Does Your Retirement Plan Require a Fidelity Bond?

Small pension plans (less than 100 participants) can waive the small plan audit requirement if they increase the security of plan assets through a fidelity bond. ERISA Section 412 generally requires that every fiduciary of an employee benefit plan and every person who handles funds or other property be bonded. A fidelity bond protects the plan from risk of loss due to fraud or dishonesty on the part of persons who manage the plan assets. The bond should cover at least 10% of the value of plan assets in the preceding year. The minimum bond amount an employer can purchase is $1,000 and the maximum is $500,000 (or $1,000,000 for plans that hold employer securities). A list of approved sureties and reinsurers is available at http://www.fiscal.treasury.gov/fsreports/ref/suretyBnd/c570_a-z.htm.

Many policies include a rider that increases the value of the bond as the assets of the plan increase to ensure that the policy covers 10% of plan assets. Check your policy for this feature so that you know whether or not you need to increase the amount of your bond as your plan assets grow.

Annually on the IRS Form 5500, you are required to report whether or not you have a bond, and, if so, the amount of the bond. An un-bonded or under-insured plan can be a red flag to the IRS and/or DOL that they may need to take a closer look at your plan. You should contact your general liability insurance agent if you need a bond or a bond renewal.

Marla Shires, Account Manager, Retirement Plans
