



Consultants, Actuaries and Administrators of Pension
and Profit Sharing Plans Since 1970

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ERISA Bond Requirement for Qualified Retirement Plans

Overview of Bond Requirements

Since 1974, tax-qualified retirement plans have been required under the Employee Retirement Income Security Act (ERISA) to maintain a fidelity bond. Every fiduciary, i.e. trustees of the plan, and any other person who handles plan funds, must be bonded. ERISA bonds provide protection against loss to plan participants by reason of acts of fraud or dishonesty. The only plans that are exempt from coverage are those that cover only owner-employees and their spouses.

Bond coverage is required to be at least equal to 10% of plan assets as of the beginning of each plan year, subject to minimum coverage of \$1,000 and maximum coverage of \$500,000 (\$1,000,000 for plans that hold employer securities).

A small plan's exemption from an independent audit is directly tied to proper bond coverage. In order to remain exempt from the audit requirement, a plan must meet the following requirements:

- At least 95% of the plan's assets must constitute "qualifying plan assets," or
- The plan's bond is increased from 10% to 100%.

If your plan assets are entirely in mutual funds, bank accounts, insurance company products, or brokerage accounts, then your bond requirement is only 10%. If more than 5% of your plan assets are in limited partnerships, third-party notes, collectibles, real-estate, mortgages, etc., then you may have "non-qualified" assets and will be required to increase your bond coverage accordingly.

Obtaining Bond Coverage

Sponsors of new plans should obtain bond coverage as soon as possible based on expected contributions for the first plan year. You will be responsible for increasing bond coverage each year as plan assets increase, unless you purchase a bond with a 3 or 5 year term that automatically increases each year to cover plan growth. If your bond does not provide for automatic increases, Pollard can assist you in recommending an amount for increased coverage based on the plan's end-of-year asset value. To obtain coverage, you can contact your property and casualty insurance agent, or Pollard can purchase your bond online through Colonial Surety Company. A typical bond premium from Colonial Surety for a \$10,000 bond is \$100 per year or \$285 for a 3-year term (*clients with John Hancock receive a 10% discount*). To obtain a quote for coverage from Colonial Surety, click on the application link on Pollard's website at www.pollardpensions.com under About → Partners.

Please indicate below how you will be purchasing your bond and return this completed form to Pollard.

Plan Name: _____

We will purchase the ERISA bond through our property and casualty agent.

We already have ERISA bond coverage (copy enclosed).

Agent's Name: _____ Telephone: _____

We would like Pollard & Associates to apply for the ERISA bond via the option noted below:

<input type="checkbox"/>	Credit Card Account #:		Exp. Date:		Type of Credit Card:	
	Billing Name:		Billing Address:			

Check: We will remit payment by check directly to Colonial Surety Company as instructed on the bond receipt provided by Pollard.