401(k) Fidelity Bonds

What plan sponsors need to know

What is it?

A fidelity bond protects the plan from losses due to acts of fraud or dishonesty and is required for 401(k) plans under ERISA (Employee Retirement Income Security Act).

Who needs one?

Anyone who handles or manages 401(k) funds. In practice, this usually means the plan administrator and any employees who handle plan funds by virtue of their duties relating to the receipt, safekeeping and disbursement of funds. (Betterment is required to have its own fidelity bond).

What are “funds”?

In addition to publicly-traded stocks, bonds, mutual funds, and exchange-traded funds, all employee and employer contributions are considered “funds.”

How much coverage is required?

Each person must be bonded for at least 10% of the amount of funds he or she handled in the previous year. Minimum and maximum coverage amounts are $1,000 and $500,000, respectively. (If the plan includes employer securities, the maximum is $1,000,000.)

Where can I obtain a fidelity bond?

The bond must be issued by a federally-certified company. Colonial Surety Company is a national online insurance company that is U.S. Treasury listed and licensed in all states and territories. They provide a small discount to Betterment for Business customers who sign-up via this link.

What is the length of the bond term?

Fidelity bonds have a minimum term of one year. Longer-term bonds will typically include an “inflation guard” that automatically increases the value of the bond to satisfy ERISA requirements.

How often should the bond be reviewed?

The coverage amount and identity of covered parties should be reviewed and updated at least annually.

Can the costs of the fidelity bond be paid by the plan?

Yes, the cost of the fidelity bond is an allowable plan expense.

Does the plan hold any non-qualifying assets?

No. Your bond application may ask if your plan holds any non-qualifying assets, which are assets NOT held by any financial institution including tangibles such as artwork, collectibles, non-participant loans, property, real estate and limited partnerships.

What happens if I don’t have a fidelity bond for the plan?

The existence and amount of the plan’s fidelity bond must be reported on your plan’s annual Form 5500 filing. Not having a bond, or not having sufficient coverage based on plan assets, may trigger a DOL audit and may risk the plan’s tax-qualified status. Additionally, the plan fiduciaries may be held personally liable for any losses that may occur from fraudulent or dishonest acts.

If you have further questions about your plan’s need for a fidelity bond, please contact us at plansupport@bettermentforbusiness.com.