Client Alert

ARMSTRONG TEASDALE LLP

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FDIC INSURANCE FOR TRUST ACCOUNTS

We have recently received several inquiries from clients regarding FDIC insurance coverage for trust and other accounts. In the current economic climate, we thought you might be interested in the same information.

The question posed is basically what is the value and type of the accounts that I can have at one institution and have those accounts fully FDIC insured. It may surprise you to know that it is possible for one family to have over $3,000,000 in insured accounts at one institution. This is based on the current $250,000 of FDIC insurance coverage per account. You should be aware that this amount will be in effect until January 1, 2010, at which time the coverage will be reduced back to $100,000 per account. The same concepts of account ownership will still apply, but at a reduced level.

The general rule for determining insurance of coverage for revocable trust accounts is that the coverage is based on the number of beneficiaries of the trust, and not on the owner. So:

> I can have an individual account with maximum coverage of $250,000.
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> In addition, I can have a joint account with my husband with maximum coverage of $500,000.
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> In addition, I can have a trust account with my husband and three children as beneficiaries with coverage of $1,000,000.
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> In addition, my husband can have an individual account with maximum coverage of $250,000.
>
> In addition, my husband can have a trust account with me and our three children as beneficiaries with maximum coverage of $1,000,000.
>
> In addition, my children can each have their own individual accounts with coverage of $250,000.

These are some of the many rules which need to be taken into account in order to coordinate account owners and beneficiaries:

- The *owner* of a revocable trust account for FDIC insurance purposes is the trust grantor.
- The *beneficiary* of a revocable trust account for FDIC insurance purposes is the person (or persons) who will receive the account under the trust terms at the owner's death, even if the account will continue to be held in trust for the benefit of the beneficiary.
- Revocable trust deposits are insured up to $250,000 per trust beneficiary to a maximum amount of $1,250,000 or full coverage for 5 trust beneficiaries, regardless of the actual pro rata share provided in the trust for each beneficiary.

- A person can be a beneficiary of different owners' revocable trust accounts without affecting the insurance coverage.

- Payable on death (POD) accounts are treated in the same manner as revocable trust accounts.

- Identical beneficiaries of an owner's POD accounts and an owner's revocable trust accounts are aggregated to determine insurance coverage.

- A POD account with a revocable trust as beneficiary is treated as a POD account with the revocable trust beneficiaries as the beneficiaries.

- Irrevocable trust accounts are insured as one account (regardless of the identity and number of beneficiaries).

- Adding a beneficiary to a single or joint account will change the status of that account for FDIC purposes – and the insurance coverage will be determined based on the beneficiary, not on the owner(s) of the account.

In practice, what this means needs to be determined for each individual based on his or her circumstances.

Of course, this coverage limit applies on a per institution basis. So it is possible to set up the same accounts at another insured institution.

It is possible to check the insured status of a variety of different accounts at the www.fdic.gov using the "EDIE the estimator." Be sure to follow its instructions carefully.

For more information, please contact an attorney in the Armstrong Teasdale LLP Tax Department:

Christopher J. Anderson, 816-472-3117
canderson@armstrongteasdale.com

Daniel Cooper, 314-259-4715
dcooper@armstrongteasdale.com

Joseph D. Demko, 314-342-4143
jdemko@armstrongteasdale.com

John E. Dooling, Jr., 314-259-4743
jdooling@armstrongteasdale.com

Scott E. Hunt, 314-342-4145
shunt@armstrongteasdale.com

Jonathon W. Igoe, 314-342-8019
jigoe@armstrongteasdale.com

Robert Lewis Jackson, 314-342-8076
rjackson@armstrongteasdale.com

Jill M. Palmquist, 314-552-6635
jpalmquist@armstrongteasdale.com

Guy A. Schmitz, 314-259-4738
gschmitz@armstrongteasdale.com

Larry M. Sewell, 314-342-8020
lsewell@armstrongteasdale.com