

Fidelity Bonds

What you need to know

WHAT IS A FIDELITY BOND?

The bonding rules are contained in Employee Retirement Income Security Act of 1974 (ERISA) Section 412 and in Department of Labor (DOL) Temporary Regulations 2580.412-1 through 2580.412-36. Simply put, if you have employees who are not an owner or the spouse of an owner, a fidelity bond is required.

FIDELITY BOND REQUIREMENTS

A fidelity bond, also known as an ERISA Bond, is a type of insurance that protects the plan against losses caused by acts of fraud or dishonesty. Fraud or dishonesty includes, but is not limited to, larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction, wrongful conversion, willful misapplication, and other acts.

Every person who "handles funds or other property"¹ for an employee benefit plan is required to be bonded unless they meet an exemption. ERISA makes it an unlawful act for any person to "receive, handle, disburse, or otherwise exercise custody or control of plan funds or property"¹ without being properly bonded.

A fidelity bond is not the same as fiduciary liability insurance, sometimes referred to as a fiduciary bond. Fiduciary liability insurance insures fiduciaries (and in some cases, the plan) against losses caused by breaches of fiduciary responsibilities. Fiduciary liability insurance is not required and does not satisfy the fidelity bonding required by ERISA.

COVERAGE AMOUNT REQUIREMENTS

As a general rule, any plan fiduciary, administrator, officer, or employee who "handles" plan assets must be bonded for at least 10 percent of the amount of the plan assets the individual handles. In the case of plan administrators, the individual must be bonded for 10 percent of the full dollar value of the plan. The minimum bond amount is \$1,000 and in most cases, is not required to be more than \$500,000. The maximum bond amount for plans that hold employer securities is \$1,000,000. The plan can purchase a bond for a higher coverage amount, if appropriate.

The DOL is taking an active approach to monitor plans without coverage or without enough coverage to ensure employers are obtaining the proper coverage.

| New Plans | Existing Plans |
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| For the first year of a plan, the amount handled by a plan official must be estimated. The amount is generally the initial amount required to fund or set up the plan, plus the amount of contributions required to be made during the current reporting year. A fidelity bond should be in place by the time a plan is set up. | A bond should be in place by the beginning of each plan year. The bond must be fixed or estimated at the beginning of the plan's reporting year (as soon after the date when the necessary information can be determined from the prior year). |

Fidelity Bond coverage amount can be supplied during the annual Form 5500 Questionnaire.

OBTAINING A FIDELITY BOND

Bonds must be obtained from a surety or reinsurer that is named on the [Department of Treasury's Listing of Approved Sureties](#).

¹Robert J. Doyle. "Field Assistance Bulletin No. 2008-04." U.S. Department of Labor. November 25, 2008. <https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2008-04>.

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