All Valley
Administrators, LLC

What is a fidelity bond and why is it needed?

Legally Speaking:

Qualified retirement plans are required by the Employee Retirement Income Security Act of 1974 (ERISA) to maintain a fidelity bond that protects against plan losses, which may arise as a result of criminal acts by plan fiduciaries, such as trustee fraud or embezzlement. The bond reimburses the plan for losses up to the coverage amount. (Note: The ERISA fidelity bond is not a fiduciary liability (or errors and omissions) insurance policy, which is coverage for claims against the plan sponsor or other fiduciary for loss due to violations of ERISA. A fiduciary liability policy may be prudent coverage to obtain from your insurance agent, but it is not legally required and it does not satisfy the ERISA fidelity bonding requirement for plan assets.) Failure to obtain the fidelity bond may trigger Department of Labor (DOL) sanctions and penalties.

What does this mean?

A Fidelity bond or an ERISA bond is required protection against fraud or dishonesty of retirement plan assets. It is a safeguard against acts of theft, forgery, embezzlement, misappropriation and even willful misuse of plan funds.

How long does a bond last?

Fidelity bonds are generally effective for three to five years. We suggest that bond coverage be obtained, based on the latest value of the Plan assets plus projected contributions for the next two to three years. You may contact your general insurance agent regarding this coverage

How much coverage do I need?

Persons who handle plan asset, including the Trustees, must be bonded for at least 10% of the Trust assets, with a minimum bond requirement of $1,000 and a maximum bond requirement of $500,000. The maximum bond amount increased to $1 million in the case of a plan that holds employer securities or non-qualified plan assets. The Department of Labor may assess substantial penalties to Employers sponsoring plans that do not meet the current bonding requirements.

The minimum required fidelity bond coverage is dependent upon the assets of the plan. Plan assets are divided into qualifying assets and non-qualifying assets.

What is the difference between qualifying and non-qualifying assets?

Qualifying assets include, but are not limited to assets held by a bank, credit union, or similar financial institution. Qualifying assets can also be held by an insurance company, or registered broker-dealer, or similar organization that can be a Trustee for an IRA:

- Shares issued by a registered investment company
- Investment or annuity contracts issued by an insurance company
- Qualified Participant directed accounts
- Qualified Employer Securities
- Qualified Participant loans

Non-Qualifying assets are generally investments that do not have a readily determined market value or are not available for standard public trading. These investments include, but are not limited to:

- Limited Partnerships
- Third Party Notes
- Real Estate
- Collectibles

If more than 5% of the plan assets are not considered 'Qualifying' assets, the Plan is required to obtain a bond equal to the greater of: 10% of the plan asset total or 100% of the non-qualifying asset total.

Alternatively, the Employer may attach an audited financial report to the annual IRS Form 5500 in lieu of maintaining the required fidelity bond coverage – this audited financial report will likely cost 10 to 20 times the cost of the bond.