When do I need an ERISA bond?

What is an ERISA bond, and when do you need one? If your company has an employee retirement plan, such as a 401(k), anyone involved with handling these funds needs to be insured by an ERISA fidelity bond. ERISA stands for the Employee Retirement Income Security Act, a law passed in 1974, which protects these plans (and their participants) from losses due to fraud, theft, forgery, and other dishonest acts.

How does an ERISA bond work?

If a plan official steals from the plan or mishandles funds in any dishonest way covered by the bond, the retirement plan can make a claim on the ERISA bond for the loss. The bond does **not** cover poor investment choices, administrative mistakes, or general breaches of fiduciary duty.

How much coverage does each person need?

Each plan must be covered for at least 10% of the amount of funds they handled in the previous year, not to exceed $500,000 ($1,000,000 for plans that hold employer securities). The minimum bond amount is $1,000.

What's the difference between ERISA bonds and fiduciary liability insurance?

ERISA fidelity bonds and fiduciary liability insurance are not at all the same; in fact, as you'll see in the differences highlighted below, these two risk management tools are actually complementary.

1. **Coverage**

ERISA bonds financially protect the plan from loss as a result of **fraud or dishonesty** committed by those who manage the plan. The coverage is for crime.
Fiduciary liability insurance protects fiduciaries of the plan against claims of breach of fiduciary duty, such as mismanagement. The coverage is for errors and omissions.

2. **Protected party**

   ERISA bonds protect the plan.
   Fiduciary liability insurance protects the fiduciaries of the plan and may protect the plan.

3. **Legal requirement**

   ERISA bonds are required by law.
   Fiduciary liability insurance is optional.

Organizations with plans that require ERISA bonds can also benefit from purchasing fiduciary liability insurance. While ERISA bonds are mandatory for many plans, fiduciary liability insurance is optional, but recommended for plan sponsors and fiduciaries.

Where can I purchase an ERISA bond?

You can only get ERISA bonds from a certified company, such as Frankenmuth Insurance. You can find a complete list of all certified bond providers at the Bureau of the Fiscal Service website. (The Bureau is a subdivision of the Treasury Department.)

For all the hard work your employees have contributed to your company, it’s imperative to protect their well-deserved retirement benefits from anyone who might take advantage of them. That’s why ERISA was passed and why fidelity bonds from Frankenmuth Insurance are here to protect retirement plans, like yours.