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The FDIC: How Much of Your Money Is Insured?

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The FDIC: How Much Of Your Money Is Insured 1-2

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With the fluctuation in the economic markets, numerous bank buyouts and other troubling economic signs, we have received a lot of questions regarding the insurance coverage available from the Federal Deposit Insurance Corporation (the "FDIC") in the event of a bank failure. In fact, the FDIC's Board of Directors recently adopted interim rules in an attempt to clarify and simplify the rules regarding revocable trust accounts. Additionally, the Emergency Economic Stabilization Bill of 2008 passed last week (commonly referred to as the "bailout bill") includes temporary changes to the FDIC coverage amounts. The "bailout bill" increased previous limits of $100,000 to $250,000. for the period from October 3, 2008, until December 31, 2009.

Under the FDIC rules, both formal revocable living trusts and payable-on-death accounts, which are called informal revocable trust accounts in the rules, are included under the rules applicable to revocable trusts.

Before exploring the new rules, it may be helpful to provide an overall framework for FDIC coverage. The FDIC insurance applies to any FDIC-insured institution, which generally includes banks and savings associations. The insurance amounts are based on the sum of the total deposits per FDIC-insured institution, not per account, and are determined as of the date the bank fails. Thus, if you have several accounts at the same bank, the sum of all of the accounts is calculated toward the insurance limit. However, if you have an account at two separate institutions, the insurance coverage will be calculated separately. It is interesting to note that the insurance coverage is funded through contributions from insured institutions, not from tax dollars.

As a general matter and prior to the passage of the "bailout bill", the FDIC provided insurance protection of up to $100,000 per single account. A joint account would have up to $200,000 of coverage under previous rules. The limits are temporarily $250,000 per single account and $500,000 for a joint account. For example, if John and Sally Jones had $175,000 in a certificate of deposit at Bank 1, a joint checking account with $125,000 at Bank 1, and $200,000 in a savings account at Bank 1, the entire amount in all three accounts would be insured because the insurance amount for John and Sally would be $500,000.

When dealing with revocable trusts, the rules become more complicated. However, the new rules have simplified the trust requirements quite a bit by eliminating the calculation of the number of qualified beneficiaries. Using the interim amounts from the new bill, the general rule for revocable trust accounts applies when the revocable trust owner does not have more than $1,250,000 in the accounts and does not name more than five beneficiaries in the revocable trust. In such a case, the insurance amount is $250,000 per beneficiary. Under the previous limits, the general rule applied when the revocable trust owner had less than $500,000 in the accounts and named five or fewer beneficiaries, and the insurance amount was $100,000 per beneficiary.

It is important to note that if there are multiple owners of a revocable trust account, coverage is available separately for each owner. Thus, if John and Sally Jones have a joint trust, they would each have coverage of up to $500,000 per named beneficiary.

The $250,000 insurance limit per beneficiary is determined regardless of any proportional interest that the named beneficiary has under the revocable trust. For example, assume John

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Jones has $1,000,000 in the John Jones Revocable Living Trust account at Bank 1. Also assume that in the John Jones Revocable Living Trust, John Jones provides for the following distributions: $250,000 to each of his three sisters, $20,000 to his friend, and the remainder to his only daughter. John Jones' insurance amount would be $1,250,000, which is more than sufficient to cover the $1,000,000 account. He has named five beneficiaries and is entitled to coverage of $250,000 per beneficiary. Under the new rule, the limit per beneficiary for revocable trust accounts for less than $1,250,000 is $250,000 regardless of the dollar or percentage amount that beneficiary is ultimately entitled to under the trust document.

If a revocable trust account owner has more than $1,250,000 in one FDIC-insured institution and more than five beneficiaries named in the trust, the sum of the trust accounts are insured for the greater of either $1,250,000 or the aggregate amount of all the beneficiaries' interests in the trust with a maximum of $250,000 per beneficiary. For example, assume the John Jones Revocable Living Trust is the owner of three certificates of deposit at Bank A, each containing $450,000. Further assume that the John Jones Revocable Living Trust provides for the following distributions: life estate interest for his wife, Sally; $150,000 for each of his three sisters; $100,000 to his alma mater; and the remainder to his only daughter. In this example, the account balance exceeds $1,250,000, and he has named six beneficiaries. Sally's interest is counted for $250,000 because life estate interests are deemed to be $250,000 under the rules. John's three sisters' interests are $150,000 each for a total of $450,000, and his alma mater's interest is $100,000. Finally, his daughter's interest is $250,000 because she is subject to the per-beneficiary limitation of $250,000. The total of the interests is $1,050,000, and the maximum coverage for John Jones would be $1,250,000, the greater of $1,250,000 and $1,050,000.

The interim rule also provides uniformity in coverage when a revocable trust converts to an irrevocable trust. If John Jones has a revocable living trust, his trust is revocable during his lifetime. However, at his death, the revocable living trust becomes irrevocable. Because of special rules regarding contingent interests, it is possible under the old rules for the coverage amount to decrease when the trust becomes irrevocable.

However, under the interim rule, the coverage generally remains the same. This is not to say that the coverage will always be the same throughout the lifetime of the trust because if there are multiple owners and one of the owners dies, the coverage could still change. But in most cases, there will not be an automatic change in coverage upon the conversion of the trust from a revocable trust to an irrevocable trust.

Finally, it is important to discuss the coverage relating to trusts established under a revocable living trust. If John Jones has $600,000 in the John Jones Revocable Living Trust account, which provides that at his death, the trust is to be divided equally between his three daughters. The trust further provides that each daughter's share is to be held in a separate trust for the benefit of the daughter, which is a trust we often refer to as asset and divorce protection trusts. Under the old rules, a determination had to be made as to whether the beneficiaries were qualified beneficiaries, and trusts were not considered qualified beneficiaries. However, the rules state that during the life of an owner, future trusts are not treated as beneficiaries of the revocable trust, but instead are treated as mechanisms for distributing the trust funds. Therefore, under the old rules and presumably under the interim rule, John Jones' revocable trust would have $600,000 in insurance coverage regardless of the trusts established for his daughters because the daughters, not the trusts, are treated as the true beneficiaries.

We are working hard to stay abreast of these changes and pass them along to you, especially during such uncertain economic times. If you have any questions regarding the rules or their applicability to your specific situation, please contact our office.

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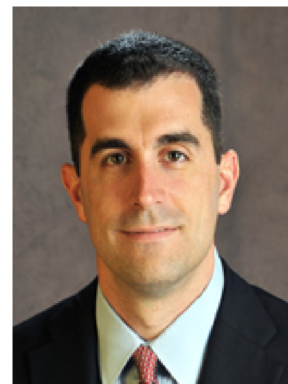

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