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Use of a Trust to Increase FDIC Coverage

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The current economic crisis has caused many bank depositors great concern about the safety of their accounts. Congress has increased FDIC coverage from $100,000 to $250,000 per "ownership category," effective October 3, 2008, and until December 31, 2009. Moreover, these limits can be dramatically increased when bank accounts are owned by a revocable trust.

The FDIC classifies revocable trust accounts into two categories, formal (actual ownership by a trust), and informal (e.g., POD accounts). An owner's formal and informal revocable trusts are added together and are insured up to $250,000 per beneficiary (not per owner). However, formal revocable trusts with deposit balances of more than $1,250,000 and more than five named beneficiaries are insured only to the greater of $1,250,00 or the aggregate of all beneficiaries' proportionate interests, limited to $250,000 per beneficiary. For example a trust with eight beneficiaries, each with a proportionate interest of $200,000, would have a limit of $1,600,000.

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The only requirement for a beneficiary of a revocable trust is that the individual be named to receive upon the death of the owner. Thus, even though the beneficiary has no current rights in the trust, and even though the grantor could amend the trust at any time, all beneficiaries who would receive upon the death of the grantor are counted for purposes of FDIC insurance.

When selecting a duration for a new certificate of deposit, a depositor should keep in mind that the $250,000 limit applies only until December 31, 2009, and that the above rules could be changed by the FDIC at any time (Congressional action is not required).

Trusts are typically established for reasons other than FDIC coverage (e.g., probate avoidance; estate tax reduction; management of assets for young, immature, inexperienced or disabled beneficiaries; protection for children of a prior marriage; and/or asset protection). However, as can be seen from the very favorable rules above, a revocable trust also can increase the safety of bank deposits significantly in uncertain economic times.

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