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If Your Bank Accounts Exceed FDIC Coverage, You Have Only Yourself to Blame

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The recent failure of IndyMac Bank and the turmoil in the financial markets have made investors focus on the safety and security of their moneys on deposit in banking institutions. By being careful in how deposits are owned, it is relatively easy to secure more than the basic insurance amount of $100,000 per depositor at the same insured bank.

A Little Background

The Federal Deposit Insurance Corporation (FDIC) was established in 1933, during the Great Depression. The FDIC is an independent agency of the U.S. government. It protects depositors against the loss of their deposits at insured institutions in checking accounts, NOW accounts, savings accounts, money market deposit accounts, certificates of deposits (such as time deposits), etc., if an FDIC-insured bank or savings association fails, up to the insurance limit.

The basic insurance amount is $100,000 per depositor in each insured bank. Certain retirement accounts, such as individual retirement accounts, are insured for up to $250,000 per depositor in each insured bank.

The FDIC does not insure money invested in securities, mutual funds, life insurance policies or annuities, even if the investor purchased them from an insured bank. For many types of investments held in brokerage firms, the Securities Investor Protection Corporation (SIPC) can provide some insurance against the failure of the brokerage institution. A discussion of SIPC protection is beyond the scope of this article.

How to Obtain Coverage for More than $100,000 in an Insured Bank

Of course, one way to be certain that the $100,000 coverage limit is not exceeded is to make sure that accounts with the same single ownership are never more than $100,000 at the same bank.

A depositor can qualify for more than $100,000 in coverage at one institution by owning deposit accounts in different ownership categories. The most common ownership categories are: (1) Single Accounts; (2) Retirement Accounts; (3) Joint Accounts; and (4) Payable on Death Accounts.

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Retirement accounts are deposit accounts owned by one person and titled in the name of that person's retirement plan. They are insured for up to $250,000. Most of the more common types of retirement accounts are insured in this ownership category, and include traditional IRAs, Roth IRAs, Simplified Employee Pension (SEP) IRAs and self-directed Keogh plan accounts.

All the depositor's retirement accounts that are held in the same institution are added together, and the total is insured for up to $250,000. Unlike joint accounts and payable on death accounts (discussed below), naming beneficiaries on retirement accounts does not increase FDIC coverage on retirement accounts.

Joint accounts are deposit accounts owned by two or more people. If both owners have equal withdrawal rights, each person's share at the same insured institution is added together, and the total is insured for up to $100,000 each. For example, if a married couple has a $200,000 joint savings account, the husband has a $60,000 checking account in his name alone at the same bank, and the wife has a $70,000 separate checking account in her name (for a family total of $330,000), the accounts are fully insured. The husband's $100,000 share of the joint account is insured, as well as his $60,000 checking account. The wife's $100,000 share of the joint account and her $70,000 checking account are also fully insured.

Payable on death accounts are an additional way to effectively increase the FDIC coverage. These types of accounts are created when the account owner (and the institution's records) use words such as, "payable on death to" or "in trust for" a named beneficiary upon the owner's death.

For payable on death accounts, coverage is provided based on the interest of each beneficiary in the account. The beneficiary must be closely related to the depositor, such as a parent, spouse, sibling, child or grandchild. For example, a depositor could establish $100,000 accounts, each separately titled "in trust for" or "payable on death to" his wife, each of his four children, his brother and his sister, and the total FDIC insurance would be $700,000, spread among the seven accounts.

It is important to realize that joint accounts and payable on death accounts pass to the designated beneficiary upon the death of the owner and have estate tax implications, and so these types of accounts must be carefully coordinated with the owner's last will and testament.

Helpful Tips: *Depending on state law, the creation of a joint account may result in a taxable gift to the other joint owner. For that reason, it is often preferable to use the payable on death type of ownership if the intention is for the beneficiary to succeed to the account upon the death of the owner, and for the owner to be able to revoke the designation during the owner's life.*

You can calculate your insurance coverage using the FDIC's online insurance estimator at www2.fdic.gov/edie.

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We hope you have found this issue of the *Estate Planning & Tax Advisor* to be of interest. We invite you to contact the editor, Abbe Herbst, at (212) 278-1781 or aherbst@andersonkill.com, with your questions and/or concerns.