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Federal Protection for Deposit Accounts

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Guaranteeing the stability of the U.S. banking system

Bank deposits are protected by the Federal Deposit Insurance Corporation (FDIC), an independent agency backed by the full faith and credit of the U.S. government. Established in 1933 after the United States experienced a wave of bank failures, FDIC insurance is intended to reassure depositors and offer protection in case a bank becomes insolvent, is liquidated, or experiences other financial difficulties.

> **Tip:** You do not have to be a U.S. citizen or resident for your account to receive FDIC protection. According to the FDIC, no depositor has ever lost a penny of FDIC-insured deposits that met the appropriate requirements.

What qualifies for FDIC insurance?

Both federally-chartered and state-chartered banks and savings institutions qualify for FDIC insurance (FDIC-insured institutions are required to post an official notice of that fact at each teller window). The FDIC insures both demand deposits (those that provide immediate access to cash, such as checking, NOW, and savings accounts as well as money market deposit accounts), and time deposits, such as certificates of deposit (CDs). It covers both principal and any interest accrued as of the date that an insured bank closes. It does not cover money market mutual funds, stocks, bonds, mutual funds, life insurance policies, annuities, or municipal or other securities, even if they were bought through an FDIC-insured bank. It also does not cover U.S. Treasury securities, though these are backed separately by the full faith and credit of the U.S. Treasury. Finally, the FDIC does not insure safe deposit boxes; in the event of a bank failure, the FDIC would typically arrange for transfer of the boxes to an acquiring bank, or send you a notice telling you how to retrieve the contents.

> **Technical Note:** As of September 18, 2009, a U.S. Treasury program that offered a temporary guarantee of publicly offered money market funds was allowed to expire as scheduled. The program was launched in September 2008 for funds that chose to participate in the program as a way to reassure the public in the wake of turmoil in the financial markets.

> **Tip:** It's important to understand the difference between a money market deposit account (sometimes known as an MMA), and a money market mutual fund. A money market account, which earns interest and typically limits the number of monthly checks and/or transactions, is FDIC insured. A money market mutual fund, even one sold through a bank, is not guaranteed or insured by the FDIC or any other government agency, and it is possible to lose money investing in a money market fund. However, a fund's management typically will go to great lengths to avoid allowing the fund's share price to drop below $1. Before investing in a mutual fund, obtain and read its prospectus (available from the fund) to get information about its investment objectives, risks, fees, and expenses, and consider them carefully before investing.

How much is insured?

Your coverage at an individual bank depends on how the money is held. The most commonly quoted coverage amount is a maximum of $250,000 per depositor per insured bank. However, depending on how your accounts are owned, you may qualify for a larger amount of total coverage at a given institution. Accounts fall into one of several separate categories of ownership, and each category is insured separately.

> **Tip:** The FDIC website (www.fdic.gov) includes an online calculator that can help you determine whether your assets are completely protected.

> **Tip:** In addition to FDIC insurance, your bank may have additional protection. For example, in some states, a state-chartered savings bank must carry additional insurance to cover potential losses beyond the FDIC limits. Some banks also may participate in the Certificate of Deposit Account

Registry Service (CDARS), which enables a bank to spread large CD deposits among multiple banks while keeping the amount at each one within FDIC coverage limits.

Below are the categories of deposits that qualify for separate FDIC insurance. Simply having multiple accounts at one bank isn't enough to give you additional protection; what's important is what type of account each one is, and who legally owns it. An online calculator available at the FDIC's web site can help you estimate the total FDIC coverage on your deposit accounts. Insured banks are required to provide information about insurance coverage and its limits.

Single accounts

Single accounts are owned by only one person or entity. They include:

- Accounts held in one person's name
- Accounts established by an agent, trustee, conservator, nominee or guardian for another individual (e.g., Uniform Transfer to Minors Act (UTMA), escrow, and brokered deposit accounts)
- Sole proprietor business accounts (i.e., a "DBA" account)
- Accounts established for the estate of a deceased person
- Accounts that don't fit into any other category

All such accounts at one institution that are held by the same person are totaled and counted toward the $250,000 coverage limit. You can't increase your protection simply by opening more than one account in your name at the same bank.

Example(s): Fred has a $6,000 checking account and a $40,000 UTMA account for his son at ABC Bank. He also has a $145,000 savings account online at the same bank, and a separate savings account worth $85,000. Only $250,000 of his combined $276,000 total at ABC is covered by FDIC insurance; the remaining $26,000 is not. Fred decides to transfer half of his $145,000 savings account to another bank. That would bring his total at ABC to $203,500, which falls well within the $250,000 coverage limit per bank.

Retirement accounts

Certain retirement accounts qualify for up to $250,000 coverage, separate from the $250,000 single-account coverage. As with individual accounts, deposits in all retirement accounts at a single bank are added together to determine whether the coverage limit is exceeded.

Covered retirement accounts include:

- Individual Retirement Accounts (IRAs), including traditional IRAs, Roth IRAs, Simplified Employee Pension (SEP) IRAs, and Savings Incentive Match Plans for Employees (SIMPLE) IRAs
- Section 457 deferred compensation plan accounts (whether self-directed or not)
- Self-directed defined contribution plan accounts (e.g., self-directed 401(k), money purchase, and profit-sharing plans)
- Self-directed Keogh plan (or H.R. 10 plan) accounts

Tip: "Self-directed" means you have the right to direct how your plan account is invested, including the ability to direct that deposits be made to an FDIC-insured bank.

Caution: FDIC insurance of retirement accounts applies only to deposit accounts, not to any securities or mutual funds held in an IRA or other retirement account.

Example(s): At ABC Bank, Susan has a personal checking account with a $10,000 balance, a $95,000 savings account, a Roth IRA invested in a series of CDs that total $85,000, a $50,000 SIMPLE IRA that's in a money market deposit account, and a $165,000 account for her sole-proprietor business as a freelance accountant. Susan's IRAs, which total $135,000, are within the $250,000 combined limit for retirement accounts, and are completely insured (that wouldn't be true if her SIMPLE IRA were in a money market mutual fund, which doesn't qualify for FDIC coverage). Susan's other accounts are at some risk, though. Her checking, savings, and business balances all count toward coverage of her individual accounts. Because they collectively add up to $270,000, she has $20,000 worth of deposits at ABC that are not FDIC insured.

Caution: Coverdell Education Savings Accounts, Health Savings Accounts, and Medical Savings Accounts are not included in this category. Also not included are 403(b) annuity accounts.

Joint accounts

Deposits that are owned by two or more people who have equal rights to withdraw money from the account are insured up to $250,000 for each person. This amount is separate from the $250,000 maximum coverage for individual accounts or the $250,000 limit for retirement accounts. If an individual has more than one joint account at a given bank, his or her share of all of those joint accounts are totaled and insured up to $250,000. Unless a joint account specifies otherwise, the FDIC assumes all ownership interests in a joint account are equal.

Caution: Changing the way names are listed on the accounts, or switching the Social Security numbers for the same co-owners on multiple joint accounts will not increase your total coverage.

Example(s): Retirees Mary and Bob Jones each have individual savings accounts in their own names at the same bank; Mary's balance is $185,000, Bob's is $89,000. Mary also has a $95,000 IRA which she keeps in a money market deposit account because she plans to use the money this year. In addition, they have a $100,000 joint checking account in the name of Mary and Bob Jones that they use to pay household bills, and a joint savings account worth $282,000 registered in the name of Bob or Mary Jones. All totaled, the couple has $751,000 at this one bank.However, those deposits are fully insured. Mary and Bob each have up to $250,000 of coverage for the $382,000 combined total in their two joint accounts; they could put an additional $118,000 in the household bills account if they wanted to before hitting their $500,000 combined coverage limit. Even though Mary's $185,000 savings and $95,000 IRA total more than $250,000, each is covered separately; her $185,000 is within the $250,000 limit on single accounts, and her IRA is within the $250,000 retirement account maximum. Bob's $89,000 individual account also is covered separately.

Caution: Legal entities, such as corporations, trusts, estates, and partnerships, do not qualify for joint account coverage.

Revocable trust accounts

Technical Note: In the past, for a POD or ITF account to qualify for FDIC insurance, beneficiaries had to be "qualified"; they had to be a spouse, child, grandchild, parent, sibling, or other equivalent family member. As of October 8, 2008, the concept of a qualifying beneficiary based on a family relationship was eliminated.

There are two types of revocable trust accounts that qualify for FDIC protection: informal and formal trusts. An informal revocable trust--sometimes called a POD (payable on death) or ITF (in trust for) account--is set up so that upon the owner's death, the deposits in it are paid to the beneficiary or beneficiaries as designated on the bank's records. A formal revocable trust, also known as a living trust, is generally set up for estate planning purposes. The owner controls the deposits while alive; upon the owner's death, the trust becomes irrevocable.

For each account owner with combined revocable trust balances of $1.25 million or less at a single bank, the total amount of coverage is determined by multiplying the number of beneficiaries by $250,000. For account owners who have combined total balances of more than $1.25 million at a single bank and have more than five named beneficiaries, the FDIC insures up to $250,000 per beneficiary or a total of $1.25 million, whichever is greater. The account title must clearly identify it as a trust. The FDIC assumes all eligible beneficiaries (a living individual, a nonprofit organization, or a charity that is specifically named in the trust document or the bank's records) share

equally in the trust unless stated otherwise in the bank's records.

> **Example(s):** Tom has a POD account that lists his two sons as beneficiaries. Because there are two equal beneficiaries, the account qualifies for up to $500,000 of coverage. However, if the trust listed both Tom and his wife as owners and the two sons as beneficiaries, the maximum coverage would be $1 million. Each owner is independently entitled to as much as $250,000 of coverage for each beneficiary. That means that each son's share would qualify for up to $500,000 of coverage--$250,000 because of Tom and $250,000 because of his wife.
>
> **Caution:** Neither the owner of a POD account nor the trust itself is eligible for a separate $250,000 worth of insurance on the trust in addition to the amount of coverage based on the number of beneficiaries. If a $600,000 trust had one owner and two beneficiaries, only $500,000--the amount based on the number of beneficiaries--would be FDIC-insured.
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> **Caution:** If you have both an individual account and a trust account at one bank, make sure you understand how coverage of one affects the other. Any portion of a trust that doesn't meet the requirements for coverage as a trust is aggregated with a trust owner's other accounts at the same bank and included in the $250,000 limit on coverage of single accounts.

Formal (or living) trust accounts also are insured up to $250,000 per owner for each beneficiary (the requirements are the same as for POD accounts). The account title also must indicate that it is a living trust. Though owners may use the money during their lifetimes, they are not considered beneficiaries when calculating deposit insurance.

Coverage for living trusts is more difficult to calculate than that for informal trusts. Generally, it will depend on how the trust is organized, what percentage or dollar amount of interest in the trust is allocated to each beneficiary, whether all beneficiaries and owners are still living, whether all are qualifying beneficiaries, and who is named as owner(s) of the trust. In determining coverage for a living trust account, a life estate interest is valued at $250,000. More complete information is available at the FDIC web site, www.fdic.gov.

Irrevocable trust accounts

As the name implies, an irrevocable trust account is different from a revocable trust account because once the trust is established and deposits are contributed, its creator can no longer change its terms. An irrevocable trust also can come about upon the death of the owner of a revocable trust, in which case it is insured under the rules governing revocable trusts.

Generally, a beneficiary's interests in all deposit accounts established by the same grantor at one bank under an irrevocable trust are added together and insured up to $250,000. Unlike a revocable trust, a beneficiary does not have to be related to the trust's grantor to qualify for FDIC coverage of that interest. However, a trust and/or its beneficiaries must meet the following requirements: (1) the trust must be valid under state law, (2) the bank's records must reflect both the existence of a trust, and the beneficiaries and their interests, and (3) the amount of each beneficiary's interest must not be contingent as defined by FDIC regulations.

The trust agreement itself also must meet certain conditions in order to qualify for insurance on a per-beneficiary basis; if it does not, the trust would qualify only for up to $250,000 in total coverage. Those conditions are:

- The trust agreement must name the beneficiaries
- The trust cannot require that a beneficiary meet certain conditions in order to receive trust assets
- The trust cannot permit a trustee to use the trust's principal (e.g., for a surviving spouse's support) if that reduces or eliminates the assets available for other beneficiaries.
- The trust cannot allow a trustee or individual beneficiary to exercise discretion in allocating assets among the beneficiaries, so that the future distribution to each one cannot be predicted

> **Caution:** Irrevocable trusts often contain provisions that violate one or more of the requirements above, so be careful to understand exactly what coverage your specific trust has.

Employee benefit plan accounts

Deposits of a pension plan, profit-sharing plan, or other employee benefit plan are insured up to $250,000 for each participant's non-contingent interest in the plan. This is sometimes referred to as "pass-through" insurance, because coverage passes through to each participant's interest or share.

Because the total coverage is based on each participant's share of the plan, you cannot simply multiply the number of participants by $250,000 to determine the total plan coverage. To determine how much a plan may have deposited at one bank and still remain fully insured, divide $250,000 by the largest individual share of the assets--the largest percentage of total plan assets held by one participant.

Corporations, partnership, and unincorporated association accounts

Accounts of a corporation, partnership, and unincorporated association (both for-profit and nonprofit) qualify for up to $250,000 at a single bank, and are insured separately from the personal accounts of any stockholders, partners, or members. Accounts owned by the same entity but designated for different purposes--for example, multiple divisions within the same company--are totaled and count toward the $250,000 limit. The number of members does not affect coverage; for example, a homeowners' association would qualify only for a maximum of $250,000 regardless of whether there were 5 or 500 association members.

Non-interest bearing transaction accounts

Non-interest bearing transaction accounts are often used by businesses for functions such as managing payroll. Such accounts qualify for unlimited coverage by an FDIC-insured financial institution that chooses to participate in the FDIC's Temporary Liquidity Guarantee Program. The program became effective on October 23, 2008 and was extended through Dec. 31, 2010. Institutions were given the ability to opt out of the program within 30 days after it was launched, and were able to opt out again in November 2009, so check with your bank or savings institution to determine your coverage. However, as of Jan. 1, 2011, deposits held in noninterest-bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions through Dec. 31, 2012.

What happens when a bank fails?

When a FDIC-insured bank fails, the FDIC has two roles. First, it makes sure that the bank's depositors receive payments that cover their insured deposits (up to the limits provided by law). Second, it takes on the task of administering the bank's assets and liabilities, satisfying its creditors, and settling its debts, including any depositor claims for deposits that exceeded the insured amounts.

Generally, the FDIC will try to arrange for a healthy bank to take over the deposits of a failed bank, in which case depositors have access to their insured funds through the new bank. If no bank wants to assume that role, the FDIC taps a fund that is financed by premiums paid by insured banks. It uses that money to send depositors a check for their insured funds directly, often within a few days. (However, accounts that require their owners to supply the FDIC with additional documentation, such as formal trusts, employee benefit plans, or accounts set up by a fiduciary, often take longer.) The FDIC notifies depositors immediately after a bank closes; if the bank is assumed by another one, that bank also notifies affected depositors, usually at the time of the first bank statement after the failed bank is acquired.

> **Tip:** For accounts established through a fiduciary, the FDIC will make payments to the fiduciary. If you have such an account, you should check with your fiduciary to find out how those payments will be handled.

If you have amounts that exceed a single bank's insurance limits, you will be given a "Receiver Certificate." This will enable you to file a claim against the bank's assets. As those assets are liquidated, payments of uninsured deposits will be made. However, you may receive only a percentage of your total uninsured deposits, and there's no guarantee you will receive any of them.

Accrual of interest ceases once a bank is closed; if deposits are acquired by another bank, that bank is

responsible for restarting accrual of interest and determining the applicable interest rate. If the acquiring bank changes the interest rate, you may withdraw the deposits without penalty.

Any direct deposits made to your account--for example, Social Security checks--are automatically redirected to an acquiring bank. If there is no acquiring bank, the FDIC typically recruits a nearby bank to receive the direct deposits temporarily.

If a check or deposit is in the process of clearing when a bank fails, it may be returned unpaid unless the bank is acquired, in which case its offices may reopen the next business day and clear checks as usual. If not, the FDIC must freeze deposit accounts temporarily in order to provide depositors with their insured balances quickly. Any returned checks will indicate that the bank has been closed, and they should not reflect on your credit standing.

Holders of safe deposit boxes typically have access to them the next business day (if the bank is acquired), or they are notified by the FDIC by letter about how and when to remove the boxes' contents.

Protection for credit union accounts

Member share accounts at most credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF). It is administered by the National Credit Union Administration (NCUA), which is an independent agency of the U.S. government backed by the full faith and credit of the U.S. government. (Some credit unions are not federally insured but are overseen by state regulators; they typically have private credit insurance.)

NCUSIF insurance is similar to that of the FDIC. It insures single-owner accounts up to $250,000 per customer per institution. Retirement accounts such as IRAs have separate coverage up to $250,000. As with bank deposit accounts, independent coverage may be available for different categories of ownership. You can estimate your existing coverage by using the calculator at the NCUA's web site at http://webapps.ncua.gov/ins/.

The bottom line

If you have multiple accounts at one bank, check to see who is listed as the owner(s) of each one, what category it falls into, and whether it overlaps with other categories that might affect the amount that's covered. If your assets aren't completely insured, you might consider shifting them to increase your coverage.

Also, make sure the bank's records are correct and up to date. The more accurate they are, the easier any transition will be should a bank fail.

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