

Bonding Requirements

The Employee Retirement Income Security Act (ERISA) of 1974 was enacted to protect the rights of participants in qualified retirement plans. One of the requirements of ERISA is that each qualified plan maintain a fidelity bond.

The bond must cover any person who handles funds or other property of the plan. Generally, the individuals who handle plan assets would include the Plan Administrator, officers of the plan, and employees of the plan. The bond shall be issued to protect the plan from fraud or dishonesty, whether or not the person committing the act incurs personal gain.

The bond must be in an amount equal to 10% of the amount handled for the plan year, but in no case shall the bond be less than \$1,000, nor need it be more than \$500,000. The amount of funds handled during the year is determined at the beginning of each plan year, and is based on the beginning balance plus any contributions or income received for the year. If it is the initial year of the plan, the amount of funds handled will be based on the contribution formula applied to all employees eligible as of the beginning of the year.

The bond must provide that recovery for loss be made starting from the first dollar of loss up to the requisite bond amount. The bond must not contain provisions for a deductible, or any means of transferring any portion of the risk to the insured.

It is not necessary that a new bond be issued each year. A bond may be acquired for a longer term in order to take advantage of more favorable premium rates. It may be necessary, however, to increase the bond amount to meet the required coverage as the amount of funds handled increases. Additionally, the bond must include provisions to allow for a one-year discovery period following the cancellation of such bond. A bond which does not contain such a provision will be considered to satisfy this requirement provided that the insured is eligible to purchase one-year discovery period coverage upon discontinuance of the bond.

Although two plans may be covered under the same bond, the bond should be in an amount equal to the sum of the required coverage for both plans. It is advisable that the bond include a stipulation that each plan may recover a loss up to only the requisite bond amount, so as to allow the other plan to be fully covered at all times.

In order for the bond to satisfy the requirements of ERISA, it must be issued by a surety company which holds a grant of authority from the Secretary of the Treasury as an acceptable surety on federal bonds.