EMPLOYMENT BENEFIT PLANS BONDING REQUIREMENTS

WHO MUST BE BONDED?

Every fiduciary and every other person who handles funds or other property of the plan must be bonded. These individuals must be bonded to receive, handle, disburse, or otherwise exercise custody or control of plan funds or other plan property or to direct the performance of such functions. Certain exemptions may apply to banks, insurers, and other financial institutions.

WHY IS BONDING REQUIRED?

ERISA requires certain individuals, who handle plan money, to be bonded in order to provide protection against losses caused by their fraud or dishonesty, either directly or through collusion with others. The plan must be protected from loss, even though the person committing the act does not personally gain from the act.

WHEN ARE FUNDS AND PROPERTY HANDLED?

Individuals are considered to handle funds whenever their duties or activities involve a risk that the funds could be lost in the event of fraud or dishonesty. The duties that constitute handling relate to receipts, safekeeping, and disbursement of, access to, or decision-making power with respect to plan funds. Any person with the power to sign or endorse checks is considered to be handling plan funds.

WHAT DOLLAR AMOUNT IS REQUIRED?

The amount of the bond must be at least 10 percent of the amount of the funds handled, but in no case will the bond be less than $1,000 or more than $500,000 unless the secretary of labor prescribes a higher amount, subject to the 10 percent limitation. Further, the bond may not contain any deductible amount.

EXCEPTIONS:

Plans whose officials are already bonded to comply with other laws may be exempt, as are plans whose benefits are paid out of the general assets of an employer or union. Other exemptions may apply when the fiduciary is a bank or other financial institution. When a bank is the plan's trustee, other fiduciaries should have the minimum bond coverage of $1,000.

WHAT TO DO:

In order to comply with the law, procure adequate (but typically not expensive) bonding coverage from your casualty insurance agent.