What is a Fidelity Bond?

ERISA requires that every fiduciary of an employee benefit plan and every person who handles plan funds be bonded. These bonds cover the plan from loss of assets due to fraud or dishonesty. The ERISA bond is required to protect the participants and beneficiaries from dishonest acts of a fiduciary who handles the plan assets.

A plan official must be bonded for at least 10% of the amount of funds he or she handles. In most instances, the maximum bond amount that can be required under ERISA with respect to any one plan official is $500,000 per plan. However, higher limits can be purchased. Effective for plan years beginning on or after January 1, 2008, the maximum required bond amount is $1,000,000 for plan officials of plans that hold employer securities. For Employee Benefit Plans with more than 5% of non-qualifying plan assets that are held in limited partnerships, artwork, collectibles, mortgages, real estate or securities of "closely-held" companies and are held outside of regulated institutions such as a bank; an insurance company; a registered broker-dealer or other organization authorized to act as trustee for individual retirement accounts under Internal Revenue Code §408, the Plan sponsor needs to do one of two things:

1. Make certain that the bond amount is equal to 100% of the value of these "non-qualifying" assets **OR**
2. Arrange for an annual full-scope audit, where the CPA physically confirms the existence of the assets at the start and end of the Plan Year.

Obtaining Fidelity Bond Coverage may be available through your business liability carrier. It is important to note that an ERISA fidelity bond is not the same thing as fiduciary liability insurance. If you need more information or a referral for an insurance partner, please contact your Plan Consultant.