limestone

Important Information on Plan Bonding Requirements

Section 412 of the Employee Retirement Income Security Act requires mandatory bonding for every fiduciary and any other person who handles the funds of an employee benefit plan.

PURPOSE

The purpose of the bond is to provide protection to the plan against loss by reason of fraud or dishonesty.

TYPE AND AMOUNT

The type of bond required is an "honesty" bond. The bond must be backed by a corporate surety company and be issued in an amount equal to at least 10% of the funds handled with minimum and maximum issues of $1,000 and $500,000. The amount of funds for purposes of fixing the size of the bond is determined by the amount of funds handled in the preceding reporting year. If there is no preceding reporting year, the amount of the bond will be determined by estimating the amount of funds to be handled in the current reporting year. All property used as a source of benefit payments will be included in the handled funds. Money and property will be considered bondable when it is received by the plan administrator or otherwise segregated, paid out or used for plan purposes. If plan benefits are provided by an insurance carrier and payments are made directly to the carrier out of general assets, bonding is not required for these funds.

MULTIPLE COVERAGE

More than one person, or more than one plan may be named on a bond or covered by the same bond. However, the bond must allow for recovery by each plan or person for an amount at least equal to that required if bonded separately.

FAILURE TO COMPLY

It is "unlawful" for any person who is required to be bonded to exercise any control over funds or other property of the plan without being bonded. The penalty for willful violation is a fine of up to $1,000, up to six months imprisonment, or both.

APPROVED SURETY COMPANIES

The bonding provisions require that the surety company be acceptable to the Departments of Labor and Treasury. Each year, the Treasury issues an official list of companies holding grants of authority. The list may be obtained from: Audit Staff; Bureau of Accounts, Treasury Department, Washington, DC 20226. Ask for Department circular 570.

In addition, the Labor Department has authorized several surety companies not on the Treasury's list to provide bonds. You should be able to obtain these names from your local office of the Labor Management Services Administration.

EXCEPTIONS

Those exempted from the bonding requirement are banks, trust companies, insurance carriers, and savings and loan associations. In addition, any plan which has obtained a specific written exemption from the Department of Labor does not require bonding.

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