

**QUALIFIED RETIREMENT PLANS
NOTICE OF SURETY BONDING REQUIREMENTS**

Department of Labor regulations require that every fiduciary and every person who handles funds or other property of an employee benefit plan be bonded. The purpose of this bond is to protect the plan against loss due to acts of fraud or dishonesty by the persons who are required to be bonded.

Amount of Bond:

The bond must be for at least **10% of the value of plan assets**. The bond can never be less than \$1,000 and the **maximum bond needed is \$500,000** with respect to a single plan (unless the plan holds employer securities). Generally, the amount of the bond must be based on the highest amount of funds handled in the prior year. Typically, this will be the account value at the time you renew the bond for your plan or the account value at the end of the preceding plan year. If this amount cannot be determined (because the plan is new, for example), the amount should be based upon a reasonable estimate.

How Do I Obtain a Fidelity Bond

There are several options for obtaining bond coverage and bonds come in different forms. You can usually purchase a bond from the Financial Advisor working with your plan, from your Property & Casualty Agent, or through our website. Typically, you will need to provide the number of persons to be bonded and the amount of plan assets you need to cover in order to obtain coverage.

Please verify that the surety company you select is approved by the Treasury Department. If your company already maintains bond coverage for the officers of the firm and these same officers are the individuals who need to be bonded under the plan, then the fidelity bonding requirements may already be satisfied by your existing coverage. The coverage is typically written as a rider to your policy and should include the Plan name, coverage amount and the term of the coverage.

Bond coverage cannot have a deductible – the plan must be reimbursed from the first dollar of loss up to the full amount for which the person causing the loss is bonded. The bond must provide a period of no less than one year after termination or cancellation of a bond in which to discover a plan loss. The bond may be a blanket schedule covering all individuals/positions or individual bonds. The term of the bond can be annual or it can provide extended coverage, typically for a three or five year period. Extended coverage bonds also contain an automatic escalation feature covering the plan for inflation and increasing plan assets.

If you wish to purchase the bond coverage from our website, please go to www.tpagroup.com & select “Click here to purchase Fidelity Bond Coverage.” This links you to the Colonial Surety Company’s website.

Please complete the following to assist in the accurate completion of your plan’s annual Form 5500:

Plan Name: _____

Company Issuing Coverage: _____

Bond Coverage Amount: \$_____. **Extended coverage/auto increase feature:** ___ Yes ___ No

Expiration Date of Bond: _____. **Notes:** _____

Do you have Fiduciary Liability Coverage (OPTIONAL)? ___ Yes ___ No

If yes, what is the amount of the fiduciary liability insurance? _____

NOTE: If there are any changes to the above information, please notify us immediately. Thank you.

PLEASE RETURN THIS FORM TO: The Paragon Alliance Group LLC via fax #215.723.1265 or e-mail your Paragon consultant.

ADDITIONAL INFORMATION REGARDING FIDELITY BONDING REQUIREMENTS FOR YOUR PLAN

Where does it say that our plan needs to be bonded?

Section 412 of the Employee Retirement and Income Security Act (“ERISA”) requires that fiduciaries and other persons who handle or are responsible for the assets of a qualified plan must be bonded.

What is the purpose of the bonding requirement?

The bond is to reimburse the plan if any plan assets are lost through the fraud or dishonesty of persons handling plan funds. Fraud or dishonesty includes such acts as theft, forgery, embezzlement, misappropriation, or willful misapplication of plan assets.

Who must be bonded?

Federal regulations state that the “administrators, officers and employees” of a qualified plan who “handle” plan assets must be bonded.

- An administrator is defined as: A person with responsibility for the ultimate control, disposition or management of the money received or contributed. If a partnership, corporation, association or other entity is named the administrator of a plan, the bonding requirements apply to the representatives of the entity who actually handle plan funds.

Examples: Plan Administrator; Plan Trustee

- An officer is defined as: Any person who is designated as an officer by the plan or who performs or is authorized to perform executive functions of the plan.

Example: Plan Committee

- An employee is defined as: Any person who performs work for or directly related to the plan.

Example: Office Manager of the plan sponsor who facilitates payroll.

For the purpose of the bonding provisions, the terms “administrator, officer or employee” also includes persons indirectly employed or otherwise delegated to perform such work for the plan who performs “handling functions” for the plan.

What does “handling” plan assets mean?

A person is considered to “handle” plan assets whenever his duties or activities are such that there is a risk that the assets could be lost because of his acts of fraud or dishonesty. This includes relationships which involve access to plan assets or decision making powers regarding plan assets which could give rise to such a loss.

Are there any exceptions to the bonding requirement?

Yes, if a business is wholly owned by an individual or by an individual and spouse, and if there are no employee participants other than the individual and spouse, bonding is not required. In a partnership, bonding is not required if there are no employee participants other than the partners and their spouses. Governmental plans and Non ERISA church plans are also not required to maintain this coverage.

Do I have to obtain bond coverage or is it optional?

However irritating the bonding requirement may be, retirements plans are governed by pension regulations. Those regulations clearly state that it is “unlawful” for any plan official to receive, handle, disburse, or otherwise exercise custody or control of any plan assets without being bonded. Indeed, the annual report submitted to the IRS requires that the amount of the bond be disclosed.

Be sure your casualty agent understands that you need a fidelity bond that is required for your plan. Be careful that your casualty agent understands that you REQUIRE a fidelity bond and that fiduciary liability insurance IS OPTIONAL. Have your agent give us a call with any questions. As we will need your bonding information to complete your annual report, please return the attached Notice of Surety Bonding Requirements confirmation sheet to our office as soon as possible.

What is Fiduciary Liability Coverage?

Under ERISA, fiduciaries (plan sponsors, owners or officers) who make decisions about the company's employee benefit plans may be held personally liable for breach of their responsibilities in the administration or handling of employee benefit plans. **This coverage is optional and at this time is not reported on Form 5500, however it is worthy of careful consideration.**

Many plan sponsors believe incorrectly that the ERISA/Fidelity bond (which, with very few exceptions, is required for plans) will protect their personal assets. Fidelity bonds provide coverage for dishonest situations, but only for the benefit of the plan and the plan beneficiaries. Fidelity bonds don't protect the trustees themselves from liability claims and is thus completely distinct from fiduciary liability insurance.

Fiduciary Liability Insurance protects plan sponsors and trustees from defense cost and penalties if they are sued for fiduciary decisions they make for an employee benefit plan. **Fiduciary Liability Insurance is not required by ERISA. However, it is worthy of careful consideration if you are a fiduciary of a retirement plan and you desire coverage for your personal assets.**

Disclaimer: Paragon is not an agent for these types of bonds. This information is meant as an overview and for informational purposes as opposed to a legal document. Additionally, policies vary by provider.