How Much Coverage Do I Have Under FDIC Rules?

Presented by Warren Wealth Associates

When you walk into your local bank, you often see a sign that says "Each depositor insured to at least $250,000". FDIC-insured banks must display this sign in their branch per FDIC rules.[1] But what is the Federal Deposit Insurance Corporation (FDIC) and by how much does it insure your deposits? Because of the recent bank failures and panic that ensued, it is important to fully understand whether and how your accounts are covered. To do so, let's discuss some scenarios along with the applicable rules.

The FDIC is an agency of the United States government tasked with insuring customer deposits and overseeing and attempting to ensure the stability of financial institutions. FDIC deposit insurance protects customer deposits in the event of a bank failure. Its coverage is backed by the full-faith and credit of the United States government. FDIC deposit insurance covers checking accounts, savings accounts, money market deposit accounts, CDs, cashier's checks, money orders and other types of deposits. However, it does not cover items such as stock and bond investments, mutual funds, annuities and life insurance policies, or crypto asset. Some of these investments would, however, be covered by Security Investors Protection Corporation (SIPC) insurance. **The standard FDIC coverage limit is $250,000 per depositor, per insured bank, for each account ownership category**. You can refer to the below table to know how the standard FDIC insurance coverage limit applies to each ownership category.

Insurance Coverage Limit by Account Ownership Category	
Individual Account	$250,000 per owner
Joint Account (two or more owners)	$250,000 per co-owner
Certain Retirement Accounts	$250,000 per owner
Revocable Trust Accounts	$250,000 per owner per unique beneficiary
Irrevocable Trust Accounts	$250,000 for the noncontingent interest of each unique beneficiary
Corporation, Partnership and Unincorporated Association	$250,000 per owner
Employee Benefit Plan Accounts	$250,000 for the noncontingent interest of each plan participant

Source: Deposit Insurance at a Glance, FDIC

To illustrate the varying FDIC protections depending on ownership categories, let's look at a few examples:

Individual and Joint Accounts

As specified above, individual accounts and joint accounts separately enjoy $250,000 in FDIC insurance protection, even if an individual has each account type at the same bank.

Example:

Jane and John each have one individual account at a FDIC-insured bank with $100,000 for Jane and $350,000 for John, they also have a joint account at the same bank that holds $500,000. Jane's individual account would be fully covered since it is under the $250,000 limit. Only $250,000 of John's individual account would be covered, leaving $100,000 uninsured. Because the joint account is a different ownership category from the individual accounts and it has two owners, the entire account is insured, i.e. $250,000 x 2 (number of owners) so $500,000.

What if John had part of his individual account's funds at a different FDIC-insured bank? Let's say he has $175,000 at Bank A and $175,000 at Bank B in individual accounts. Because his two accounts are under $250,000 and at different FDIC-insured banks, his deposits are fully insured.

[1]https://www.fdic.gov/resources/deposit-insurance/

Revocable Trust Accounts
FDIC regulations differentiate two types of revocable trust, informal revocable trusts and formal revocable trusts. Informal revocable trusts are often called transfer-on-death (TOD), as trustee for (ATF), or Totten trust accounts, they are created when an account owner signs an agreement directing the financial institution to transfer the funds in the account to one or more beneficiary upon their death. Formal revocable trusts are what most people know, i.e. a written agreement created for estate planning purposes. Coverage limits depend on the number of beneficiaries named in the trust at the death of the account owner or grantor/settlor/trustor. Beneficiaries include natural persons, charitable organizations and non-profit entities.

If there are five or fewer beneficiaries, the coverage limit is $250,000 per grantor **and** per beneficiary receiving a share of the trust estate upon the death of the grantor. It does not matter if the shares are unequal, however beneficiaries who should receive their share upon the death of a beneficiary do not count.

Example:
David and Elizabeth have a joint revocable trust with their three children as beneficiaries. They have an account in a FDIC-insured bank in the name of the trust with a balance of $800,000. The account is insured up to $250,000 multiplied by five (two owners and three beneficiaries), which equals $1,500,000. Therefore, their deposits in the trust account are fully insured.

For six or more beneficiaries, the calculation is different only if the beneficiaries have unequal interests. Deposits will be insured for the greater of (i) $1,250,000, or (ii) the total of the specific allocations to all named beneficiaries up to $250,000 per beneficiary.

Example:
Kevin owns three TOD accounts at the same bank with the following beneficiaries and allocable interests:

- $450,000 to Martha
- $350,000 to Helen
- $150,000 to a 501(c)(3) charitable organization
- $100,000 to Heather
- $150,000 to Bernard
- $100,000 to Paul

The total amount of deposits at this bank is $1,300,000, which, divided by the number of beneficiaries (6) would result in more than $250,000 of coverage per individual. In most ownership categories, this would mean that a portion of the account is uninsured. However, FDIC insures revocable trust accounts naming six or more beneficiaries for at least $1,250,000. Therefore, Kevin's account is insured for $1,250,000 and uninsured for $50,000 instead of $300,000.

Irrevocable Trust Accounts
Deposits in the name of an irrevocable trust are insured up to $250,000 for the noncontingent beneficial interest of each beneficiary, and up to $250,000 for funds representing contingent beneficial interests. Any retained interest of the grantor is insured as if it was held in a single account in the name of the grantor. Non-contingent beneficial interest in a trust means that the beneficiary's beneficial interest is fixed and not conditioned on the occurrence of an event or the discretion of the trustee. Contingent interests represent any interest where the beneficiary would not receive any funds until a condition is met, or if the Trustee has discretion to allocate the funds among the beneficiaries. Unlike revocable trusts, coverage is afforded for contingent beneficiaries regardless of the number of beneficiaries.

Example:
Nicholas has an irrevocable trust account at a FDIC-insured bank with $500,000, he has retained a beneficial interest in the trust and has named four beneficiaries: a charitable organization who should receive $150,000 at his death and his three children who are scheduled to receive their share at age thirty-five. This account is insured as follows:

- $250,000 for Nicholas (as a grantor-beneficiary),
- $150,000 for the specific bequest to the charity (this is considered a noncontingent interest), and
- $250,000 for the contingent interests held by his three children.

The deposits insured in this example total $650,000. Therefore, the account is fully insured.

Please note that the rules for revocable trust and irrevocable trust accounts will be simplified starting April 1, 2024. Both types of trust accounts will fall under the same rules and the coverage calculation should follow the current formula that revocable trust accounts with five or fewer beneficiaries use. For more information, visit FACT SHEET - Final Rule on Simplification of Deposit Insurance Rules for Trust and Mortgage Servicing Accounts (fdic.gov)

The Core Account Sweep Programs at Commonwealth Financial Network

As an alternative to using money market funds for clients' short-term cash needs, Commonwealth has a Core Account Sweep Program that automatically sweeps eligible cash balances into deposits at partner banks. This program provides FDIC insurance as long as balances stay below $250,000 per bank. With 27 primary banks, two of them acting as excess banks in the program, clients can benefit from Commonwealth's broad network of banking relationships to deposit excess cash and receive FDIC insurance. In short, the advantage of this network is that funds are spread out across banks to give clients as much coverage as possible.

Additionally, all 27 banks went through rigorous reviews and continue being evaluated on a regular basis to ensure the strength and safety of the program.

While a full list of banks in the program and additional details on the program can be found here, it's important to note that the Core Account Sweep Program did not have direct exposure to any of the banks that recently collapsed.

If you have any doubt as to what your total coverage is, the FDIC has a calculator available at FDIC: Electronic Deposit Insurance Estimator (EDIE).

Your financial advisor can help you understand your current coverage limits and assist you in increasing your overall insurance amount.

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