Fidelity Bond Requirements

ERISA Fidelity Bonds are Required for Most Qualified Plans

The Department of Labor (DOL) regulations require retirement plans to obtain an ERISA fidelity bond in order to add a level of protection in case of misuse or misappropriation of plan assets by the plan fiduciaries or other persons who handle plan assets. This document provides general information about the ERISA fidelity bond requirements.

What is an ERISA Fidelity Bond?

An ERISA fidelity bond is an insurance policy that protects retirement plans from losses due to intentional acts of fraud, dishonesty, theft, embezzlement, or forgery.

Who is required to be bonded?

Every fiduciary, trustee, or plan official who handles or has the authority to handle plan assets must be bonded. Individuals include:

- *Person with physical contact with cash, checks, or other property of the Plan.*
- *Person who transfers plan assets.*
- *Person with authority to disburse plan assets or sign checks.*

Who is exempt from the bond requirements?

Plans that only cover the sole proprietor, sole shareholder-employee or partners, including spouses, are generally exempt under DOL Sec. 2510.3-3. If your plan covers other employees, the exemption does not apply.

In addition, certain types of financial institutions such as banks, insurance companies, trust companies, and registered broker dealers may be exempt from the bond requirement.

Coverage Requirements

The fidelity bond must be in the plan's name with no deductible. There are minimum and maximum amounts of coverage requirements:

Minimum: No less than 10% of plan assets with a minimum of $1,000.

Maximum: Maximum amount of $500,000. If the plan holds employer stock or other employer securities, the maximum is $1 million.

A fidelity bond can be carried on other insurance policies of the employer as long as the plan is named.

Risk for Insufficient or Lack of Fidelity Bond Coverage

There are a number of risks associated with insufficient coverage or lack of fidelity bond coverage. Fidelity bond coverage details are required to be reported on the annual IRS Form 5500 for the plan. Because of this, the lack of a fidelity bond may be a trigger for causing the IRS to audit your plan. It is also unlawful for any person having authority to perform their handling duties without a fidelity bond. Finally, plan assets could be at risk for misuse and/or misappropriation protection which could turn into a litigious event.

Please contact JULY at 888.333.5859 for more information.