

**FDIC's**

**National Telephone Conference on  
Deposit Insurance Coverage for  
Revocable & Irrevocable  
Trust Accounts**

**Session Dates – October 23 & November 13, 2007**



# Deposit Insurance Coverage Seminar

## Today's Speakers

# Eligible Ownership Categories



SINGLE



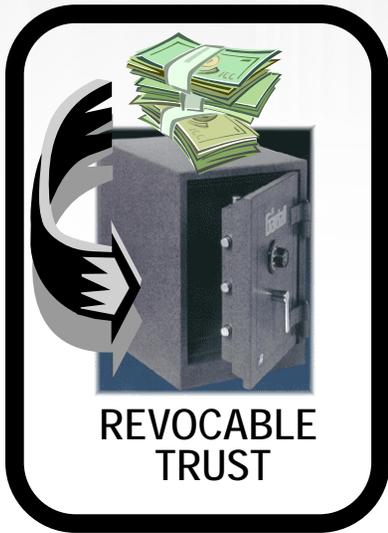
JOINT



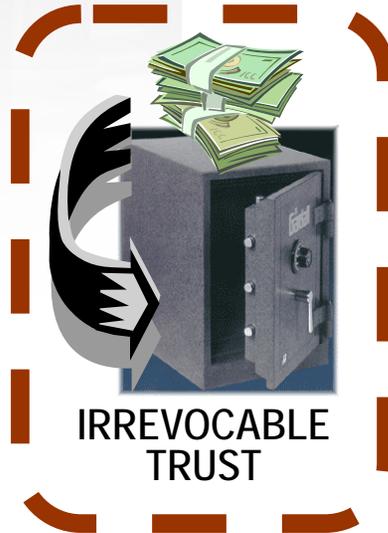
*CERTAIN*  
RETIREMENT



EMPLOYEE  
BENEFIT PLAN



REVOCABLE  
TRUST



IRREVOCABLE  
TRUST



CORPORATION  
PARTNERSHIP  
UNINCORPORATED  
ASSOCIATIONS



GOVERNMENT

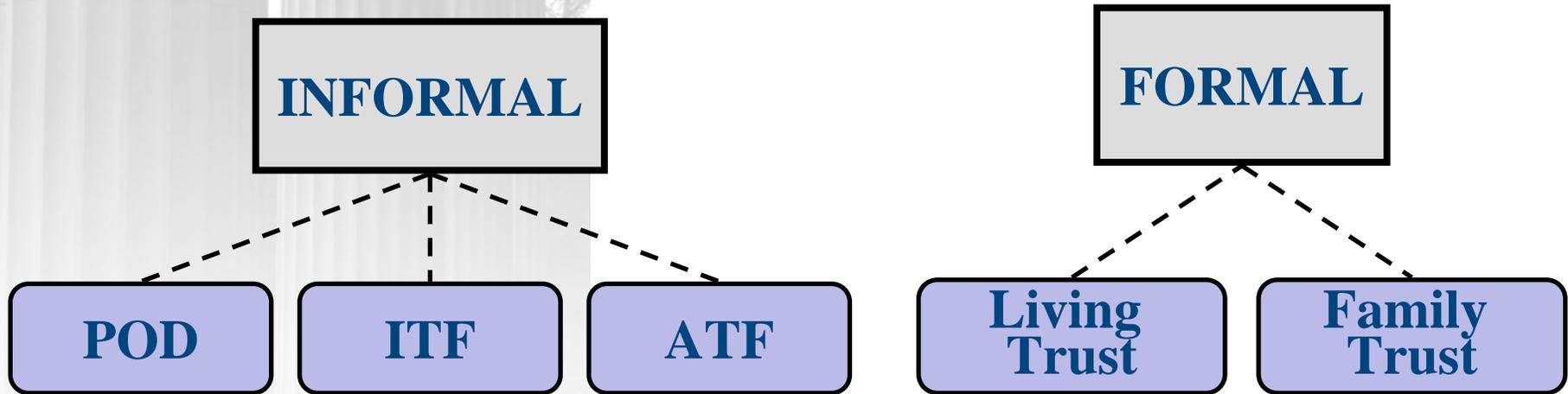
# Introductory Points

---

- *Separate coverage* is provided for trust accounts
- Coverage is in addition to coverage provided for other accounts owned by a depositor in a different ownership capacity
- Two types of trust accounts – revocable trusts and irrevocable trusts
- Revocable trust (formal and informal) coverage is based on the owner/qualifying beneficiary relationship
- Irrevocable trust coverage is based on the beneficiaries' ascertainable, non-contingent interests

# Revocable Trust Types

---



POD (Payable-on-Death) accounts or accounts with similar terms such as "ITF" (In-Trust-For) or "ATF" (As-Trustee-For)

# Revocable Trust Requirements

---

- Account title at the bank must indicate the existence of a trust relationship
- For informal trusts, beneficiaries must be named in the bank's account records
- For formal trusts, beneficiaries must be identified in the trust document
- Beneficiaries must be “qualifying”

# Revocable Trust Beneficiaries

---

## Who qualifies\*

- Spouse
- Children
- Grandchildren
- Parents
- Siblings

**\*Includes adoptive and step relationships**

## Who does not qualify

- Ex-spouse
- In-laws
- Great-grandchildren
- Nieces, nephews, cousins
- Friends
- Grandparents
- Organizations
- Trusts
- Other relationships not listed

# Revocable Trust Coverage

---

- Up to \$100,000 per owner per qualifying beneficiary
- For non-qualifying beneficiaries, the funds corresponding to all such beneficiaries are treated as single-ownership account funds of the revocable trust account owner. Those funds would be added to any other single ownership account funds of the revocable trust account owner and insured up to \$100,000.

# Determining Revocable Trust Coverage

---

- Who are the owners?
- Who are the beneficiaries?
- Are the beneficiaries qualifying?
- What is the dollar amount or percentage interest for each beneficiary?
- Are the owners and beneficiaries living?
- Is the account titled properly?

# Example # 1: One Owner & Two Beneficiaries

---

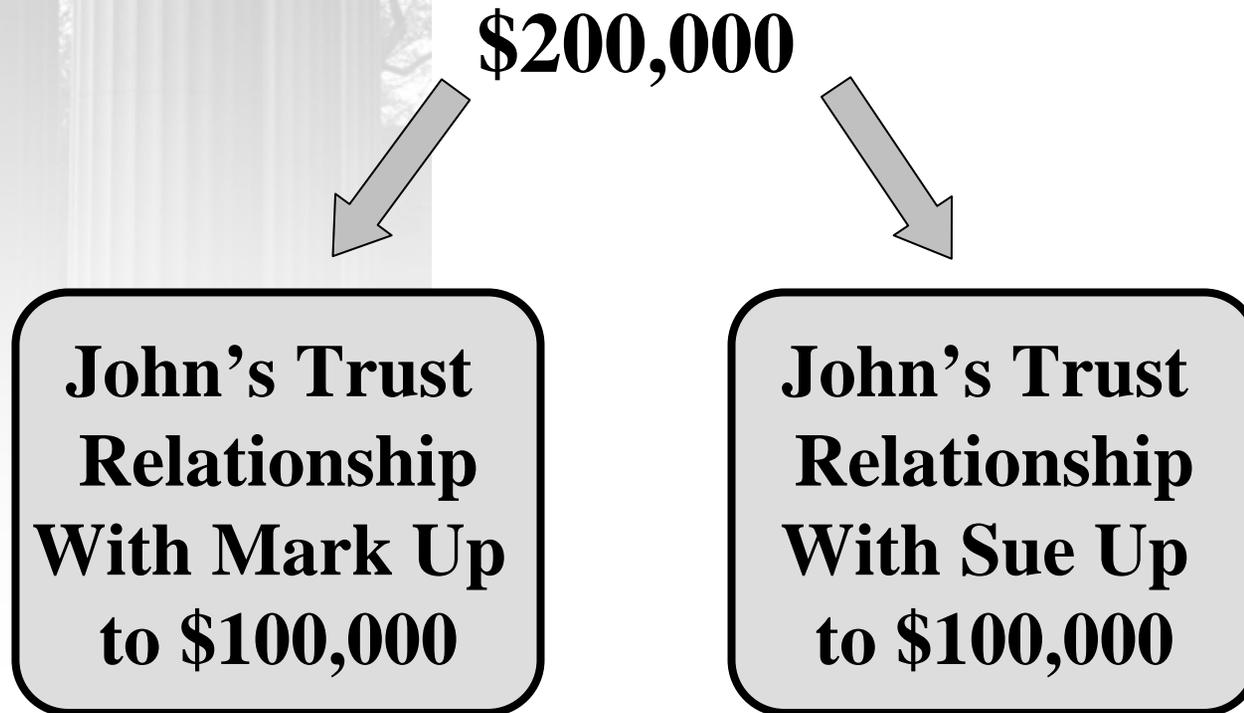
**John Smith wishes to establish a deposit account naming his son (Mark) and his daughter (Sue) as beneficiaries. He wants to know how much money he can deposit and be fully insured.**

# Determining POD Insurance Coverage

- Owner? **John**
- How many beneficiaries? **Two**
- Qualifying beneficiaries? **Yes, owner's children**
- Equal beneficiary interests? **Yes**
- Everyone living? **Yes**
- Titling and recordkeeping? **Yes. Title: "John Smith POD." Bank's records show Mark and Sue as beneficiaries.**

# John Smith POD to Mark and Sue

---



## **Example # 2: POD & Single Account**

**Elizabeth Brown has a POD account for \$100,000, naming her niece (Linda Jones) as beneficiary**

**Elizabeth also has a checking account in her name alone with \$10,000 at the same bank**

**What's her coverage?**

# Example: POD & Single Account

- Owner? **Elizabeth**
- Beneficiaries? **One, Linda Jones**
- Qualifying or non-qualifying? **Niece is non-qualifying**
- Equal interests? **Not applicable**
- Everyone alive? **Yes**
- Titling and Recordkeeping? **Yes. “Elizabeth Brown POD.” Bank records show Linda as beneficiary.**

# Elizabeth Brown's Deposit Accounts

---

## Account # 1

**Elizabeth  
Brown POD to  
Linda Jones  
\$100,000**

## Account # 2

**Elizabeth  
Brown's  
Single Account  
\$10,000**

**Accounts are added together  
and the total of \$110,000 is  
insured only up to \$100,000**

# Common Questions About POD Accounts

---

- Does the death of an owner or beneficiary of a POD account affect the amount of FDIC deposit insurance coverage? **Most likely**
- When an owner of a POD deposit dies, will the FDIC intervene and calculate deposit insurance? **No, FDIC pays insurance only in the unlikely event of a bank failure**
- Does naming a trust as the beneficiary on a POD deposit impact deposit insurance coverage? **Yes, because a trust is a non-qualifying beneficiary**

# **Formal Revocable Trusts (Living Trusts)**

---

**Coverage: Up to \$100,000 per owner per qualifying beneficiary's interest in the trust assuming all qualifying beneficiaries have equal beneficiary interests**

- Owner is commonly referred to as the trustor, grantor, settlor, donor, maker or creator
- Trustees, co-trustees and successor trustees are administrators of a trust and have no impact on deposit insurance coverage

# **Determining Living Trust Coverage**

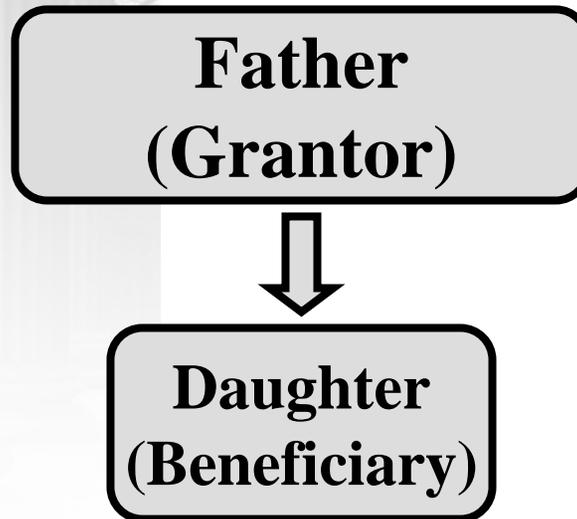
---

- **Who are the owners?**
- **Who are the beneficiaries?**
- **Are the beneficiaries qualifying?**
- **What is the dollar amount or percentage interest for each beneficiary?**
- **Are the owners and beneficiaries living?**
- **Is the account titled properly?**

# Living Trust - One Owner With One Beneficiary

---

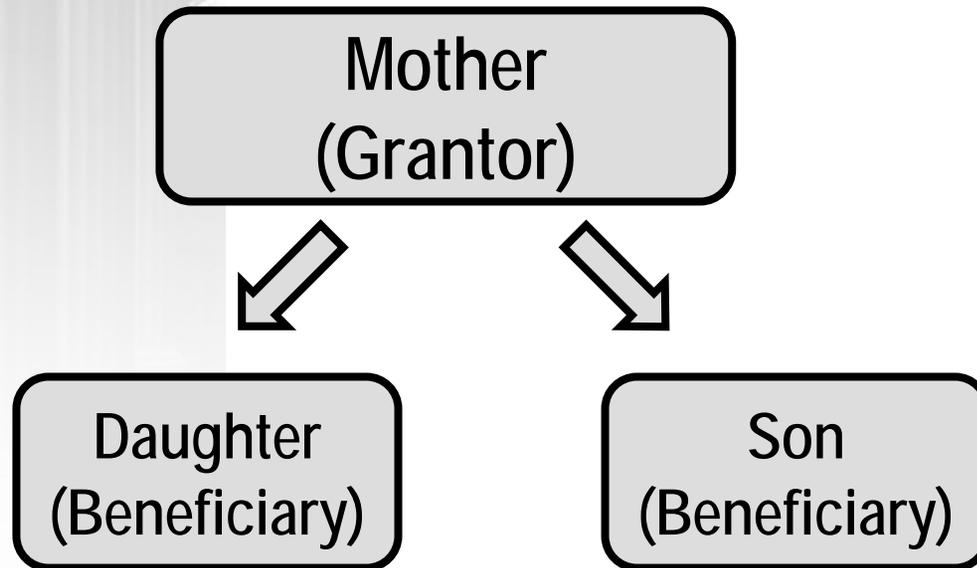
A father has a living trust leaving all trust deposits to his daughter



1 Owner X \$100,000 X 1 Qualifying Beneficiary = \$100,000

# Living Trust - One Owner With Multiple Beneficiaries

A mother has a living trust leaving all trust deposits equally to her two children

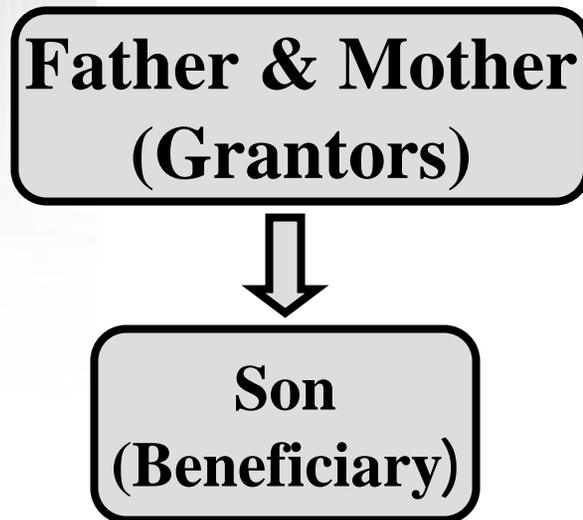


1 Owner X \$100,000 X 2 Qualifying Beneficiaries = \$200,000

# Living Trust - Multiple Owners

---

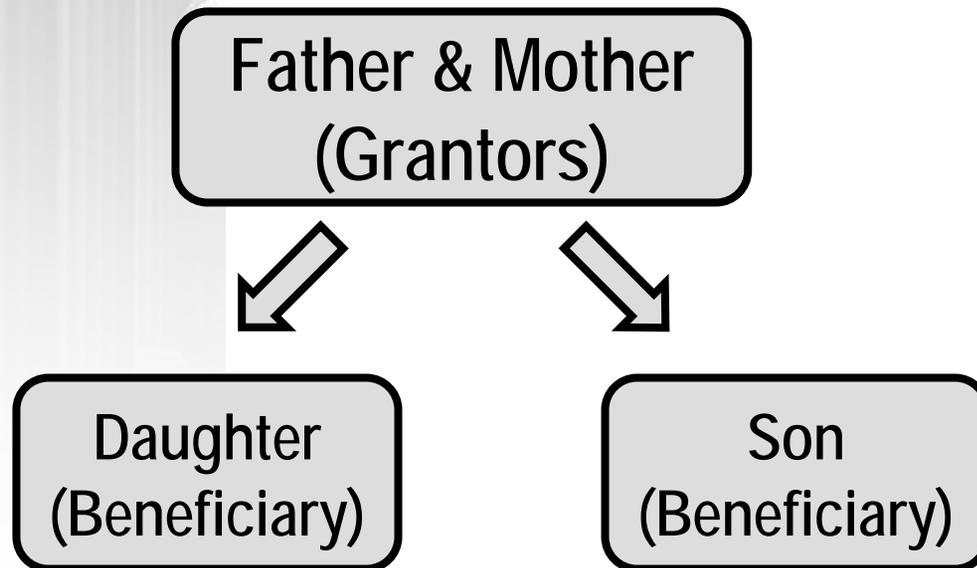
A husband and wife are joint owners (grantors) of a living trust. The trust states that upon the death of one spouse the funds will pass to the surviving spouse, and upon the death of the last owner the funds will go to their son.



**2 Owners X \$100,000 X 1 Beneficiary = \$200,000**

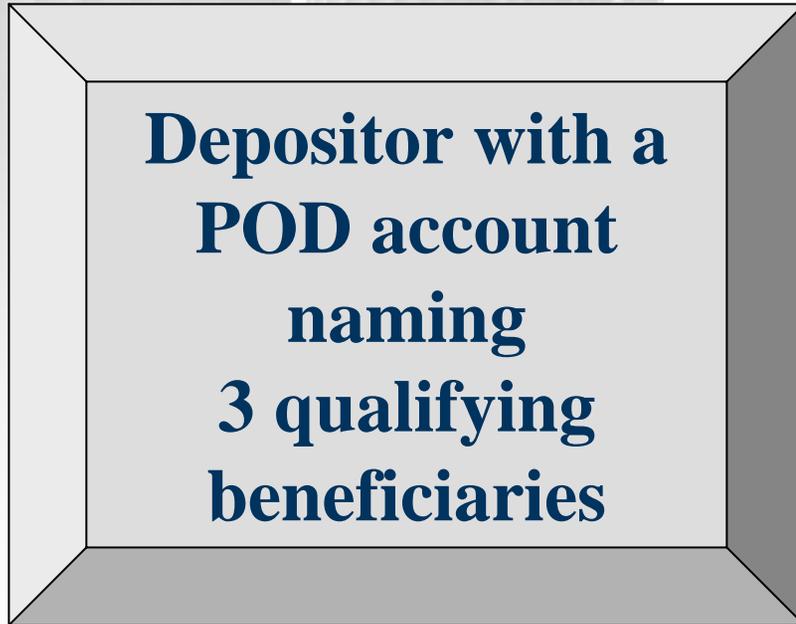
# Living Trust - Two Owners With Multiple Beneficiaries

A father and mother have a living trust leaving all trust deposits equally to their two children



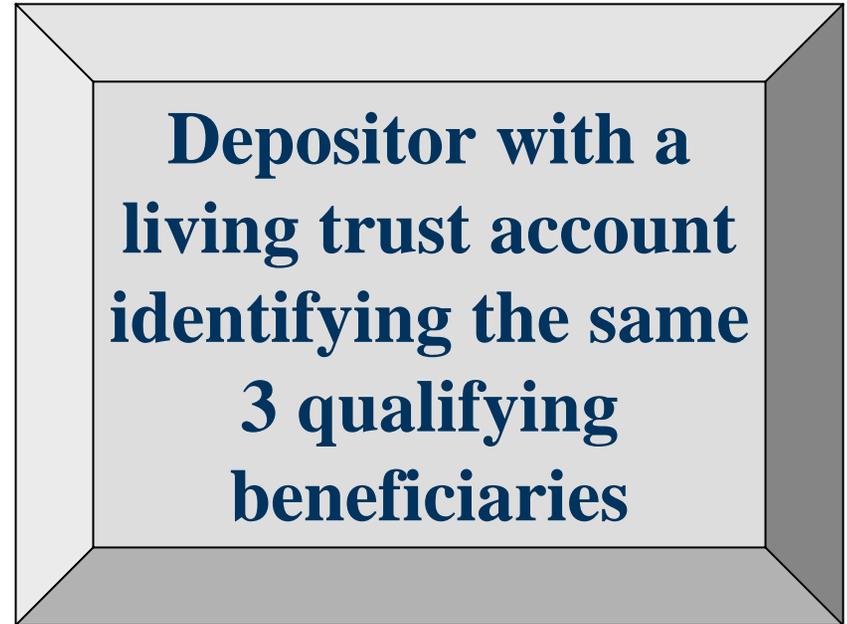
**2 Owners X \$100,000 X 2 Qualifying Beneficiaries = \$400,000**

# Living Trust and a POD Account With the Same Qualifying Beneficiaries



**Informal Trust**

+



**Formal Trust**

Accounts are added together  
Maximum insurance up to \$300,000  
\$100,000 X each owner X each beneficiary

# Formal Revocable Trust Account Coverage Calculation May Be Complicated If:

---

- **The trust identifies both qualifying and non-qualifying beneficiaries**
- **The beneficiaries receive unequal amounts or percentages**
- **A life-estate beneficiary is named in the trust**
- **A beneficiary or grantor is deceased**
- **The trust provides for different distributions to beneficiaries at different points in time**
- **The trust contains ambiguous terms**
- **Combination of some or all of the above issues**

# Living Trust - Non-Qualifying Beneficiary

A father has a living trust naming his son and nephew as equal beneficiaries of all assets

**Father's trust  
relationship with  
Son up to  
\$100,000**

**Insured in  
Revocable Trust  
Account Category**

**Father's trust  
relationship with  
Nephew up to  
\$100,000**

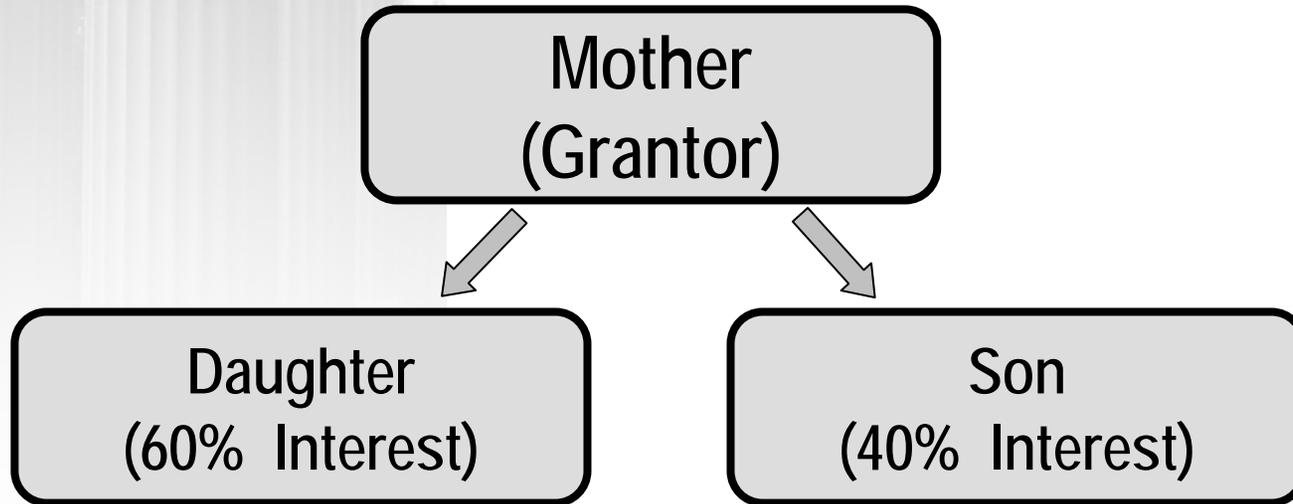
**Insured in  
Single Account  
Category\***

**Maximum Coverage \$200,000**

**\* Assumes Father has no single ownership accounts**

# Living Trust - Unequal Beneficiary Interests

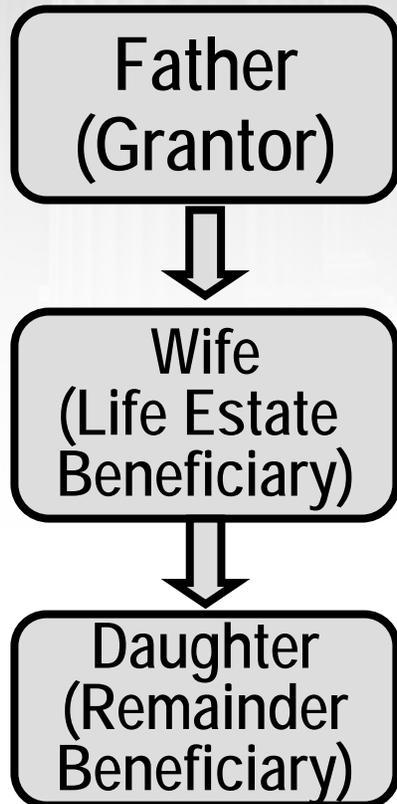
A wife has a living trust that states upon her death, her trust deposits will be distributed 60% to her daughter and 40% to her son



**Maximum Coverage**  
 $\$100,000 / .60 = \$166,667$

# Living Trust - Life Estate Interest

A husband has a living trust that states upon his death, his wife has the right to receive income from the trust or use the trust assets during her lifetime and, when she dies, the remaining funds go to their daughter



$$\begin{aligned} & 1 \text{ Owner} \times \$100,000 \times \\ & 2 \text{ Qualifying Beneficiaries} = \\ & \qquad \qquad \qquad \$200,000 \end{aligned}$$

# Living Trust - Life Estate Interest With Unequal Beneficiary Interests

---

**A wife has a living trust account with \$400,000 at your bank. The trust states that upon her death, her husband has the right to receive income from the trust or use the trust assets during his lifetime and, when he dies, the remaining funds go to their three daughters in respective shares of 20%, 30% and 50%.**

## Insurance Coverage?

# Coverage - Life Estate Interest with Unequal Beneficiary Interests

---

**Step 1: Determine the percentage interest of the life estate beneficiary. (Since there are four beneficiaries, the husband's interest is 25%)**

**Step 2: Determine the life estate beneficiary's share of the deposits. Total deposits (\$400,000) X 25% interest = \$100,000**

**Step 3: Subtract the husband's interest from the total (\$400,000 less \$100,000 = \$300,000)**

**Step 4: Allocate the remaining \$300,000 based on the percentage interests of the children**

**Child 1 – (\$300,000 X 20%) = \$ 60,000**

**Child 2 – (\$300,000 X 30%) = \$ 90,000**

**Child 3 – (\$300,000 X 50%) = \$150,000**

# Coverage - Life Estate Interest With Unequal Beneficiary Interests

## Step 5: Determine the amount of insured deposits

Beneficiary	Beneficiary % Interest	Beneficiary Interest	Insured	Uninsured
Husband	<b>25%</b>	\$100,000	\$100,000	\$ 0
Daughter 1	20% of 75% = <b>15.0%</b>	\$ 60,000	\$ 60,000	\$ 0
Daughter 2	30% of 75% = <b>22.5%</b>	\$ 90,000	\$ 90,000	\$ 0
Daughter 3	50% of 75% = <b>37.5%</b>	\$150,000	\$100,000	\$50,000
<b>Total</b>	<b>100%</b>	<b>\$400,000</b>	<b>\$350,000</b>	<b>\$50,000</b>

# Maximum Deposit Amount Eligible for Full Insurance Coverage - Formula

---

**Maximum coverage  
per beneficiary**

**\$ 100,000**

**Divided by**

**÷**

**Largest beneficiary interest**

**.375**

**Maximum deposit amount  
eligible for full coverage**

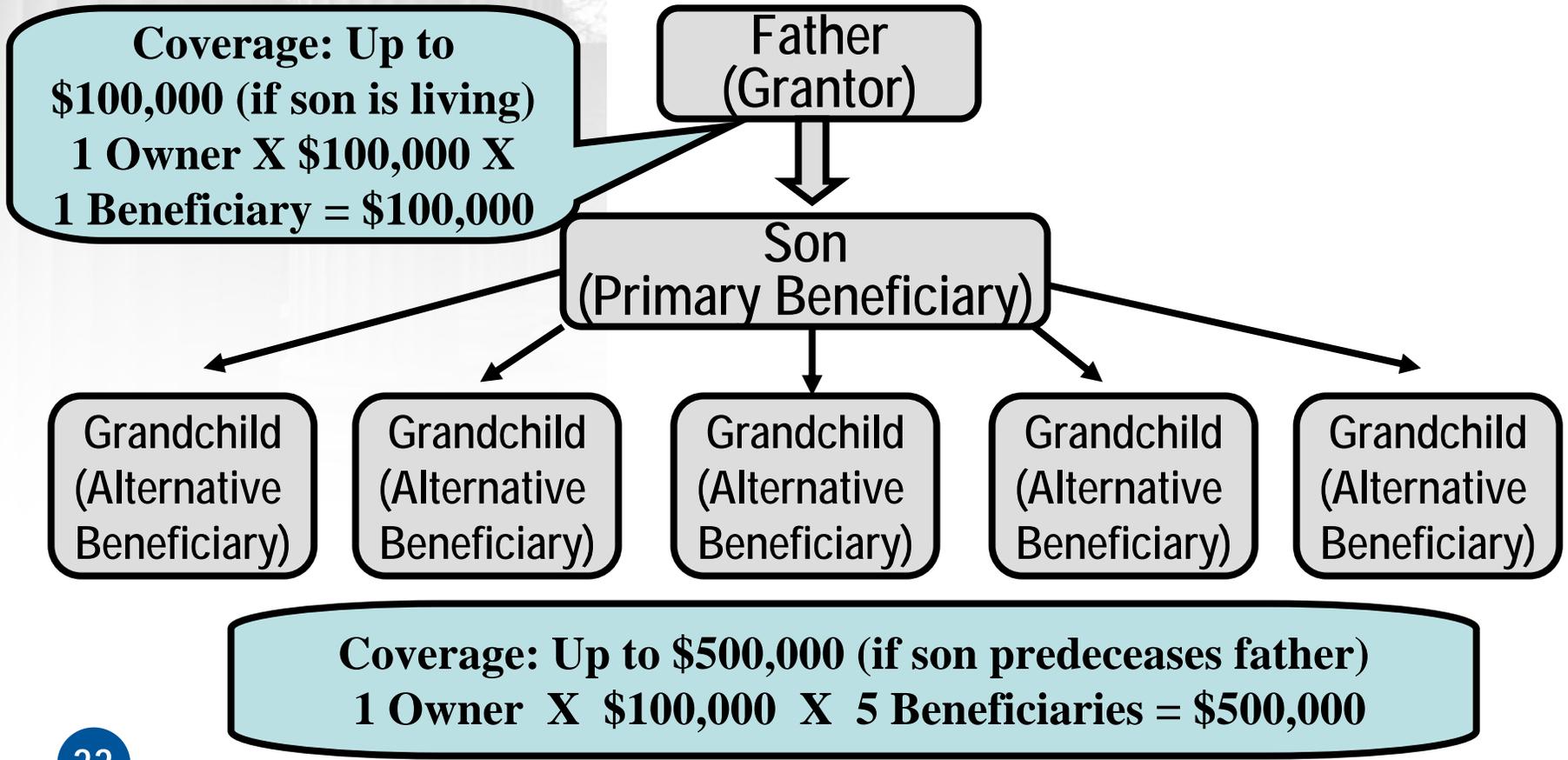
**= \$266,666.66**

# Maximum Deposit Amount Eligible for Full Insurance Coverage - Allocation

Beneficiary	Beneficiary % Interest	Account Balance	Trust Allocation	Uninsured
Husband	<b>25%</b>	\$ 266,666	\$ 66,666	\$ 0
Daughter 1	20% of 75% = <b>15.0%</b>	\$ 266,666	\$ 40,000	\$ 0
Daughter 2	30% of 75% = <b>22.5%</b>	\$ 266,666	\$ 60,000	\$ 0
Daughter 3	50% of 75% = <b>37.5%</b>	\$ 266,666	\$100,000	\$ 0
<b>Total</b>	<b>100%</b>		<b>\$266,666</b>	<b>\$ 0</b>

# Living Trust - Beneficiary Dies

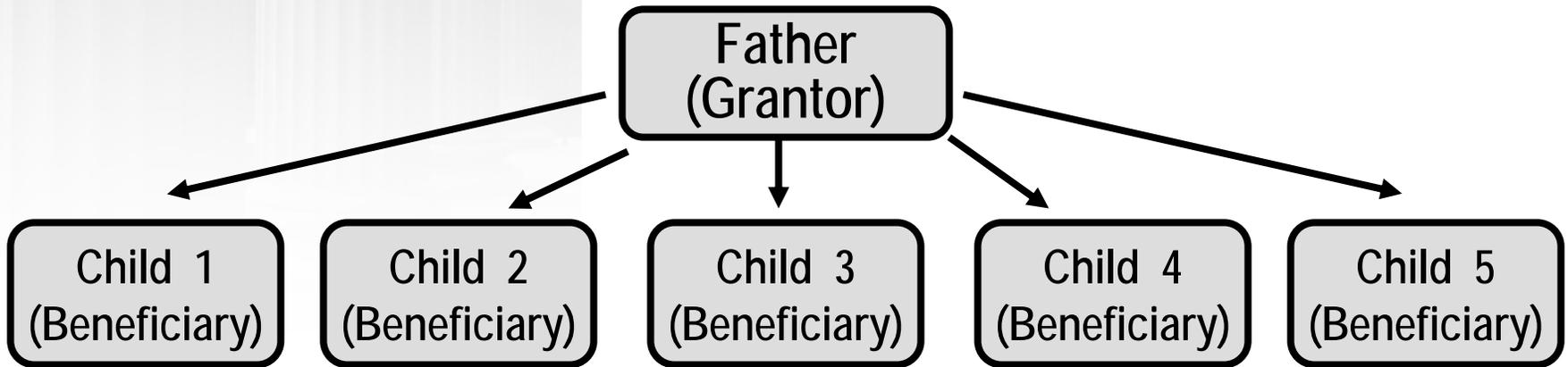
A father has a living trust leaving all funds to his son. If the son predeceases the father, all funds are distributed equally to the son's five children.



# Living Trust – Owner Dies

A father has a living trust leaving all funds equally to his five children only if they all graduate from college

Coverage: Up to \$500,000 (while owner is living)  
1 Owner X \$100,000 X 5 Beneficiaries = \$500,000  
Insured as a Revocable Living Trust



Upon Grantor's Death  
Account Insured as an Irrevocable Trust  
Coverage: Up to \$100,000 - After Six Month Grace Period

# Irrevocable Trust Accounts

---

- Irrevocable trust may be created through:
  - Death of grantor of revocable living trust
  - Execution of irrevocable trust agreement
  - Statute or court order
- Irrevocable means that the owner (person who created trust) does not possess power to terminate or revoke the trust

# Irrevocable Trust Coverage

---

- \$100,000 per beneficiary (regardless of relationship between grantors and beneficiaries)
- However, no per beneficiary coverage if:
  - Grantor retains interest (if so, funds are insured to grantor in the single account category)
  - Interests of beneficiaries are contingent or not ascertainable (if so, all such interests are added together and insured up to \$100,000)

# Contingencies

---

- The trust agreement does not name the beneficiaries or provide any means of identifying the beneficiaries
- The trust agreement provides that a beneficiary will receive no funds unless certain conditions are satisfied
- The trust agreement provides that a particular beneficiary may invade principal (for example, in the case of medical needs), with the result that the funds available for the other beneficiaries may be reduced or eliminated
- The trust agreement provides that the trustee may exercise discretion in allocating funds among the beneficiaries, with the result that the future distributions to each beneficiary are impossible to predict

# Irrevocable Trust Coverage

---

- Don't try to analyze trust agreement
- Give conservative advice:
  - If grantor is living, funds may be added to the grantor's single accounts
  - If grantor is deceased, coverage may be limited to \$100,000 for the entire trust
  - For more information, consult with the lawyer or financial advisor who drafted the trust

# Summary

---

- *Separate coverage* is provided for trust accounts
- Coverage is in addition to coverage provided for other accounts owned by a depositor in a different ownership capacity
- Two types of trust accounts – revocable trusts and irrevocable trusts
- Revocable trust (formal and informal) coverage is based on the owner/qualifying beneficiary relationship
- Irrevocable trust coverage is based on the beneficiaries' ascertainable, non-contingent interests

---

# Questions and Answers