

New FDIC Rules Increase Coverage

Q: My neighbor is married and has three children. She informed me that she just placed \$600,000 in a bank account and it was fully FDIC-insured. How did she do that?

A: The FDIC enacted new rules that became effective April 1st, 2004. Your neighbor simply created a revocable living trust and received increased FDIC protection.

Under the new rules, the owner of a living trust is insured up to \$100,000 for each beneficiary so long as the beneficiary of the trust is the owner's spouse, child, grandchild, parent or sibling.

For example, now if a father has a living trust and leaves everything to his three children, he will be federally insured up to \$300,000, because there are three qualifying beneficiaries that become owners of trust assets when their father dies.

Your neighbors have a trust created by both husband and wife, so you multiply the number of trust owners (two) by the number of beneficiaries (three) to arrive at \$600,000 in FDIC coverage.

For those who follow estate and banking law, this is a dramatic change of events.

The biggest change in the law affects how you leave money to your beneficiaries. Under the old law, a beneficiary would not qualify if there were conditions or "strings" attached to the inheritance. Under the new law, these conditions are ignored for purposes of FDIC coverage.

I recently consulted with a married couple with four children, for example, that had many conditions on the inheritance because they wanted it protected for their grandchildren. Rather than using several banking institutions, they now have \$800,000 in one account, fully FDIC insured.

The most important thing to remember is that the account must be properly re-titled into the name of the trust in order to qualify for this increased coverage.

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Attorney Christopher Desimone is managing partner of Anderson & Desimone PC of Roanoke, Virginia. He focuses 100% of his law practice on estate planning. (540) 776-6434.