FDIC Changes Insurance Coverage of Trust Bank Accounts

Soon, accounts held by trust may be insured by the FDIC for up to $1.25 million, rather than the current $250,000 limit on many individual accounts.

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Almost every funded trust has one or more bank accounts – checking, savings, money market or certificates of deposit – and most of those accounts are insured by the FDIC. What many do not realize is that the regulations on how much of the trust accounts are covered by FDIC Insurance is calculated differently than that for individual account owners. Now, the FDIC has issued new regulations, effective April 1, 2024, on how the insured amounts are calculated. These changes make it simpler to calculate what is, and is not, insured but will still require some adjustment in how much is held in trusts.

Right now, the FID treats revocable and irrevocable trusts differently. Revocable trusts (which includes informal trust accounts such as Pay on Death (POD) or As Trustee For (ATF) accounts are insured up to $250,000 per unique beneficiary up to a maximum of five beneficiaries, provided that: 1) the bank account title states that the account is for a trust; 2) each beneficiary is named in the correct place; and 3) each beneficiary is a living person, charity or non-profit organization. So, if a revocable trust account has only one beneficiary, the insurance limit is $250,000, if the revocable trust has five or more beneficiaries, the insurance limit is $1,250,000 total.

Irrevocable trust accounts are, usually, only insured up to $250,000 for all deposits added together for each beneficiary. To qualify, the irrevocable trust must be: 1) a valid trust under state law; 2) the purpose of the trust is disclosed to the bank; and 3) the amount due to the beneficiary cannot be contingent (i.e. that the beneficiary survives to a certain date). Since most irrevocable trusts have both current and contingent beneficiaries, they fail to meet all four of the tests and so are limited to $250,000 aggregate insurance coverage in each FIC insured bank.

The result is that most trust accounts, whether revocable or irrevocable, are limited to $250,000 per FDIC insured bank.

The FDIC final regulations will, as of April 1, 2024, change how bank accounts held in the name of a trust will be insured. This rule change treats both revocable and irrevocable trust the same for determining the limits on insurance. Soon, accounts held by trust may be insured by the FDIC for up to $1,250,000, rather than the $250,000 limit on individual accounts.

Under the new rules, irrevocable and irrevocable trusts are treated the same – the funds are insured up to $250,000 per beneficiary per FDIC insured bank. The total insured is limited to five beneficiaries, or $1,250,000, but all grantors are also covered up to $250,000. Here are a couple of examples of how this works.

Bob creates a revocable trust, with himself as Grantor, and provides that, at his death, the trust funds go to his two children, and if they predecease him, it goes equally to his 5 grandchildren. Bob places $750,000 in a bank account in the name of the revocable trust. The maximum insured amount is $500,000 ($250,000 x two children) but if his children predeceased Bob, then the maximum insurance is $1,250,000 ($250,00 x five grandchildren).

For joint trusts, each of the grantors' interest is insured, so if John and Jane create a joint trust with both as grantors, and their three children are the beneficiaries, the insured amount is $1,500,000 ($250,000 x two grantors x three beneficiaries).

So, between now and April 1, 2024, if you have accounts in an FDIC insured bank in the name of a trust, you should review how much is held in each bank and what amounts will be insured for each grantor and beneficiary.