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 how much does it insure? Because of the recent bank failures and panic that ensued, it's 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 assets. 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**. Refer to the table below to see 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
Trust Accounts	$250,000 per owner per 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 by ownership category, 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 both account types at the same bank.

Example:
Jane and John each have one individual account at an FDIC-insured bank (Jane has $100,000 in her account; John has $350,000 in his account). They also have $500,000 in a joint account at the same bank. 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, individually, his two accounts are under $250,000 and at different FDIC-insured banks, his deposits are fully insured.

[1]Federal Deposit Insurance Corporation. Deposit Insurance. Accessed August 6, 2024. https://www.fdic.gov/resources/deposit-insurance/

Trust Accounts
Starting on April 1, 2024, the rules for revocable and irrevocable trust accounts have been simplified. FDIC regulations differentiate two types of revocable trusts: informal revocable trusts and formal revocable trusts. Informal revocable trusts are often called transfer-on-death (TOD), payable on death (POD), 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 beneficiaries upon their death. Formal revocable trusts are what most people know, i.e., a written agreement created for estate planning purposes. Under the new rules, revocable and irrevocable trust accounts fall under the same category and follow the same rules for coverage calculation. 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. For irrevocable trusts, there is no longer a distinction between noncontingent beneficiaries and contingent beneficiaries.

Under the simplified rules, the coverage limit is $250,000 per owner for each of the trust beneficiaries, not to exceed five beneficiaries, up to a maximum of $1,250,000 per owner. It does not matter if the shares are unequal or contingent on an event or if the trust is revocable or irrevocable. The beneficiaries that are counted here are only the primary beneficiaries of the trust, and if a primary beneficiary has passed, then the contingent beneficiaries would be countable. A beneficiary only counts once even if such beneficiary is named in more than one trust.

Example:
David and Elizabeth have a joint revocable trust with their three children as beneficiaries. They have an account in an FDIC-insured bank in the name of the trust with a balance of $800,000. They also have an irrevocable trust with their three children as beneficiaries and their long-time friend, Eric, as a fourth beneficiary. The account for the irrevocable trust is held at the same FDIC-insured bank with a balance of $1,000,000. Both accounts are insured up to $250,000 multiplied by two owners and four beneficiaries, which equals $2,000,000. Both revocable trust and irrevocable trust accounts are fully insured.

Example:
Kevin owns three POD accounts at the same bank with the following beneficiaries and allocable interests:
- $450,000 to Martha, per stirpes
- $350,000 to Helen, per stirpes
- $250,000 to a 501(c)(3) charitable organization
- $250,000 to Heather

The total amount of deposits at this bank is $1,300,000, which, divided by the number of beneficiaries (4), would exceed the $250,000 coverage limit per beneficiary. (Only the primary beneficiaries would be counted, unless one of the primary beneficiaries predeceased Kevin, and then the deceased beneficiary's children would be counted as beneficiaries, up to five beneficiaries.) The total coverage here would be $1,000,000 with $300,000 of the account uninsured.

Please note that the rules for revocable trust and irrevocable trust accounts were simplified as of April 1, 2024. Both types of trust accounts now fall under the same rules and the coverage calculation follows the 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, 2 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 to be 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.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

Warren Wealth Associates

Warren Wealth Associates
28 Mountain Boulevard | Warren, NJ 07059
908.769.9400 | 908.769.9402 fax | www.warrenwealthassociates.com