.75	137.70
“ 500	19,541.25	21,735.00	25,137.00	31,515.75	170.10
“ 1000	27,641.25	30,678.75	35,430.75	44,340.75	237.60
“ 1500	34,121.25	37,833.75	43,665.75	54,600.75	291.60
“ 2500	43,841.25	48,566.25	56,018.25	69,990.75	372.60
“ 5000	60,041.25	66,453.75	76,605.75	95,640.75	507.60
“ 10,000	84,341.25	93,285.00	107,487.00	134,115.75	710.10

NOTE: For Class 2 Employee Basic Premiums see manual page ME-47

Revision of June 5, 1963

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Blanket Fidelity Bonds — Mercantile Establishments**Blanket Position Bond or****CDDD Policy (Ins. Agr. I-Form B)****Basic 3-Year Term Prepaid Premiums or Rates****CLASS 1 EMPLOYEES**

No. of Class 1 Employees	AMOUNT OF COVERAGE		
	\$2,500	\$5,000	\$7,500
Loc. Charge	\$ 25.11	\$ 29.16	\$ 33.21
5 or less	\$206.55	\$247.05	\$287.55
6	222.75	267.30	311.85
7	238.95	287.55	336.15
8	255.15	307.80	360.45
9	271.35	328.05	384.75
10	287.55	348.30	409.05
11	303.75	368.55	433.35
12	319.95	388.80	457.65
13	336.15	409.05	481.95
14	352.35	429.30	506.25
15	368.55	449.55	530.55
16	384.75	469.80	554.85
17	400.95	490.05	579.15
18	417.15	510.30	603.45
19	433.35	530.55	627.75
20	449.55	550.80	652.05
21	465.75	571.05	676.35
22	481.95	591.30	700.65
23	498.15	611.55	724.95
24	514.35	631.80	749.25
25	530.55	652.05	773.55

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE		
	\$2,500	\$5,000	\$7,500
Each of Next			
" 25 (26-50)	\$16.20	\$20.25	\$24.30
" 50 (51-100)	12.96	16.20	19.44
" 50 (101-150)	9.72	12.15	14.58
" 50 (151-200)	6.48	8.10	9.72
" 100 (201-300)	5.184	6.48	7.776
" 200 (301-500)	3.888	4.86	5.832
" 500 (501-1000)	3.24	4.05	4.86
" 500 (1001-1500)	2.592	3.24	3.888
" 1000 (1501-2500)	1.944	2.43	2.916
" 2500 (2501-5000)	1.296	1.62	1.944
" 5000 (5001-10,000)	.972	1.215	1.458
" over 10,000	.648	.81	.972

Total No. of Class 1 Employees	AMOUNT OF COVERAGE		
	\$2,500	\$5,000	\$7,500
All of First			
" 50	\$ 935.55	\$ 1,158.30	\$ 1,381.05
" 100	1,583.55	1,968.30	2,353.05
" 150	2,069.55	2,575.80	3,082.05
" 200	2,393.55	2,980.80	3,568.05
" 300	2,911.95	3,628.80	4,345.65
" 500	3,689.55	4,600.80	5,512.05
" 1000	5,209.55	6,625.80	7,942.05
" 1500	6,605.55	8,245.80	9,886.05
" 2500	8,549.55	10,675.80	12,802.05
" 5000	11,789.55	14,725.80	17,662.05
" 10,000	16,649.55	20,800.80	24,952.05

NOTE: For Class 2 Employee Basic Premiums see manual page ME-53

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Revision of June 5, 1963

Blanket Fidelity Bonds — Mercantile Establishments
Blanket Position Bond or
CDDD Policy (Ins. Agr. I-Form B)
Basic 3-Year Term Prepaid Premiums or Rates
CLASS 1 EMPLOYEES

No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000
Loc. Charge	\$ 37.26	\$ 40.50	\$ 43.74	\$ 50.22	\$ 56.70
5 or less	\$328.05	\$354.38	\$380.70	\$433.35	\$486.00
6	356.40	384.75	413.10	469.80	526.50
7	384.75	415.13	445.50	506.25	567.00
8	413.10	445.50	477.90	542.70	607.50
9	441.45	475.88	510.30	579.15	648.00
10	469.80	506.25	542.70	615.60	688.50
11	498.15	536.63	575.10	652.05	729.00
12	526.50	567.00	607.50	688.50	769.50
13	554.85	597.38	639.90	724.95	810.00
14	583.20	627.75	672.30	761.40	850.50
15	611.55	658.13	704.70	797.85	891.00
16	639.90	688.50	737.10	834.30	931.50
17	668.25	718.88	769.50	870.75	972.00
18	696.60	749.25	801.90	907.20	1,012.50
19	724.95	779.63	834.30	943.65	1,053.00
20	753.30	810.00	866.70	980.10	1,093.50
21	781.65	840.38	899.10	1,016.55	1,134.00
22	810.00	870.75	931.50	1,053.00	1,174.50
23	838.35	901.13	963.90	1,089.45	1,215.00
24	866.70	931.50	996.30	1,125.90	1,255.50
25	895.05	961.88	1,028.70	1,162.35	1,296.00

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000
Each of next					
" 25 (26-50)	\$28.35	\$30.375	\$32.40	\$36.45	\$40.50
" 50 (51-100)	22.68	24.30	25.92	29.16	32.40
" 50 (101-150)	17.01	18.225	19.44	21.87	24.30
" 50 (151-200)	11.34	12.15	12.96	14.58	16.20
" 100 (201-300)	9.072	9.72	10.368	11.664	12.96
" 200 (301-500)	6.804	7.29	7.776	8.748	9.72
" 500 (501-1000)	5.67	6.075	6.48	7.29	8.10
" 500 (1001-1500)	4.536	4.86	5.184	5.832	6.48
" 1000 (1501-2500)	3.402	3.645	3.888	4.374	4.86
" 2500 (2501-5000)	2.268	2.43	2.592	2.916	3.24
" 5000 (5001-10,000)	1.701	1.8225	1.944	2.187	2.43
" over 10,000	1.134	1.215	1.296	1.458	1.62

Total No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$10,000	\$12,500	\$15,000	\$20,000	\$25,000
All of First					
" 50	\$ 1,603.80	\$ 1,721.25	\$ 1,838.70	\$ 2,073.60	\$ 2,308.50
" 100	2,737.80	2,936.25	3,134.70	3,531.60	3,928.50
" 150	3,588.30	3,847.50	4,106.70	4,625.10	5,143.50
" 200	4,155.30	4,455.00	4,754.70	5,354.10	5,953.50
" 300	5,062.50	5,427.00	5,791.50	6,520.50	7,249.50
" 500	6,423.30	6,885.00	7,346.70	8,270.10	9,193.50
" 1000	9,258.30	9,922.50	10,586.70	11,915.10	13,243.50
" 1500	11,526.30	12,352.50	13,178.70	14,831.10	16,483.50
" 2500	14,928.30	15,997.50	17,066.70	19,205.10	21,343.50
" 5000	20,598.30	22,072.50	23,546.70	26,495.10	29,443.50
" 10,000	29,103.30	31,185.00	33,266.70	37,430.10	41,593.50

NOTE: For Class 2 Employee Basic Premiums see manual page ME-53

Revision of June 5, 1963

ME-53

Blanket Fidelity Bonds — Mercantile Establishments**Blanket Position Bond or
CDDD Policy (Ins. Agr. I-Form B)****Basic 3-Year Term Prepaid Premiums or Rates****CLASS 2 EMPLOYEES**

No. of Class 2 Employees	AMOUNT OF COVERAGE				
	\$10,000 or less	\$12,500	\$15,000	\$20,000	\$25,000 or more
1	\$ 28.35	\$ 30.38	\$ 32.40	\$ 36.45	\$ 40.50
2	56.70	60.75	64.80	72.90	81.00
3	85.05	91.13	97.20	109.35	121.50
4	113.40	121.50	129.60	145.80	162.00
5	141.75	151.88	162.00	182.25	202.50
6	170.10	182.25	194.40	218.70	243.00
7	198.45	212.63	226.80	255.15	283.50
8	226.80	243.00	259.20	291.60	324.00
9	255.15	273.38	291.60	328.05	364.50
10	283.50	303.75	324.00	364.50	405.00
11	311.85	334.13	356.40	400.95	445.50
12	340.20	364.50	388.80	437.40	486.00
13	368.55	394.88	421.20	473.85	526.50
14	396.90	425.25	453.60	510.30	567.00
15	425.25	455.63	486.00	546.75	607.50
16	453.60	486.00	518.40	583.20	648.00
17	481.95	516.38	550.80	619.65	688.50
18	510.30	546.75	583.20	656.10	729.00
19	538.65	577.13	615.60	692.55	769.50
20	567.00	607.50	648.00	729.00	810.00

No. of Class 2 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$10,000 or less	\$12,500	\$15,000	\$20,000	\$25,000 or more
Each of next					
" 30 (21-50)	\$28.35	\$30.375	\$32.40	\$36.45	\$40.50
" 50 (51-100)	22.68	24.30	25.92	29.16	32.40
" 50 (101-150)	17.01	18.225	19.44	21.87	24.30
" 50 (151-200)	11.34	12.15	12.96	14.58	16.20
" 100 (201-300)	9.072	9.72	10.368	11.664	12.96
" 200 (301-500)	6.804	7.29	7.776	8.748	9.72
" 500 (501-1000)	5.67	6.075	6.48	7.29	8.10
" 500 (1001-1500)	4.536	4.86	5.184	5.832	6.48
" 1000 (1501-2500)	3.402	3.645	3.888	4.374	4.86
" 2500 (2501-5000)	2.268	2.43	2.592	2.916	3.24
" 5000 (5001-10,000)	1.701	1.8225	1.944	2.187	2.43
" over 10,000	1.134	1.215	1.296	1.458	1.62

Total No. of Class 2 Employees	AMOUNT OF COVERAGE				
	\$10,000 or less	\$12,500	\$15,000	\$20,000	\$25,000 or more
All of First					
" 50	\$ 1,417.50	\$ 1,518.75	\$ 1,620.00	\$ 1,822.50	\$ 2,025.00
" 100	2,551.50	2,732.75	2,916.00	3,280.50	3,645.00
" 150	3,402.00	3,645.00	3,888.00	4,374.00	4,860.00
" 200	3,969.00	4,252.50	4,536.00	5,103.00	5,670.00
" 300	4,876.20	5,224.50	5,572.80	6,269.40	6,966.00
" 500	6,237.00	6,682.50	7,128.00	8,019.00	8,910.00
" 1000	9,072.00	9,720.00	10,368.00	11,664.00	12,960.00
" 1500	11,340.00	12,150.00	12,960.00	14,580.00	16,200.00
" 2500	14,742.00	15,795.00	16,848.00	18,954.00	21,060.00
" 5000	20,412.00	21,870.00	23,328.00	26,244.00	29,160.00
" 10,000	28,917.00	30,982.50	33,048.00	37,179.00	41,310.00

ME-54

Revision of June 5, 1963

Blanket Fidelity Bonds — Mercantile Establishments
Blanket Position Bond or
CDDD Policy (Ins. Agr. I-Form B)
Basic 3-Year Term Prepaid Premiums or Rates
CLASS 1 EMPLOYEES

No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
Loc. Charge	\$ 61.56	\$ 71.28	\$ 81.00	\$ 105.30	\$ 121.50
5 or less	\$ 522.45	\$ 595.35	\$ 668.25	\$ 830.25	\$ 931.50
6	565.38	643.14	720.90	891.00	996.30
7	608.31	690.93	773.55	951.75	1,061.10
8	651.24	738.72	826.20	1,012.50	1,125.90
9	694.17	786.51	878.85	1,073.25	1,190.70
10	737.10	834.30	931.50	1,134.00	1,255.50
11	780.03	882.09	984.15	1,194.75	1,320.30
12	822.96	929.88	1,036.80	1,255.50	1,385.10
13	865.89	977.67	1,089.45	1,316.25	1,449.90
14	908.82	1,025.46	1,142.10	1,377.00	1,514.70
15	951.75	1,073.25	1,194.75	1,437.75	1,579.50
16	994.68	1,121.04	1,247.40	1,498.50	1,644.30
17	1,037.61	1,168.83	1,300.05	1,559.25	1,709.10
18	1,080.54	1,216.62	1,352.70	1,620.00	1,773.90
19	1,123.47	1,264.41	1,405.35	1,680.75	1,838.70
20	1,166.40	1,312.20	1,458.00	1,741.50	1,903.50
21	1,209.33	1,359.99	1,510.65	1,802.25	1,968.30
22	1,252.26	1,407.78	1,563.30	1,863.00	2,033.10
23	1,295.19	1,455.57	1,615.95	1,923.75	2,097.90
24	1,338.12	1,503.36	1,668.60	1,984.50	2,162.70
25	1,381.05	1,551.15	1,721.25	2,045.25	2,227.50

No. of Class 1 Employees (Cont'd.)	AMOUNT OF COVERAGE				
	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
Each of Next					
25 (26-50)	\$42.93	\$47.79	\$52.65	\$60.75	\$64.80
50 (51-100)	34.344	38.232	42.12	48.60	51.84
50 (101-150)	25.758	28.674	31.59	36.45	38.88
50 (151-200)	17.172	19.116	21.06	24.30	25.92
100 (201-300)	13.7376	15.2928	16.848	19.44	20.736
200 (301-500)	10.3032	11.4696	12.636	14.58	15.552
500 (501-1000)	8.586	9.558	10.53	12.15	12.96
500 (1001-1500)	6.8688	7.6464	8.424	9.72	10.368
1000 (1501-2500)	5.1516	5.7348	6.318	7.29	7.776
2500 (2501-5000)	3.4344	3.8232	4.212	4.86	5.184
5000 (5001-10,000)	2.5758	2.8674	3.159	3.645	3.888
over 10,000	1.7172	1.9116	2.106	2.43	2.592

Total No. of Class 1 Employees	AMOUNT OF COVERAGE				
	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
All of First					
50	\$ 2,454.30	\$ 2,745.90	\$ 3,037.50	\$ 3,564.00	\$ 3,847.50
100	4,171.50	4,657.50	5,143.50	5,994.00	6,439.50
150	5,459.40	6,091.20	6,723.00	7,816.50	8,383.50
200	6,318.00	7,047.00	7,776.00	9,031.50	9,679.50
300	7,691.76	8,576.28	9,460.80	10,975.50	11,753.10
500	9,752.40	10,870.20	11,988.00	13,891.50	14,863.50
1000	14,045.40	15,649.20	17,253.00	19,966.50	21,343.50
1500	17,749.80	19,472.40	21,465.00	24,826.50	26,527.50
2500	22,631.40	25,207.20	27,788.00	32,116.50	34,303.50
5000	31,217.40	34,765.20	38,313.00	44,266.50	47,263.50
10,000	44,096.40	49,102.20	54,108.00	62,491.50	66,703.50

NOTE: For Class 2 Employee Basic Premiums see manual page ME-53

Mr. ROOSEVELT. Mr. Gill?

Mr. GILL. Mr. Chairman, we have had a quorum call, and I have several questions which will take more time than we have, so do you intend to continue this?

Mr. ROOSEVELT. If you would care to have us, we will ask Mr. Fitzgerald to wait while we answer the quorum call and come back.

Mr. GILL. I think that would be easier, if possible.

Mr. ROOSEVELT. All right, could we impose upon you for a short time? It will take us about 15 minutes, roughly, to return. We will be a little late for lunch, but I think we can probably get through in 15 or 20 minutes after that, if that would be agreeable.

Mr. FITZGERALD. I am here at your convenience, sir.

Mr. ROOSEVELT. Thank you very much. So then the committee will recess for approximately 15 minutes.

.(Whereupon, a short recess was taken from 12:08 to 12:25.)

Mr. ROOSEVELT. The committee will come to order, please.

The Chair yields to Mr. Gill.

Mr. GILL. I understand from counsel, Mr. Fitzgerald, that you wanted to clarify further the difference between the \$2.78 and the 17-cent rate that was referred to earlier in the testimony.

Mr. FITZGERALD. Yes, sir; I would like to clarify that item, and another item seems to have been left up in the air.

So far as the 17-cent item is concerned, this is presumably a rate charged by Lloyd's which is an alien, unlicensed insurer, at a time prior to the Landrum-Griffin Act, when normally the coverage carried by labor organizations, I understand, was in small amounts, without the requirement for faithful performance of duty.

Even if Lloyd's were permitted by law to write the bond in compliance with the Landrum-Griffin Act, it would seem to me that there would be a substantial difference in the premium Lloyd's would have to charge by reason of much larger amounts of coverage being required, blanket bonding, if used, being required on a multiple penalty basis, and a faithful discharge of duty coverage being required.

Now if this should be converted into a rate per thousand basis, I would assume that it would be different from this 17-cent item that is referred to.

Mr. GILL. Now do you have any knowledge as to whether this is the rate charged by Lloyd's and that this rate is not now charged by Lloyd's?

Mr. FITZGERALD. I tried to get some authentic information in that regard, and asked one of my colleagues to inquire of the insurance department in Illinois, where Lloyd's is licensed, concerning the rates filed by Lloyd's on individual and scheduled bonds, and particularly those for labor unions.

Mr. GILL. Now you don't have any information here today, though, which would tell us that this 17 cents was not now being charged by Lloyd's for Landrum-Griffin liability?

Mr. FITZGERALD. No, sir.

Mr. GILL. Will you have that available?

Mr. FITZGERALD. I have no way of getting any such information.

Mr. GILL. You wouldn't even be able to get it from Illinois?

Mr. FITZGERALD. I was informed by the department in Illinois that there were no rates on file by Lloyd's for this type of coverage.

Mr. GILL. So you don't know what Lloyd's rates are at the present time for Landrum-Griffin-type coverage?

Mr. FITZGERALD. No, sir.

Mr. ROOSEVELT. Well, may the Chair inject there that they are not eligible under the act, under the Landrum-Griffin. They were only recently made eligible under the welfare pension provisions to be able to write coverage. I am sure there would be no Lloyd's rates available under Landrum-Griffin, but there might be under the Welfare Pension Act, because of the recent ruling of the Secretary of Labor.

If the gentleman wants, the chairman will instruct counsel to inquire of the State of Illinois if they have any rates on that.

Mr. GILL. I was just curious, Mr. Chairman, as to where the 17 cents came from, and what it meant. It apparently does not mean much at this point.

Mr. FITZGERALD. If I may attempt to make a clarification, comment was made earlier that if a labor organization felt that it had a right to redress, that it would be necessary for it to go to all 50 States in order to accomplish this fact.

I believe that that is not correct. That any labor organization could go to one State, and that would be sufficient, and I would assume it would be the State of domicile, and no general reference to all States would be required.

Mr. GILL. Now, may we pursue that a little further?

Your organization sets the rate, nationwide; does it not?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. And then it submits 50 separate schedules to 50 separate States for approval by their insurance commissioner?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. And the prior rate was approved by all of the States and your present rate has been approved by all except three, if I recall your testimony.

Mr. FITZGERALD. That is correct.

Mr. GILL. And it has not been changed or modified by any of these States up to this time?

Mr. FITZGERALD. The new rate filing that we made has been modified by some of the States, but not in a way that would apply specifically to labor organizations or welfare and pension plans.

Mr. GILL. So they have accepted your basic rate for the type of coverage that we are discussing here?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. And they have not modified it?

Mr. FITZGERALD. No, sir.

Mr. GILL. And this is generally the pattern that they follow with all of the rate changes that you make on all of your bonds?

Mr. FITZGERALD. That is correct.

Mr. GILL. In other words, you have what is in effect a nationwide ratesetting mechanism yourself, but each of the States would have to look at it from their one-fiftieth standpoint, is that correct?

Mr. FITZGERALD. That is correct.

Mr. GILL. And there is no comparable nationwide rate review mechanism, comparable to your nationwide ratesetting mechanism?

Mr. FITZGERALD. The rate review mechanism would be involved in the so-called convention examinations, which are required every 5 years of the Surety Association of America.

Mr. GILL. Required by whom?

Mr. FITZGERALD. Required by law, by State law.

Mr. GILL. All States, or some States?

Mr. FITZGERALD. I believe it is fairly uniform in all States, and certainly the National Association of Insurance Commissioners has considered this, and has approved in principle the convention examination type of review by insurance departments, so that it is not necessary for every insurance department to review our procedures, but the review by selected insurance departments will be accepted by all as satisfactory.

Mr. GILL. In other words, one or two of perhaps the more wealthy or larger States will get together and do this review for all the rest of the States?

Mr. FITZGERALD. That is correct.

Mr. GILL. You have no objection to this type of review, do you?

Mr. FITZGERALD. No, sir.

Mr. GILL. Does it make any difference to you whether it is done by two of the States or by the Treasury or some other Federal organization?

Mr. FITZGERALD. All we do is comply with the law. This becomes quite an expensive operation, and I suppose—

Mr. GILL. It wouldn't cost you any more to comply with a law that said the Secretary of the Treasury, for instance, would conduct this review every 5 years, in these types of bonds which are required nationwide by Federal law?

Mr. FITZGERALD. Well, this would be another examination in addition to the examination required by States. It is now necessary for us, when we are examined, to pay the cost of examination, which is very substantial.

Mr. ROOSEVELT. Will the gentleman yield?

Mr. GILL. I yield.

Mr. ROOSEVELT. There would be no objection to the Secretary of the Treasury, let's say, or some other agency, being provided with the same information which you provide whatever the States are that are selected to do this examination. He could ask questions concerning the examination and report. That basically wouldn't involve much basic experience, would it?

Mr. FITZGERALD. The report of examination, when it is completed and accepted, is then given to all the States, and there would be no objection to giving an additional copy of the report of examination to any designated Government body.

Mr. GILL. How much does this periodic examination cost? You said it was substantial. Any idea?

Mr. FITZGERALD. The Surety Association budgets \$5,000 per year for these examinations or \$25,000 for a 5-year period. The expense of the current examination is expected to be in excess of the amount budgeted for it.

Mr. GILL. And by whom is this paid?

Mr. FITZGERALD. By the Surety Association of America.

Mr. GILL. Which is made up of what individuals, companies, or groups?

Mr. FITZGERALD. We are a trade association and a rating organization composed of member companies, subscriber companies, and manual purchasers.

Mr. ROOSEVELT. It comes out of whatever their dues are?

Mr. FITZGERALD. It comes out of our expenses; yes, sir. We are non-profit, so that we bill companies for our expenses and the companies pay those expenses, which would include this item of the examination.

Mr. GILL. I believe you stated on page 1 that you have 227 companies in your association?

Mr. FITZGERALD. No, sir; the 227 companies are the companies for which we act as statistical agent. We have a total of 94 member companies, 50 subscriber companies, and 56 other companies purchasing our services.

Mr. GILL. In other words, you have about 200 members, then?

Mr. FITZGERALD. No; they are members, subscribers, and manual purchasers. There are different categories of membership in the association.

Mr. GILL. Well, there are 200 entities here; 94 plus 50 plus 56, right?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. And do these all pay some form of dues to your association from which you pay the \$25,000?

Mr. FITZGERALD. They contribute to our expenses.

Mr. GILL. I wonder if you could explain a couple of terms which are not clear to me. What is a blanket bond as related to any other form of bond?

Mr. FITZGERALD. A blanket bond covers all officers and employees of the insured, in accordance with a definition in the bond itself. Other bonds cover selected employees. An individual bond covers just one employee. A name schedule bond covers the employees that are named in a schedule for the amount designated opposite the name. A position schedule form of bond covers each of the employees in a designated position in the amount specified opposite the position in the schedule.

Mr. GILL. Now are the bonds that we are talking about under section 502(a) of the Landrum-Griffin law blanket bonds?

Mr. FITZGERALD. They may be any kind. They may be an individual bond, or a name or position schedule, or a blanket bond.

Mr. GILL. The reason I ask you that is that the laws says "every officer who handles funds or other property shall be bonded."

Now they are talking about specific people with specific duties. Does that mean that you have a blanket bond, or you have a bond for each of those individuals, or a bond which covers these named individuals specifically?

Mr. FITZGERALD. It could be done any way at the election of the labor organization or trust. But it would seem that the only sure way of covering everybody would be under a blanket bond.

Under a position or a name schedule bond, it would be necessary to add additional employees as they were brought into the organization or as their duties changed or their responsibilities changed, and these amendments to the bond would have to be done specifically. On a blanket bond, it is all automatic.

Mr. GILL. Do you have any idea how many of the labor union bonds under this law are blanket and how many are of a specific nature?

Mr. FITZGERALD. I have no information as to numbers except the general impression that individual and schedule bonds are of decreasing importance, and blanket bonds are of increasing importance and use in this field.

Mr. GILL. Do you file a rate in each of the 50 States for blanket bonds?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. What is that rate? In relation to the law that we are discussing here today?

Mr. FITZGERALD. We file rates and rating procedures. The rates are based upon the kind of coverage, the number and classification of employees, and the amount of coverage, so the rates would vary depending upon the circumstances in each case.

Mr. GILL. In other words, all you file is a formula?

Mr. FITZGERALD. We file rates and rating procedure, which is different from filing a premium. The premium is made up of the rates that are filed.

Mr. ROOSEVELT. Would the gentleman yield for an observation?

Mr. GILL. Surely.

Mr. ROOSEVELT. I think the gentleman may remember that it was stated, I think, on the record, that part of the reason for the bonding provisions here were very frankly to try to get out of unions the type of individual that certain people might not approve of. It seems obvious to me that if you have a blanket bond, you don't accomplish that purpose at all, because you don't know who is covered, as Mr. Fitzgerald very properly said. It is automatic.

Mr. GILL. Well, the chairman is accurate on that. I am not sure what the reason was for the bonding provisions. I might have a different theory on it, but it is perfectly obvious that a blanket bond covers everybody who is under the blanket; right?

Mr. FITZGERALD. That is right, sir.

Mr. GILL. And all you file, then, in layman's language, with the various States, is what I would call a formula saying that "If you have so many people covered and so much liability and so much coverage, we will charge you so much per thousand?"

Mr. FITZGERALD. That is correct.

Mr. GILL. And that is basically what you do?

Mr. FITZGERALD. It is not on a per thousand basis, but it is a rate depending upon these various factors.

Mr. GILL. And is it uniform in all of the States?

Mr. FITZGERALD. It is uniform in all the States, except that we have the new rating procedures in 47 of the States, but not yet accepted in those three States.

Mr. GILL. Very well; your "formula," if I am using the right word, is uniform, but are your actual charges per unit uniform?

Mr. FITZGERALD. They are the same.

Mr. GILL. They are the same right across the country?

Mr. FITZGERALD. Except in those three States that have not yet approved the new rating procedures.

Mr. GILL. Surely. But after they do approve it, assuming that they do, it will be the same right across the country?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. Now it brings me to a point that puzzles me a bit. You stated that for fraternal orders, you had a 50-percent surcharge for faithful performance coverage, and you then applied, as I recall your testimony, that same formula to labor unions, and then after a series of meetings with the AFL-CIO officials you dropped that 50 to 25, and then I believe you also said that you applied the 25 to fraternal as well. Is that correct?

Mr. FITZGERALD. We now apply the 25-percent surcharge to fraternal as well. We did not do it at the same time. It was done for fraternal orders at a subsequent date, I believe.

Mr. GILL. Right. But you have now made the 25-percent surcharge uniform both for fraternal and for union organizations.

Mr. FITZGERALD. Yes, sir.

Mr. GILL. Now why didn't you make it 25 percent for fraternal prior to this time? If you can do it now, why couldn't you have done it before the Landrum-Griffin law, or before this question was raised by AFL-CIO?

Mr. FITZGERALD. We could have done it at any time, had we concluded that that was a proper charge.

Mr. GILL. Well, what prevented you from so concluding, if you have now concluded it?

Mr. FITZGERALD. There was no reason for—there was nothing to prevent us from concluding that. We could have concluded that.

Mr. GILL. The sharp fact of the matter is that the question was never pressed with you in any serious fashion until the unions came in and said that it should be lowered. Isn't that correct?

Mr. FITZGERALD. Substantially, that is correct; yes.

Mr. GILL. So it took a nationwide organization, which was heavily hit by this requirement financially, to come in with certain facts and figures, sit down with your nationwide organization, and say, "Look, you are charging us too much; drop it," and you agreed with them, at least up to a point. Isn't that correct?

Mr. FITZGERALD. In point of fact, that is the way it happened.

Mr. GILL. Now they didn't go to the individual States and appeal and complain. They had to come to you directly as an organization representing all of your members across the country. Isn't that correct?

Mr. FITZGERALD. They did that, and that, if I may say so, is not unusual. In other words, we deal very often with trade organizations representing various segments of business, such as the American Bankers Association, the U.S. Savings & Loan League, and other organizations, each of which has its own problems, and they deal with us in connection with those problems and we try to reach satisfactory conclusions with them.

Mr. GILL. All right. And then after you had dropped the surcharge from 50 to 25 percent, you decided it probably wasn't fair to leave the fraternal at 50 percent, so you dropped them down, too. Is that correct?

Mr. FITZGERALD. We try to be consistent.

Mr. GILL. But if the unions had never complained, the fraternal would still be at 50 percent. Isn't that right?

Mr. FITZGERALD. There is no assurance that that would have remained indefinitely; no.

Mr. GILL. How long had it been at 50 percent.

Mr. FITZGERALD. I do not recall.

Mr. GILL. Well, was it 1 year, 10 years, or 20 years, something along that line?

Mr. FITZGERALD. It was, I believe, a substantial number of years, but I would not know how many years.

Mr. GILL. I believe you also stated that one of the reasons for dropping this surcharge was that you found that most of your losses were of a type that would be covered by a normal dishonesty bond, and not by a faithful performance type bond. Is that not correct?

Mr. FITZGERALD. That is correct.

Mr. GILL. And on page 5, you cited two examples of the application of the faithful performance type bond. May I ask whether these are specific examples of actual cases, or are they an attempt on your part to show the difference between the two bonds?

Mr. FITZGERALD. These are not specific examples of any case that I know of; they are purely hypothetical, and they were presented merely to illustrate the point that faithful discharge of duty does give coverage beyond the coverage given by an honesty bond.

Mr. GILL. But you don't have any specific examples of losses which would be covered by a faithful performance but not covered by an honesty bond?

Mr. FITZGERALD. There are any number of examples in the public official field. Any number of court decisions applying this type of coverage to specific losses.

Mr. GILL. Yes; but we are interested in the specific field we are discussing here, which is the unions.

Now do you have any specific examples in the union insurance field under either the Labor-Management Reporting and Disclosure Act or the Welfare Pension Disclosure Act?

Mr. FITZGERALD. No, sir; I have no specific examples.

Mr. GILL. Does anybody in your organization have such examples?

Mr. FITZGERALD. No one in our organization, but some of our companies might have them. If you are interested, I could inquire of a selected group of companies to see if they have any such examples, which I would submit to you.

Mr. GILL. I think it would be helpful to have the examples, but along with them it would be almost necessary to have some basic statistics showing what percentage of the losses of all of these companies fell into one category or the other. Do you have such statistics, or are they unavailable?

Mr. FITZGERALD. If I understand your question correctly, no such statistics could be available. In other words, losses are reported on the basis of the bond that is issued, and when we receive statistics on such losses, it is on the basis of losses under a faithful discharge of duty bond or under an honesty bond.

Now since faithful discharge of duty coverage includes dishonesty, one would have to go back to the specific claim to find out whether or not that claim actually involved dishonesty, or was a true faithful discharge of duty problem.

Mr. GILL. So you have no figures which could really help us make a decision here. You have no way of breaking down, say, 100 losses under a faithful performance bond, and saying that X number of these would have been covered under a normal dishonesty bond?

Mr. FITZGERALD. No, sir.

Mr. GILL. Well, then, how do you determine what your surcharge should be?

Mr. FITZGERALD. That is based on the best judgment we have.

Mr. GILL. Your best judgment is without figures of this sort?

Mr. FITZGERALD. We do not have figures such as you have asked for; no, sir.

Mr. GILL. Well, I do not understand the process here, but it sounds to me like you could come up with almost as good a percentage surcharge using a ouija board as you could with whatever process you are using now, unless you have the type of figure that shows the margin of risk that you are incurring by going into a faithful performance bond.

Mr. ROOSEVELT. Would the gentleman yield?

Mr. GILL. Surely.

Mr. ROOSEVELT. Perhaps the gentleman would clarify a little bit, Why was the figure of 50 percent in the fraternal organizations kept at 50 percent while this one was reduced to 25 percent?

Although I understand now that you have reduced the other to 25 percent, too. Was there a tremendous change in the loss ratio in the fraternal societies that brought about this reduction of 50 percent of the original surcharge?

Mr. FITZGERALD. No, sir; the change was made in order to be consistent with what we were doing in the labor organization field, and in the public official field.

Mr. ROOSEVELT. In other words, what you are saying is that you had no reason for having charged them 50 percent more, but because you changed it for labor, you are going to change it for fraternal organizations. What you are saying is: "We really didn't have any good reason for that extra 25 percent."

Mr. FITZGERALD. I can't subscribe to that.

Mr. ROOSEVELT. Well, what was the reason for doing it? The only reason you give me for changing it was that you changed it for the labor people, so you thought you had better change it for the fraternal orders.

Mr. FITZGERALD. We know that faithful discharge of duty coverage, since it includes something more than honesty coverage, should have a higher charge than honesty coverage?

Mr. ROOSEVELT. And you gave it 50 percent for fraternal organizations for a long period of time.

Mr. FITZGERALD. So now it is a question of judgment as to how much more.

Mr. ROOSEVELT. No; you decided that years ago. You made it 50 percent for fraternal organizations. This was nothing new.

Mr. FITZGERALD. That is right.

Mr. ROOSEVELT. You had it 50 percent. Then a similar requirement was established for labor organizations. They convince you not to make it 50, make it 25. So you turn right around and say, "We don't want to look inconsistent to fraternal, so we drop them to 25."

If I were representing a fraternal organization, I would be after you with a gun. "Why have you been charging me this extra 25 percent all these years? It takes my labor friend to come in here and convince you to reduce the rate to 25, and you have no reason for doing it?"

What is the answer to that?

Mr. FITZGERALD. The answer is, as I have stated, that we reduced the surcharge from 50 to 25 percent for labor organizations, and we did the same thing, then, for the fraternal orders.

Mr. ROOSEVELT. Very nice of you.

Mr. GILL. I gather, then, you consider the 25 percent fair, right across the board now?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. And if the labor organizations come in later informally and make a case to you showing it should only be 10 percent, will you drop the other people to 10 percent?

Mr. FITZGERALD. We are always open to discussion and consideration of these different problems, and we would have to make a decision on the basis of our best judgment at that time.

Mr. GILL. Now here is the point that I think has bothered us all along. These labor organizations apparently are unable to get surety bond from sources other than those on the Treasury list. Is that the way I understand the facts?

Mr. FITZGERALD. That is a requirement in the law.

Mr. GILL. And your members who do supply these bonds are on the Treasury list, so they are the only ones who can supply the bonds. Isn't that correct?

Mr. FITZGERALD. There are other companies on the Treasury list, other than member companies of the Surety Association of America.

Mr. GILL. I see.

How many different groups are there that can supply these bonds who are not members of your association?

Mr. FITZGERALD. I have never attempted to go over the Treasury list in order to determine how many on the Treasury list were members of the Surety Association and how many were not members.

Mr. GILL. I see. But are the rates charged by these people who are not members of your association the same or different from the rates charged by your members?

Mr. FITZGERALD. The rates charged by nonmembers of the Surety Association, I would assume, would be different. They might be the same, but generally speaking, they would be different.

Mr. GILL. Do you know how many nonmembers of your association are actually capable of bonding unions such as the Teamsters Union?

Mr. FITZGERALD. I would think there would be a substantial number.

Mr. GILL. You do not have any facts or figures on this at the present time?

Mr. FITZGERALD. I don't know how many, but I can think offhand of at least a half dozen or more.

Mr. GILL. Well, then, would it be a factor in your negotiations, say, with the AFL-CIO, if they are to say to you, "Well, look, your surcharge of 25 percent, on the basis of our information, is too high, and we can convince some other sureties down here that they should give it to us for 10 percent."

Wouldn't that enter into your feeling and best judgment as to what your surcharge should be?

Mr. FITZGERALD. Competition is always a factor that has to be taken into consideration. It can't be ignored, but characteristically companies that are not members of the Surety Association charge lower rates than members and subscribers of the association itself.

Mr. GILL. So it would be a matter of bargaining here, to some extent. If they were able to get lower rates elsewhere, then perhaps you would have to consider lower rates for the members of your association.

Mr. FITZGERALD. That would be a matter of negotiation.

Mr. GILL. So it would probably be to the advantage of the customers here, and certainly the perpetuation of our free enterprise system, if there was a little competition in these ratesetting arrangements.

Mr. FITZGERALD. We like competition.

Mr. GILL. That is very reassuring.

I wonder, on page 6, Mr. Fitzgerald, where you mention that you are in the process of studying improved procedures for the rating of mercantile fidelity risks, if I interpret your statement correctly. Is that so?

Mr. FITZGERALD. That is correct, sir.

Mr. GILL. What is a mercantile fidelity risk as compared to the union fidelity risk that we are talking about here?

Mr. FITZGERALD. Well, the labor unions and pension plans would be included in the general category of mercantile fidelity risk. It would include all risks, other than financial institutions and public officials.

Mr. GILL. What types of risks are we talking about; specifically.

Mr. FITZGERALD. All business concerns, General Motors, hotels, lumber dealers—

Mr. GILL. Yes; I understand that, but what specific loss within those concerns are you insuring?

Mr. FITZGERALD. In the fidelity field, we are insuring the dishonesty of employees.

Mr. GILL. I see.

Now, do you go to faithful performance bonds in these mercantile risks?

Mr. FITZGERALD. We have faithful performance coverage in the fraternal order field, still, and, of course, in the public official field.

Mr. ROOSEVELT. But not in the mercantile field, or very rarely in the mercantile field?

Mr. FITZGERALD. Well, it only would be the labor organizations and fraternal orders.

Mr. GILL. In other words, General Motors does not generally have a faithful performance type bond, it has a dishonesty-type bond?

Mr. FITZGERALD. That is correct.

Mr. GILL. So we are holding the UAW, for instance, that does business for General Motors, to a higher standard of bonded performance than we are General Motors itself; is that correct?

Mr. FITZGERALD. To the extent that faithful performance goes beyond dishonesty; that is correct.

Mr. ROOSEVELT. Let me say that we don't hold General Motors to any standard at all. They do it on their own, and they choose not to do it at the high standard we have set for the UAW. We don't make them buy anything, but we do make the UAW buy something.

Mr. GILL. Well, I understand that, but perhaps General Motors has a higher standard, because somebody said what is good for them is good for everybody.

I wonder, I have one further question that bothers me, and that goes to the matter of subrogation that the chairman has raised.

Now, what modest experience I have in dealing with insurance companies indicates to me that sometimes the recovery by the insurer, whether it be a surety company or an automobile insurance company, or anything else, sometimes occurs many years after the actual loss has been paid.

For example, someone absconds with some money that you may have covered with a surety bond; it may take you 2 years to find them in some other State, and then perhaps a year or so to get it on the court calendar, and then a while later to try it, and then perhaps you do recover some portion of the loss, but this is several years after the actual loss has been paid out by your company.

Now how do you arrive at a net figure in any given year, if this situation obtains to any degree at all?

Mr. FITZGERALD. The salvage figure collected in any year is in reduction of the losses reported for that year.

Mr. GILL. In other words, your salvage figure for 1962 would be the difference between the losses paid out in 1962 and any subrogation recovery, even though that recovery was for a loss 10 years prior to that?

Mr. FITZGERALD. That is right.

Mr. GILL. Well, how does this give you any figure on which you can figure an individual type risk premium? It seems to me that you have lumped the whole works together. You may have a good recovery in some years, and a poor recovery or no recovery in other years, and it isn't necessarily related to the type of loss which you paid out in that given year.

Mr. FITZGERALD. It is for that reason that we need several years of experience in order to come to any conclusions and a wide spread of risk or statistics.

Mr. GILL. Isn't it true that you can't really allocate an accurate percentage of recovery in any case?

Mr. FITZGERALD. The salvage recovered would be reported on the basis of the code under which the loss was reported, so that even though it did not relate to a current claim being paid at this time, it would still get in the figures.

Mr. ROOSEVELT. Will the gentleman yield?

Mr. GILL. Surely.

Mr. ROOSEVELT. Would you keep any figures to show what in general the percentage of recovery is against particular losses?

Mr. FITZGERALD. My understanding is that we compile our figures on a net basis. In other words, a loss reported is less salvage.

Mr. ROOSEVELT. Yes; but what order of business? If I have a \$10,000 loss, and history shows the probability of getting half of it back, I can count on getting half of it back, because of a historical record. But you don't keep any record of that nature to show what the percentage of recovery is against loss? Is that right?

Mr. FITZGERALD. No, sir.

Mr. GILL. Well, then, how do you give an experience rating to a given union?

Mr. FITZGERALD. On the basis of the application of an experience rating plan that applies to everything, everyone.

Mr. GILL. Across the country?

Mr. FITZGERALD. Yes, sir.

Mr. GILL. Now let's assume that in the State of X you have a union which has a very bad rating, and in the State of Y you have another branch of that same union which has a perfect rating—no losses at all. You mean in the State of Y they have to carry the bad experience of the State of X?

Mr. FITZGERALD. It would depend upon the bond. In other words, the experience is given on the coverage under a given bond, so if you had two unions covered under one bond, the experience applicable to that bond, whether it be on account of losses sustained by one union or the other, would determine the experience which would apply.

Mr. GILL. In other words, if you have a union or an international union that takes out a bond for half of its members across the State, all of the losses under that bond are applied against the experience rating for the total bond?

Mr. FITZGERALD. That is correct.

Mr. GILL. Whereas if they were to break it down by locals, the good locals might get a better rating than the poor locals?

Mr. FITZGERALD. That could be true.

Mr. GILL. Does that happen?

Mr. FITZGERALD. I think the current trend is to combine the locals with the international in one bond.

Mr. ROOSEVELT. Mr. Fitzgerald, again, in fairness, the reason for this is that because of the increased spread of the risk, you do get normally a lower premium for the larger spread of the risk. For instance, very rarely would we get an individual local able to buy at a lower rate than the national rate, simply and primarily because of the factor that you give in making the rate to the additional spread of risk and increased volume of premium?

Mr. FITZGERALD. That is correct, sir.

Mr. GILL. In other words, you can buy it wholesale cheaper even though you may have to share the bad experience of some of the bad locals; is that right?

Mr. ROOSEVELT. That is right.

Mr. GILL. Now, one other question, then I will drop this.

You stated that insurance companies or surety companies would not or should not bond a person who was not bondable, if I recall correctly. I don't know what the correct word is, bondability, but how do you determine, and on what scale do you determine whether a union is bondable or not bondable, and who makes this determination?

Mr. FITZGERALD. It is not a question of the union being bondable. There is no discrimination so far as the insured is concerned. Now the union would be the insured. The coverage would apply to the officers and employees of the Union.

Mr. GILL. Surely.

Mr. FITZGERALD. A determination would have to be made whether or not a given officer or employee was lacking in integrity, so that a company was unwilling to bond that particular person.

Mr. GILL. Who makes this determination?

Mr. FITZGERALD. This would be a determination that only the company could make.

Mr. GILL. Supposing all companies make the same determination: "Union X has certain people in it that we don't think are properly bondable. Therefore, we will not bond union X."

What recourse is there for that union?

Mr. FITZGERALD. There is nothing to compel a company to write a bond, so that it is a matter for each company to determine for itself whether or not it will bond any given person, and no one has any control over that, other than—

Mr. GILL. There is no recourse at all for this particular union. He can't go to the insurance commissioners in the State; he can't go to the Government; he can't go anyplace; he just has to take the company's word for it. Is that correct?

Mr. FITZGERALD. That would be a matter of company determination.

Mr. GILL. Thank you very much, Mr. Chairman.

Mr. ROOSEVELT. Mr. Fitzgerald, we put you through a lot of questions, and I think you have been a great help to us. We will appreciate your furnishing us with this other information as early as you can. There is a possibility that other members of the committee and counsel may have a few other questions. We will try not to bother you too much, but if you could help us informally in the gathering of statistical information, we would appreciate it very much.

Mr. FITZGERALD. I would be very happy to do whatever I can, Mr. Chairman, and I appreciate the honor and privilege of being here.

Mr. ROOSEVELT. Thank you very much for your help. We appreciate it very much.

The committee will stand adjourned subject to call of the Chair.

(Whereupon, at 11:07 p.m., the committee was recessed subject to call of the Chair.)

(The following statements and letters were submitted for the record:)

STATEMENT OF THE AMERICAN MUTUAL INSURANCE ALLIANCE

This statement is presented in behalf of the 114 member companies of the American Mutual Insurance Alliance. The alliance for over 40 years has been the principal trade association in the country representing mutual fire and casualty companies. Although not all of our member companies write the type of "fidelity" bonds required under the Labor-Management Reporting and Disclosure Act and the Welfare and Pension Plans Disclosure Act, our interest is considerable in this field. For this reason we appreciate this opportunity to present our views on the pending legislation.

H.R. 4669

This bill would amend the Labor-Management Reporting and Disclosure Act of 1959, and the Welfare and Pension Plans Disclosure Act, to require that each surety company issuing bonds under these acts shall file with the Secretary of Labor a report signed by one of its principal officers listing and describing, for the preceding fiscal year, its bonding experience under these acts.

There is no specific requirement under either of these acts for the Secretary of Labor to transmit to Congress any comprehensive report of bonding experience under the act or the amounts of premiums paid. Therefore it is not clear what public purpose would be served by submitting such information to the Department of Labor, or what use would be made of it by the Department.

Evidence of the financial responsibility of surety bonding companies operating in this field, and adequate protection to beneficiaries and participants is provided in other reporting requirements to which surety companies are subject.

Under U.S.C.A., title 6, section 9, surety companies wishing to qualify for Treasury acceptance, are required to prepare and file with the Secretary of the Treasury quarterly statements, signed and sworn to by their president and secretary, showing their assets and liabilities.

Furthermore, since the enactment of Public Law 15 of the 79th Congress in 1945, commonly known as the McCarran-Ferguson Act, the business of insurance has been subject to the laws of the individual States. All of the States have enacted laws regulating rates for insurance policies and bonds. Rates are

required to be filed and are subject to examination by the State Insurance Departments. These rates must meet the statutory requirements of being "adequate, reasonable, and not unfairly discriminatory." Our membership has conformed to the requirements of State law in filing reports on their business activity and solvency and in support of the rates charged by them.

The reporting contemplated under H.R. 4669 would require a costly extraction of statistics relating to two minor categories of "fidelity" bond business, in a form different in content than that now being collected to meet the requirements of State law. It is doubtful that any satisfactory experience picture (upon which rates are determined) could be based upon 1 fiscal year, or upon the short period of time in which coverage under the two acts has been in effect.

In any event, if meaningful statistics could be compiled to comply with the information requirements of this bill, they would deal with a ratemaking function, which, as stated above, is already adequately regulated under State law. We believe it is the intention of Congress that it shall remain that way.

Therefore, our membership is opposed to H.R. 4669 because it appears to encroach upon authority delegated to the States by Federal statute, and because it would impose costly recordkeeping upon surety companies and the Department of Labor, without comparable benefits in the public interest.

H.R. 4670

Subsection (a) of H.R. 4670 would change the present requirement that bonds furnished under the Labor-Management Reporting and Disclosure Act be of a "faithful discharge of duties" type, to a type of bond which would provide protection against loss due to "fraud or dishonesty" on the part of the bonded union official. Our industry is prepared to write either type of bond and expresses no preference on this aspect of the bill.

Subsection (b) would add a proviso to section 502(a) of the Labor-Management Reporting and Disclosure Act which would bypass the present requirements of Treasury Department acceptance under which American surety companies must qualify. The language permitting the Secretary of Labor to accept "other bonding arrangements" implies broad discretionary power, and is a wide open invitation to unregulated competition from alien insurers.

We have seen to what extent the Secretary of Labor has gone in interpreting similar language contained in the Welfare and Pension Plans Disclosure Act. On August 9, 1963, the Secretary ruled, under subsection 13(e) of that act, that Lloyd's of London would be granted an exemption from the bonding requirements of subsection 13(a) of the act. Subsection 13(e) is similar to and is apparently the source for the language in subsection (b) of H.R. 4670.

The alliance protested this ruling by the Secretary of Labor on the grounds that an adequate market for such business now exists in the United States through approved surety companies.

The recent surplus lines investigation by the Senate Antitrust and Monopoly Subcommittee, as well as our national concern regarding the outflow of gold from our shores, should indicate the desirability of servicing such business within our own country. If alien insurers are allowed to write this business at all, it should be within the limitations of the surplus lines concept; that is, if such business will not be written by an insurer approved under the Treasury Department's requirements.

We can anticipate that if subsection (b) of this bill is enacted, the natural corollary would be a petition from Lloyd's of London to be further recognized by the Secretary of Labor under the Labor-Management Reporting and Disclosure Act.

Our membership is ready to meet competition under equal competitive circumstances, but cannot be expected to meet it under circumstances where they must abide by State regulation and Federal requirements—while the alien insurer does not.

We are opposed to subsection (b) of H.R. 4670 because it will undoubtedly provide an avenue for further invasion of the domestic market by alien insurers, who would thus be relieved of either State or Federal compliance.

H.R. 4671

The language of this bill is only a variation of that contained in H.R. 4670, and its purpose is clearly the same. Our objections to it are the same as those stated in opposition in subsection (b) of H.R. 4670.

We are opposed to any avoidance of requirements or granting of exemptions which would provide a competitive preference for alien insurers in an American market which can be serviced adequately and reasonably by American surety companies.

Respectfully submitted,

WALLACE M. SMITH,
Manager, Mid-Atlantic Office, American Mutual Insurance Alliance.

STATEMENT OF W. A. BOYLE, PRESIDENT, UNITED MINE WORKERS OF AMERICA

I certainly appreciate the opportunity to present a statement supporting H.R. 4669, H.R. 4670, and H.R. 4671 and to express my firm conviction that it is vitally important to amend the bonding provisions of the Labor-Management Reporting and Disclosure Act of 1959.

The last 4 years of experience of attempting to comply with the bonding provisions of the Landrum-Griffin Act dictates the absolute necessity for immediate remedial legislation. Not only is this my opinion but it is widely shared by organized labor, surety companies and the officials charged with the administration of the act.

H.R. 4670 amends the bonding provision by eliminating the requirement of bonding for the "faithful discharge of duties" and provided instead for bonding for protection against loss "by reasons of acts of fraud or dishonesty." When Congress amended the Welfare and Pension Disclosure Act in 1962 it provided for simple honesty bonding. It further provided that the 1962 amendment would supersede the Landrum-Griffin bonding provisions if both acts were equally applicable. We must establish uniformity between the two parallel bonding laws which in many instances cover the same individuals acting in the dual capacity of a trade union officer and a trustee of a welfare and pension fund.

The Landrum-Griffin Act requirement of bonding for "faithful discharge of duty" was an entirely new concept unknown to the bonding trade. There were widely divergent interpretations of the section with its bramble of ambiguities. Neither the act, the legislative history nor the reported legal cases provided precedent for interpretation. The scope of protection intended by this obscure concept of "faithful discharge of duty" caused the surety companies to establish unreasonably high premiums since they were reluctant to bond union officers until the section could be clarified and the liability ascertained. This, of course, resulted in extremely heavy bonding costs to unions.

Other witnesses who appeared before the committee have referred to the observations of Solicitor of Labor Charles Donahue who said " * * * the words 'faithful performance of duties' are vague and indefinite in character. We have found that the bonding companies will bond under those words only at a very high rate of premium."

Despite the indefiniteness and vagueness of the scope of protection intended, we have no knowledge of any claims being paid by surety companies for violation of the "faithful discharge of duties." It is encouraging to note that because of the absence of claims, the premium rates for such bonding have been significantly reduced. Secretary of Labor Wirtz, while testifying before the House Appropriations Committee, responded to a question regarding the effectiveness of the Landrum-Griffin Act by saying, "If you were to ask how many violations of the act, I suppose the answer might well be not enough to justify the enactment by the administration of that legislation."

No other organizations, such as banks, insurance companies, or corporations are required to bond their officers or employees for "faithful discharge of duty." Despite the staggering losses of millions of dollars suffered by banks through embezzlement by employees and officials, banks are only required to provide simple blanket honesty bonds.

To reiterate, Congress recognized the need for changing this stringent and unfair bonding requirement when they amended the Welfare and Pension Act to permit bonding administrators, officers, and employees of welfare and pension plans for loss by reason of acts of fraud and dishonesty.

I agree completely with Senator Wayne Morse when he said in May 1963 that it was time to correct the error made in Landrum-Griffin in 1959 by providing for the more practical and more realistic type of honesty bond provided in the 1962 amendment to the Welfare and Pension Disclosure Act since there



was no reason in commonsense or in justice for continuing any distinction between parallel laws.

H.R. 4670 and H.R. 4671 provide means of correcting another mistake made in the Landrum-Griffin bonding requirement which provides that all bonds must be issued by a corporate surety which is acceptable on Federal bonds under the authority granted by the Secretary of the Treasury. This rigid and inflexible requirement limits the acceptable surety companies to American companies and permits this limited group of companies to arbitrarily refuse to bond certain union officers.

We are all familiar with the disastrous experience of the Teamsters Union earlier this year when their bond covering the international union and many of its affiliated local unions was canceled. We know this cancellation and the subsequent uniform rejection by all 231 surety companies on the Treasury list of the Teamsters bonding application were not based on economic reasons. It was only after the House Committee on Education and Labor telegraphically requested all companies on the Treasury list to explain the reason for rejecting the Teamsters bonding application that the Teamsters obtained the necessary bonds. Any union experiencing such a uniform rejection suffers irreparable harm. We in the United Mine Workers of America realize that this unreasonable and arbitrary power which the surety companies exercised against the Teamsters Union last January may be used against our union or any other labor organization in the future.

H.R. 4671 would permit certain reputable foreign surety companies to issue bonds. It is significant to recall the recent action by executive decree which permits acceptable foreign insurers to provide the bonds required by the Welfare and Pension Plan Disclosure Act. We support H.R. 4671 which would lift the discriminatory barrier against reputable reliable foreign companies who have for many years bonded American labor unions.

H.R. 4669 will require surety companies issuing bonds under these bonding provisions to report information concerning their bonding experience to the Secretary of Labor. This amendment would provide information on claims paid and premiums collected which is needed to fairly determine whether the premiums are excessive and the coverage is far more than adequate to protect union members.

The United Mine Workers of America urge the enactment of H.R. 4669, H.R. 4670, and H.R. 4671.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., November 6, 1963.

HON. JAMES ROOSEVELT,
Chairman, General Subcommittee on Labor, House Education and Labor Committee, U.S. House of Representatives, Washington, D.C.

DEAR MR. ROOSEVELT: The Chamber of Commerce of the United States believes that there is no information which would justify major alterations in the Labor-Management Reporting and Disclosure Act such as would be imposed by H.R. 4669, H.R. 5602, H.R. 4670, and H.R. 4671.

The national chamber's major concern deals with the first portion of H.R. 4670, which would change the type of bond ("faithful performance" bond to that of an "honesty" bond) under the Labor-Management Reporting and Disclosure Act.

Faithful performance bonds are not by any means a new concept. They have been the usual type of bond required where the public interest is involved, such as for public officeholders. Because of compulsory union membership requirements, except in right-to-work States, certainly there is an added public responsibility for faithful performance of duties placed upon the union official handling union funds.

The Landrum-Griffin law was enacted on the theory that certain basic regulatory provisions must be made applicable to labor organizations and to union officials beyond the point of mere disclosure, as is the case in the Welfare and Pension Plans Disclosure Act. It was meant to regulate the conduct of union officials handling union funds and so required a broader bonding requirement than for fraud and dishonesty.

Although some difficulty was first encountered with the faithful performance bond concept, the surety industry today has fully developed such bonds, and since October 1961, has reduced the surcharge for this type of bond from 50 to 25 percent.

A union spokesman during the recent hearing on this bill testified that the surety company with which his union dealt made no additional surcharge for extra coverage of "faithful performance" over and above "honesty." A competitive price for this type of bond is available whereby unions are able to secure bonds at reasonable expense. There are no facts which would justify any belief that there could be collusion between surety companies to deny bonds to union officials. The competitive effort to secure additional surety business is the basic safeguard against any collusive activity. In addition, collusion is improbable because it would subject offenders to State criminal statutes.

The second portion of H.R. 4670, and all of H.R. 4671, raise several important questions. The surety industry rightly has indicated certain objections to the provisions which would permit alien surety companies to write surety bonds. To grant authority for additional surety companies to write union bonds, as a means of increasing competition, should not be confused with permitting unfair competition. The enactment of these provisions might wrongly injure the domestic industry.

H.R. 4669 and H.R. 5602, requiring the filing by surety companies of certain types of statistical information, are not necessary since the information is already filed in the individual States and is a matter of public record. To require a duplication of statistics, even in a different manner, would be wasteful and serve no useful purpose.

I would appreciate it if you would make this letter a part of your hearing record.

Sincerely,

THERON J. RICE.

INTERNATIONAL ASSOCIATION OF MACHINISTS,
October 29, 1963.

HON. JAMES ROOSEVELT,
Chairman, General Subcommittee on Labor,
U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ROOSEVELT: President Hayes referred to me your letter of October 8, 1963, concerning your present hearings on H.R. 4669, H.R. 4670, and H.R. 4671 with regard to amending the bonding provisions of the Landrum-Griffin Act.

It is our understanding that the American Federation of Labor has filed a statement concerning these bills which statement of position coincides with ours in all respects.

We appreciate your earnest efforts concerning amending this punitive legislation in order to make it less costly in the ordinary administration of union funds and property.

Sincerely yours,

PALTO E. PAPPS, *General Counsel.*



