

## What is a fidelity bond and why is it needed?

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.

Adequate fidelity bonding must be in place on the first day of the plan year. Qualifying plan assets (assets typically held by a financial institution, such as a bank, insurance company, broker-dealer, or regulated entity; mutual funds; participant loans; and assets held in self-directed individual accounts) require a bond for 10 percent of the total plan value, with a minimum bond value of \$1,000 and a maximum value of \$500,000 (\$1,000,000 if the plan includes employer stock). If more than 5 percent of the plan's assets consist of nonqualifying plan assets (such as limited partnerships, artwork, collectibles, mortgages, real estate, and securities of "closely-held" companies), a fidelity bond for 100 percent of the total value of the non-qualifying plan assets must be purchased. The amount of the fidelity bond is reported on Schedule I or H of the Form 5500.

The fidelity bond is obtained through your commercial insurance carrier and is formally known as an "ERISA Bond." The DOL provides a list of approved insurance companies that may provide fidelity bonds and may be found at [http://www.fms.treas.gov/c570/c570\\_a-z.html](http://www.fms.treas.gov/c570/c570_a-z.html).

For any questions regarding the fidelity bond or retirement plan, please contact your Goldleaf Partners Relationship Manager at 218.824.6119.