Fidelity Bond FAQs

Plan Sponsor FAQs
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Walker Benefits llc
Retirement Plan Consultants

What is a fidelity bond?

A fidelity bond is a special type of insurance that protects plan participants from the risk of loss due to acts of fraud or dishonesty by plan officials.

Is a fidelity bond required for my plan?

Generally, yes. With limited exceptions, all qualified plans (i.e. 401 (k) plans, profit sharing plans, ESOPs, certain 403(b) plans, etc.) are required by law to be covered by a fidelity bond.

Which types of plans are not required to have a fidelity bond?

Plans that are exempt from certain provisions of ERISA are not required to be covered by a fidelity bond. These plans include "one-participant" plans (i.e. plans that only cover the owner of a business (or the owner and his or her spouse), or only the partners of a partnership (or the partners and their spouses)), governmental plans, most plans sponsored by churches, and 403 (b) plans that meet certain requirements.

Who must be covered by the fidelity bond?

The plan must be the named insured; however, each person who "handles" plan assets must be covered by the bond. A person is considered to "handle" plan assets if his or her responsibilities are such that plan participants could incur a loss if he or she were to commit an act of fraud or dishonesty (i.e. theft) with respect to the plan.

How is the amount of required coverage determined?

In general, the fidelity bond must be equal to at least 10% of plan assets as the beginning of each plan year, subject to a minimum bond amount of $1,000 and a maximum of $500,000 ($1,000,000 for plans that hold employer securities).

Note: Plans that hold more than 5% of Plan assets in "non-qualifying assets" (ex. limited partnerships, third-party notes, collectables, real estate, mortgages, etc.) are subject to additional requirements.

Can the plan be covered under the company's general policy?

Yes; this is permissible provided that all of the necessary conditions are satisfied. For example, the plan must be a named insured, and the policy may not have a deductible (at least with respect to the portion of the policy covering the plan).

Can a fidelity bond cover more than one plan?

Yes; each plan must be a named insured and assets under each plan as of the beginning of the plan year must be considered when determining the required coverage amount.

How do I obtain a fidelity bond for my plan?

Generally, your company's insurance agency should be able to assist you in obtaining a fidelity bond for your plan; however, only certain insurance companies are permitted to issue fidelity bonds (a list of the approved companies can be found by clicking here). In addition, a fidelity bond may be obtained by going directly to certain approved companies.

Is a fidelity bond the same thing as fiduciary insurance?

No; fiduciary insurance provides protection for fiduciaries individually (rather than plan participants) in the event a legal claim is made against a plan fiduciary for a breach (or alleged breach) of their fiduciary responsibilities.

Can the cost for the fidelity bond be paid for from plan assets?

Yes; the plan can pay for the fidelity bond assuming the plan permits for payment of plan expenses (which most do).

Is there a penalty or fine if my plan doesn't have coverage?

There isn't a specific penalty or fine under the regulations; however, **the amount of the bond must be reported on the plan's Form 5500 each year, which is filed with the Department of Labor (DOL)**.

If the plan is not covered by a fidelity bond, or if coverage not sufficient, this is a "red-flag" that could prompt an unwanted plan audit by the DOL or Internal Revenue Service. Therefore, it is critical to make sure your plan has sufficient coverage.

How can I learn more about the fidelity bond requirements?

If you would like to learn more about these rules, please contact us and we will be happy to assist you. Additional information can also be found on the DOL's website and in DOL Field Assistance Bulletin 2008-04.

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