

TRAVELERS

Fiduciary Dishonesty Bond

THIRD-PARTY ERISA BOND

A fiduciary dishonesty bond is needed when an investment advisor or third-party administrator handles client assets that are subject to the Employee Retirement Income Securities Act of 1974 (ERISA), a federal law that is regulated by the U.S. Department of Labor (DOL). It is also referred to as a third-party ERISA bond.

Fidelity

Covers the loss of **Property** sustained by the **Plan** resulting directly from dishonest or fraudulent acts committed by an **Employee** of the fiduciary acting alone or in collusion with others.

ERISA requires a fiduciary to carry a specified coverage limit for each individual ERISA plan that they manage. This specified coverage limit is calculated based on the assets of each individual ERISA plan. For example, if an investment advisor manages assets for Pension Plan A, Pension Plan B and Pension Plan C, it must calculate the required coverage limit for each of these plans separately. Additionally, ERISA requires the policy to maintain a $0 deductible for the fidelity insuring agreement.

What is the required coverage limit per plan and how is the aggregate coverage limit calculated?

Section 412 of ERISA defines the required bond amount for each plan as: *The lesser of 10% of assets handled or $500,000 (or $1,000,000 if employer securities are included in the assets), subject to a minimum of $1,000.*

Once the investment advisor determines the required bond amount per plan, it adds these amounts together to obtain the aggregate limit of liability for the fiduciary dishonesty bond. Here is an example of how to calculate the aggregate limit:

ERISA Client	ERISA Assets	Required Limit
Pension Plan A	$21,216,000	$500,000
Pension Plan B	$3,852,000	+ $385,200
Pension Plan C	$454,567,000	+ $500,000

Maximum Aggregate Limit of Liability for a Single-Loss Occurrence Required: $1,385,200.

Claim Example

The investment advisor discovered a loss when the DOL filed a complaint against the investment advisor alleging that two of its employees used their administrator relationship to gain access to and embezzle ERISA plan assets. The two employees misappropriated approximately $550,000 for personal expenses.

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Bolded words have specific meanings according to the bond or the endorsements. Please refer to the bond and its endorsements for these definitions.

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