Understanding FDIC

My Dad worked as a banker, back in the days when loans were made with a handshake, when you could see your money in the vault, and when deposits were insured up to $10,000. Times have changed. Today the FDIC insures deposits up to $100,000. Or do they?

What is the FDIC and What Does it Do?

The Federal Deposit Insurance Corporation is an independent agency of the US Government. It insures all deposits such as checking and savings accounts, as well as money markets and CDs held in an insured bank or savings and loan association. The FDIC offers two levels of insurance coverage; basic and separate.

Basic coverage insures $100,000 per depositor per insured bank. For example, if a family has less than $100,000 in all of their accounts combined at the same bank, then they are fully insured. When it comes to separate coverage, confusion occurs. This often leads people to open accounts at multiple banks, which in turn produces an administrative headache. The fact is, depositors can qualify for additional coverage based upon the ownership categories of their deposits. The four most common ownership categories are: single or individual accounts, certain retirement accounts, jointly owned accounts and revocable trust accounts.

Single accounts are owned by just one person. All the accounts in the insured bank are added together and insured up to the $100,000 limit. Jointly owned accounts get more interesting. At first, you might think such an account, owned by two (or more) people would also be insured up to $100,000. If you think so, you are wrong! If each owner has equal rights to withdraw money from a joint account, then EACH insured person's share of all joint accounts in the bank are added together and insured up to $100,000. Therefore, a couple that owns a joint savings account and checking account with a combined total of $200,000, would be insured for the full $200,000 ($100,000 per each owner).

In addition, if the couple also had individual accounts, such as individual checking or CDs, then their individual accounts at the same bank are also insured up to the $100,000 limit. A joint account and two separate individual accounts could qualify for up to $400,000 of FDIC insurance at the same bank!

In my professional practice, I often deal with trust ownerships. Traditional revocable trusts also known as inter-vivo (living) trusts are established with a trust document that identifies the grantor(s), trustee(s) and beneficiaries. Bank deposit accounts registered to this type of trust are considered a separate ownership category from individual or joint accounts. As long as the trust meets qualifying standards (beneficiaries are natural persons with an immediate familial relationship to the trust's grantor), then FDIC coverage in excess of $100,000 is available.

The amount of coverage available to each trust beneficiary is based on the actual interest of each beneficiary. The FDIC will insure each beneficiary as if their interest in the trust account were equal (unless the trust specifies otherwise) up to $100,000 per beneficiary per owner. For example, if a wife has a living trust naming her spouse as primary beneficiary and then her two children as remainder beneficiaries, then the trust account would be insured up to $300,000 ($100,000 per beneficiary). If the trust was jointly owned, then up to $600,000 of FDIC coverage could apply ($100,000 per beneficiary per owner)!

Other ownership types have different FDIC coverage limits. Certain retirement accounts are insured up to $250,000 per depositor per insured bank. Irrevocable trusts, corporations, partnerships and associations are also distinct ownership types and their deposits can be insured up to $100,000, separate from the insurance provided to the personal accounts of the owners, shareholders or partners.

Add it all up and you can see that FDIC insurance coverage per bank can be substantially more than $100,000.

Now, if we could just bring back the days of the good old-fashioned handshake . . .