Is a retirement plan required to have a Fidelity Bond?

YES!

Under Department of Labor regulations, all qualified retirement plans must be covered by a fidelity bond. A fidelity bond protects the assets in the plan from misuse or misappropriation by the plan fiduciaries. Plan fiduciaries include the plan trustees and any person who has:

- ➔ Physical contact with cash, checks or other plan property.
- ➔ Power to transfer or negotiate plan property for a price.
- ➔ Power to disburse funds, sign checks or produce negotiable instruments from plan assets.
- ➔ Decision making authority over any individual described above.

The minimum bond amount must be for at least 10% of the total plan assets as of the beginning of the plan year plus the anticipated contributions for the plan year or $1,000, whichever is greater. For plans that do not hold employer securities, the maximum bond amount is $500,000. For plan years beginning after 12/31/07, plans that hold employer securities (excluding ESOPs) must have a bond equal to 10% of the plan's value up to $1,000,000. For the first year, the bond amount should be based on the estimated amount of assets that will be handled by the plan for the year.

Plan assets that "qualify" for a 10% bond include employer securities; participant loans; assets held by financial institutions such as banks, insurance companies, broker-dealers, or other organization authorized to hold IRA assets; mutual funds; investment and annuity contracts issued by an insurance company; and self-directed individual account plans in which the participant gets a statement of assets at least once a year. All other assets are considered non-qualifying plan assets.

If a plan includes assets not listed above, additional coverage may be needed for these "non-qualifying" assets. Ask your insurance agent for the correct coverage when applying for your ERISA fidelity bond.

There are serious consequences for not purchasing and maintaining a sufficient ERISA fidelity bond. Among these is the potential for lawsuits by plan participants or the Department of Labor.

How to get a Fidelity Bond

A fidelity bond is usually a rider on the company's existing insurance coverage. Your company's insurance agent should be able to determine if there is adequate fidelity bond coverage under the company's existing insurance coverage or to explain how to add a fidelity bond.

Feel free to visit our website to purchase a bond online through Colonial Surety Company. To access this application, log onto our website at www.thevargocompany.com. Click on the "What You Should Know" tab and then select the link under the ERISA / Pension Fidelity Bonds heading. After completing the three-step form, your quote will appear. You are under no obligation to purchase your bond from Colonial Surety.

Wherever you decide to obtain your bond, be certain that you are purchasing a Fidelity Bond, NOT an employee dishonesty bond or a fiduciary bond. These other bonds may not fulfill the Department of Labor requirements for ERISA compliance.

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