Publications

ERISA's Bonding Requirements – Misunderstood and Misapplied

PUBLISHED
02/08/2006

SERVICES

While they may seem straightforward, ERISA's bonding rules are perhaps the most misunderstood and misapplied of all of ERISA's fiduciary requirements. Rarely, if ever, do we see a bond that complies fully with ERISA's technical rules. Insurers bear much of the responsibility for this. This is because ERISA bonds are typically written on an insurer's standard form, which oftentimes falls short of ERISA's standards. Nonetheless, plan sponsors need to to make sure the plan is bonded in compliance with ERISA, and should be ready to negotiate with an insurer to secure a compliant bond. Much of the confusion centers around who needs to be bonded and for how much.

ERISA requires fiduciaries and all persons who "handle" plan assets to be bonded. The purpose of the bond is to protect the plan against losses sustained due to acts of fraud or dishonesty on the part of those persons whose positions require them to come in direct contact with, or exercise discretion over, plan assets. For example, if an employee in the plan's administrative office who routinely issues plan checks steals plan funds, the bond is intended to reimburse the plan for that loss.

Plan Sponsor February 2006Download

Groom Law Group, Chartered | 1701 Pennsylvania Ave., N.W. | Washington, D.C. 20006-5811 | 202-857-0620 | Fax: 202-659-4503 | www.groom.com