What Is an ERISA Fidelity Bond?

In 1974, the Employee Retirement Income Security Act (ERISA) was enacted to regulate most types of employee benefit plans. An ERISA fidelity bond is a type of insurance that protects the plan against losses caused by acts of fraud or dishonesty by persons who handle plan funds or property.

Who Is Covered Under a Fidelity Bond?

Anyone who handles 401(k) funds or other property must be bonded unless covered under an ERISA exemption. That means bonding is usually required of the plan administrator and officers who handle plan funds through duties such as receiving and disbursing funds. If an individual's activities could result in a loss of plan funds, that person probably needs to be bonded. Such activities include:

• Power to transfer funds from the plan to oneself or a third party
• Physical contact with checks or cash
• Power to negotiate plan property
• Check signing authority
• Disbursement authority

What Are the Coverage Requirements of a Fidelity Bond?

All qualified retirement plans, except plans which only cover business owners, are required by ERISA to have fidelity bonds for at least 10% of the plan assets. In some cases, the fidelity bond coverage may be required to be as high as 100% of certain plan assets. The minimum bond required is $1,000 and the maximum is $500,000. The amount of the fidelity bond is reported on the annual Form 5500 filing for each plan.

Who Is Responsible For Ensuring the Plan Has Proper Bond Coverage?

At the beginning of each plan year, the plan administrator or other appropriate fiduciary must guarantee that the bond continues to insure the plan for the minimum required amount, that the surety company continues to satisfy the requirements for being an approved surety, and that all plan officials are bonded. Regulations require bonds to be updated on a yearly basis (even if you have a longer bond term).

Can a Bond Insure More than One Plan?

Yes. ERISA allows more than one plan to be insured under the same bond. Any such bond must, however, allow for a recovery by each plan in an amount at least equal to that which would have been required for each plan under separate bonds.

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What If a Plan Does Not Have the Required Bond Coverage?

If a plan does not have the proper bond coverage, it will require an annual audit by an independent public accountant. This audit must be attached to the Form 5500 filing. Also, if an insufficient bond (one that does not meet ERISA requirements pertaining to the plan) or the absence of a bond is reported on Form 5500, it could trigger a DOL audit. Generally, the cost of responding to the plan audit is much greater than the cost of the fidelity bond premium.

How Do I Acquire a Bond for My Company's Retirement Plan?

Applying for an ERISA fidelity bond is quite simple. Your general insurance agent should be able to obtain a bond. It is important to purchase your bond through an authorized company. INTAC has a relationship with Colonial Surety Company, which can be found on our website at www.intacinc.com/Resources/Fidelity-Bonds. Colonial Surety offers immediate online issuance of ERISA Fidelity Bonds for qualifying and non-qualifying assets. If you would like to know more about bonds, call us at any time and we will be happy to assist you.

Where Can I Find Additional Information on Fidelity Bonds?

Visit the Department of Labor's website to learn more: https://www.dol.gov/agencies/ebsa

Source: https://www.dol.gov/agencies/ebsa

intac
Actuarial Services, Inc.

545 Route 17 South
Ridgewood, NJ 07450
201.447.2525

www.intacinc.com

BRANCH OFFICES:
West Long Branch, NJ
Saratoga Springs, NY
Huntington Beach, CA