Frank G. D'Angelo, ESQ
Law Office of Frank G. D'Angelo & Associates, PC
901 Stewart Avenue   Suite 230
Garden City, New York   11530
Telephone: 516-222-1122   Facsimile: 516-742-6070

FDIC Insurance Coverage & Revocable Living Trusts

A Revocable Living Trust is created by executing a written Trust Agreement. This agreement is signed by the Grantor/Settlor, as well as the named Trustee(s). In addition, the signatures are acknowledged by a Notary Public.

These types of Trusts are created with specific Estate Planning goals in mind. The Revocable Living Trust serves to avoid Probate upon the death of the Grantor. It also serves as a useful planning tool to manage the finances of an incapacitated person.

When funding the Trust, it is important to consider the Federal Deposit Insurance Corporation (FDIC) rules, and the impact that these rules will have on the assets held in the Revocable Trust. Under FDIC rules, a Living Trust or Family Trust Account is insured for up to $250,000.00 per owner, for each named Beneficiary. There are specific requirements for FDIC coverage to apply. This is provided the account is established stating the Trust relationship (IE   The Jones Family Trust) or similar language in the title, and the beneficiaries are "qualifying", meaning the owner's spouse, children, grandchildren, parents, siblings, and adopted or stepchild. Inlaws, cousins, nieces/nephews, friends, or charitable organizations ***do not*** qualify.

When establishing a Revocable Living Trust or Revocable Family Living Trust, it is important to ask:

- Does the account title at the bank indicate that the account is held by a Trust?
- Who are the Owners/Beneficiaries of the Trust?
- Do the Beneficiaries meet the kinship requirements for "qualifying" ?
- What $$ amount of percentage does each Beneficiary have?

The FDIC coverage for a Revocable Living or Family Trust is applied as follows:

Example:	Mrs. Jones creates a Living Trust under which she is the Beneficiary during her life, and upon death the Trust income and principle are divided equally among her three children.

Under FDIC rules, each Beneficiary has coverage of $250,000.00. Therefore, the toal FDIC coverage for this Trust would be $750,000.00per bank. If the Trust is greater than $750,000.00, than multiple banks should be considered. Alternatively, CD's may be purchased from multiple banks, and held in one investment company portfolio.

If a Beneficiary receives "Income Only" under a Trust Request, that Beneficiary will be treated for insurance coverage purposes like any other Beneficiary, unless the Trust indicates otherwise.

Example:	Mr. Jones establishes a Living Trust, giving his wife income for life, and then to his two children upon her death. Since there are three Beneficiaries, the Trust would be protected up to $750,000.00.

If the Trust allocates unequal interests to multiple Beneficiaries, the calculation is different. To determine the maximum coverage attributable, the Beneficiary with the largest interest cannot exceed $750,000.00. If a Living Trust has multiple owners, the FDIC coverage extends to each qualifying Beneficiary per owner provided the Beneficiary is entitled to receive the Trust assets upon the death of the last owner.

Example: Mr. & Mrs. Jones are co-owners of a Living Trust, providing that upon the death of one, the other continues to benefit from the Trust. Upon the death of the second, all assets pass to their three children.

Under this scenario, the Trust is insured for 1.5 million dollars; $750,000.00 for Mr. Jones and his Beneficiaries, and $750,000.00 for Mrs. Jones and her Beneficiaries.

It is important to understand that if any category of requirement for a Living Trust is not met, than all assets that are not qualifying are added to the owner's other single accounts in the bank for FDIC purposes. The same applies to a non-qualifying Revocable Trust with multiple owners.

Finally, the $250,000.00 Beneficiary limit applies to all formal and informal Revocable Trust accounts that an owner has at the same bank. An informal account would be a Payment on Death (POD) or In Trust For (ITF) account.

Example: Mr. Jones has a POD account, naming his daughter and son as equal Beneficiaries, and has also established a Revocable Living Trust naming the son and daughter as Beneficiaries.

In this case, both formal and informal accounts are applied against the FDIC coverage.

Summary

The Revocable Living Trust is a very useful Estate Planning tool. However, it is important to understand the purpose for establishing such a Trust, as well as the scope of FDIC coverage. Careful planning should include determining the appropriate type of Trust, as well as the risk factors associated with funding of the Trust. It is essential to consult with a knowledgeable attorney to implement an effective Estate Plan. For more information, contact Frank G. D'Angelo, ESQ, as the Law Office of Frank G. D'Angelo & Associates, PC. We may be reached at any of the following: Telephone: 516-742-6912 e-mail: fgdangeloesq@aol.com OR visit our website, www.fgdangelo.com.