Federal Deposit Insurance Corporation

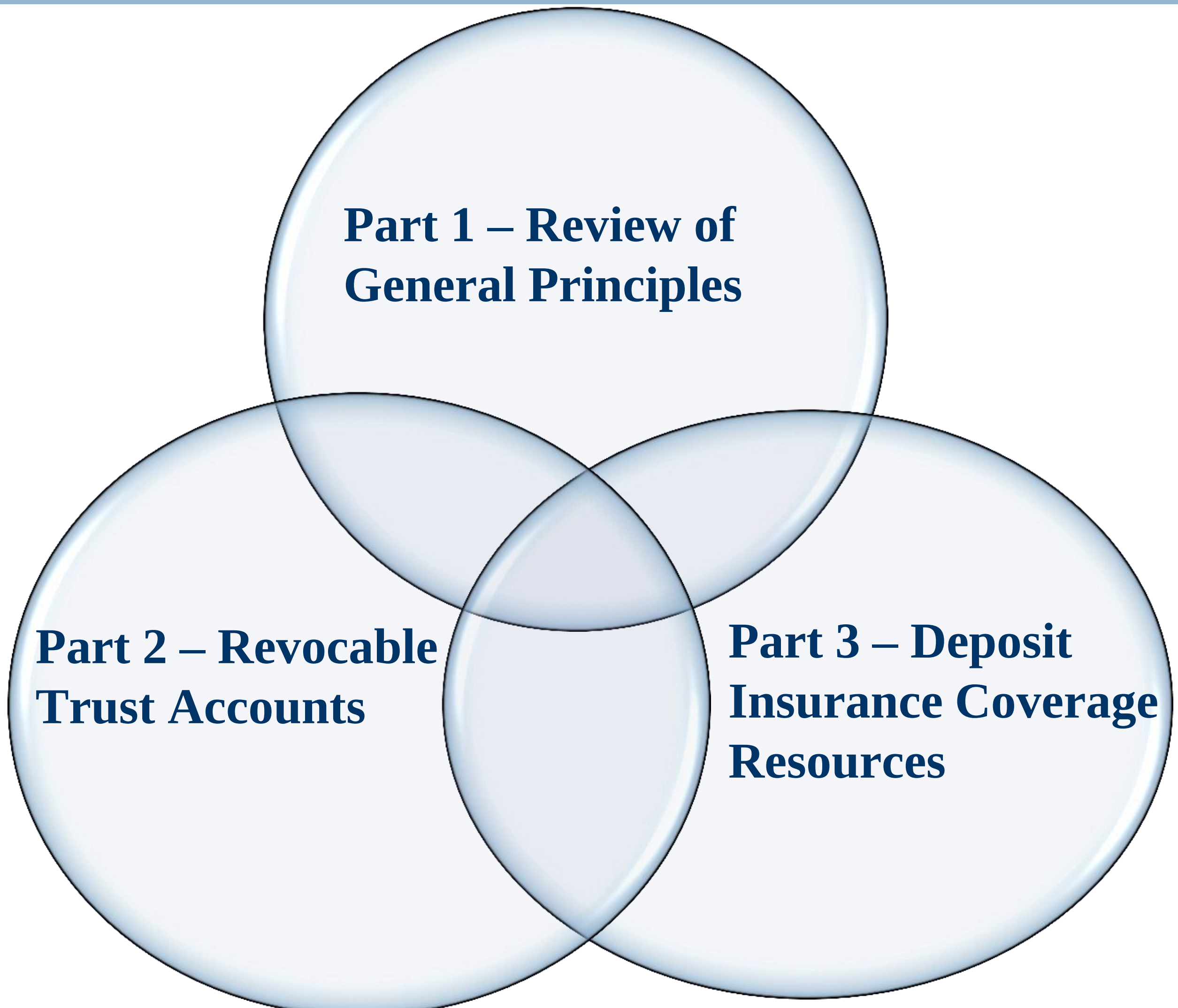
Deposit Insurance Coverage for Revocable Trust Accounts

Seminar For Bankers

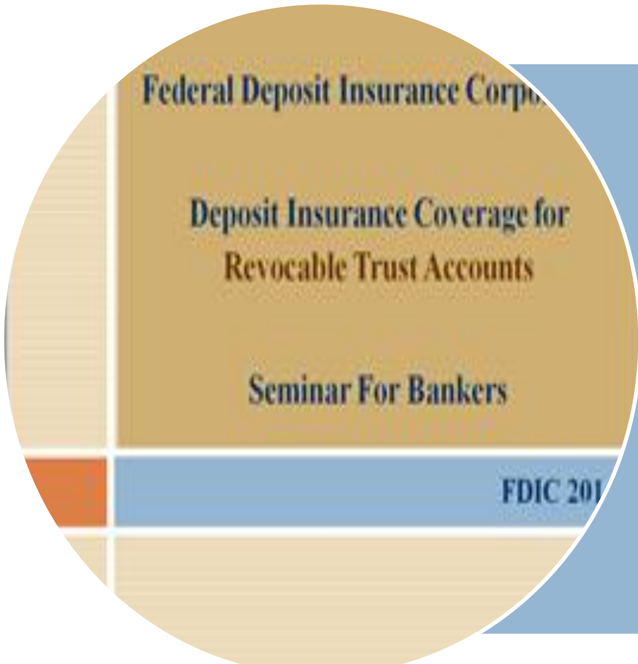
FDIC May 2014

NOTE: Participants must log in to join the Live Meeting and must also dial into a conference call number for the audio portion of this presentation. This includes the question-and-answer period.

Seminar on Revocable Trust Accounts



Seminar on Revocable Trust Accounts



Part 1 – Review of General Principles

Review of General Principles

- In order to determine deposit insurance coverage, bankers must ask and answer the following three questions:

1. Who owns the funds?
2. What ownership category is the depositor eligible to use or attempting to use?
3. Does the depositor meet the requirements of that category?

Deposit Insurance Ownership Categories

Owner = individual

Category 1
Single
Accounts

Category 2
Joint
Accounts

Category 3
Revocable
Trust
Accounts

Category 4
Irrevocable
Trust
Accounts

Category 5
Certain
Retirement
Accounts

Category 6
Employee
Benefit Plan
Accounts

Owner = business/organization

Category 7
Corporations,
Partnerships
and
Unincorporated
Association
Accounts

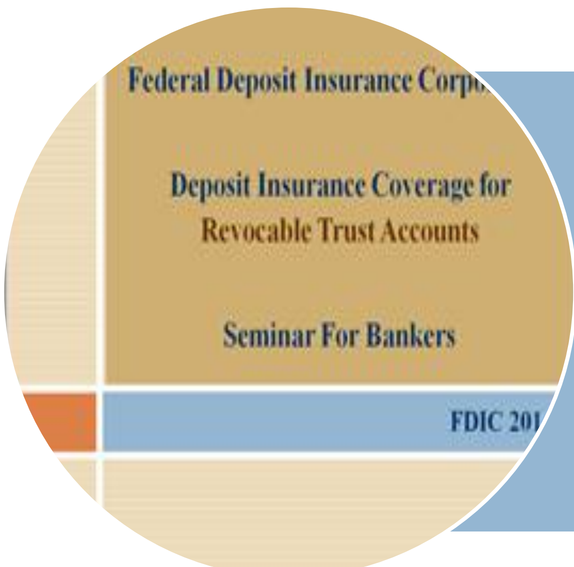
Owner = government entity

Category 8
Government
Accounts

Owner = mortgagee/lender

Category 9
Principal and
Interest (P &I)
Funds in
Mortgage
Servicing
Accounts

Seminar on Revocable Trust Accounts

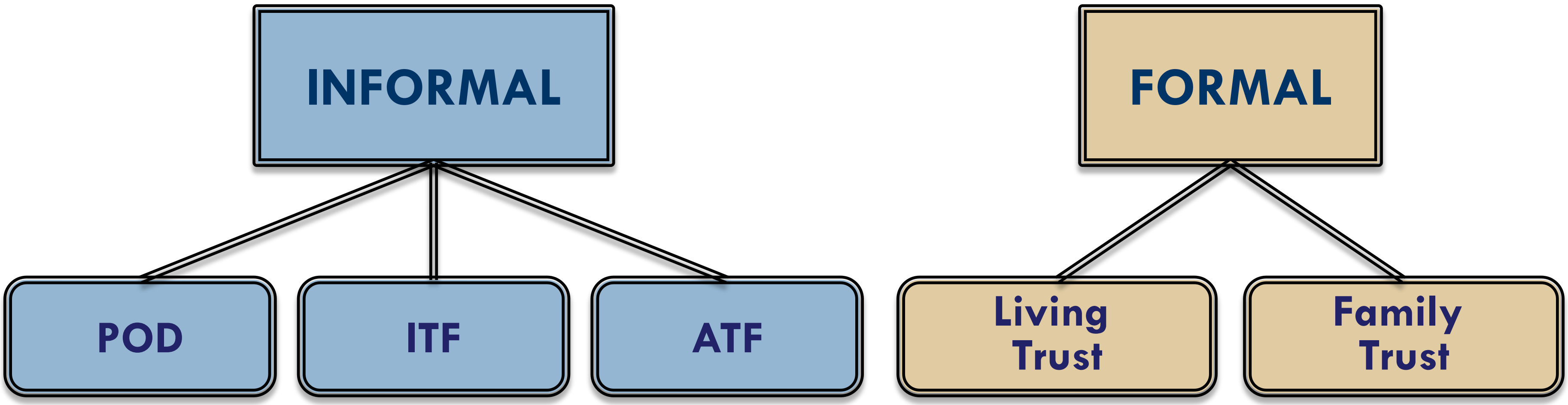


Part 2 – Revocable Trust Accounts

Category 3 – Revocable Trust Accounts

- A Revocable Trust Account is a deposit where the owner indicates an intention that the funds will belong to one or more named beneficiaries upon the last owner's death.
- In a Revocable Trust, the owner retains the right to change beneficiaries and/or allocations or to terminate the trust.
- The FDIC recognizes two types of revocable trusts:
  - Informal revocable trusts
  - Formal revocable trusts

Category 3 – Revocable Trust Account Types



Payable-on-Death ("POD") or other similar terms such as In-Trust-For ("ITF") or As-Trustee-For ("ATF") must be in the account title.

The account must be titled in the name of the formal trust.

Category 3 – Revocable Trust Accounts

Seven questions to determine deposit insurance coverage for revocable trust accounts

- 1. Who are the owners of the revocable trust?
- 2. Who are the primary unique beneficiaries upon the death of the owners?
- 3. Are the primary unique beneficiaries "eligible"?
- 4. Are the primary unique beneficiaries alive at the time the insured depository institution (IDI) fails?
- 5. What is the dollar amount or percentage interest each owner has allocated to each primary unique beneficiary?
- 6. Does the owner(s) have any other revocable trust accounts at the same IDI?
- 7. Are the revocable trust accounts properly titled?

Category 3 – Revocable Trust Accounts

1. **Who are the owners of the trust account?**

   - In informal trust accounts, the depositor is the owner of the account. In formal revocable trusts, the owner is commonly referred to as a **Grantor, Trustor or Settlor**. **Trustee and successor trustee designations** are irrelevant in the determination of deposit insurance coverage.

2. **Who are the primary unique beneficiaries upon the death of the owners?**

   - At the time an IDI fails, the beneficiary must be entitled to his or her interest in the revocable trust assets upon the grantor's death and that ownership interest must not depend upon the death of another trust beneficiary. Contingent beneficiaries do not count. Life estate beneficiary interests are allowed up to $250,000 in deposit insurance coverage.

   - For informal trusts, the beneficiaries are identified in the IDI's deposit account records. For formal trusts, the beneficiaries are identified in the trust agreement.

Category 3 – Revocable Trust Accounts

3. **Are the primary unique beneficiaries "eligible"?**

- Eligible beneficiaries are natural persons, charities or non-profit organizations recognized as such by the Internal Revenue Service. There is no longer a kinship requirement. Any living person can be a beneficiary. If the named beneficiary cannot under state law receive funds when the owner dies, the beneficiary's interest is considered invalid.
- **The following are not considered eligible beneficiaries:**
  - a deceased person,
  - a fictional person,
  - a pet
- **What about deposits opened "POD to the Trust?"**
  - If a deposit account is titled, as an example, **"John Smith POD to the John Smith Revocable Trust"** the FDIC will treat the deposit as an account in the name of the depositor's revocable trust (i.e., "The John Smith Revocable Trust").

Category 3 – Revocable Trust Accounts

Examples where pass-through deposit insurance coverage would apply because there is mutuality between the owner and POD designation:

- "A" POD A's Revocable Trust
- "B" POD B's Revocable Trust
- "A" and "B" POD A and B's Revocable Trust

Examples where pass-through deposit insurance coverage would NOT apply because there is no mutuality between the owner and POD designation:

- "A" POD B's Revocable Trust (Reverts to A's Single Ownership Account) →
- "B" POD A's Revocable Trust (Reverts to B's Single Ownership Account) →

The account would revert to the owner's Category 1- Single Ownership Account and would be combined with each owner's other single accounts at the same IDI and insured up to $250,000.

Category 3 – Revocable Trust Accounts

4. **Are the primary unique beneficiaries alive at the time an IDI fails?**

- The death of either an owner(s) or beneficiary(ies) can impact the calculation of deposit insurance coverage.
- Please remember there is no six-month grace period for the death of a beneficiary of a revocable trust deposit.
- If there is no substitute beneficiary named when a primary beneficiary dies, the amount of deposit insurance coverage may decrease for this deposit.

Category 3 – Revocable Trust Accounts

5. **What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary?**

   - Assuming the owner is attempting to insure $1,250,000 or less with five or fewer unique eligible beneficiaries, the coverage is calculated as follows for each owner naming:

     1 beneficiary = up to $ 250,000 insurance coverage
     2 beneficiaries = up to $ 500,000 insurance coverage
     3 beneficiaries = up to $ 750,000 insurance coverage
     4 beneficiaries = up to $1,000,000 insurance coverage
     5 beneficiaries = up to $1,250,000 insurance coverage

Category 3 – Revocable Trust Accounts

5. **(Continued)**

- Assuming the owner is attempting to insure more than $1,250,000 with six or more unique eligible beneficiaries with EQUAL interests, the coverage is calculated by adding up to $250,000 in deposit insurance coverage for each additional beneficiary.

- Assuming the owner is attempting to insure more than $1,250,000 with six or more unique eligible primary beneficiaries with UNEQUAL beneficial interests, the FDIC will compute the deposit insurance coverage based on the greater of either the specific allocations provided for under the trust agreement or the minimum amount of at least $1,250,000.

Category 3 – Revocable Trust Accounts

6. **Does the owner(s) have any other revocable trust accounts in the same IDI?**
   - In calculating deposit insurance coverage for revocable trusts, the FDIC combines the interests of all beneficiaries the owner has named in all formal and informal revocable trust accounts at the same IDI.

7. **Are the revocable trust accounts properly titled?**
   - The account title at the IDI must indicate that the account is held pursuant to a trust relationship. This rule can be met by using the terms living trust, family trust, or any similar language, including simply having the word "trust" in the account title. For informal trusts, descriptive language such as POD or ITF must be in the account title. Please remember that the definition of an "account title" includes the electronic deposit account records of the IDI.

Category 3 – Five or Fewer Beneficiaries

Coverage depends on the number of beneficiaries named by an owner and the amount of the deposit.

- The owner names five or fewer unique eligible beneficiaries, and the total allocated to the beneficiaries is $1,250,000 or less, then the deposit insurance coverage is:
  - Up to $250,000 times the number of unique eligible primary beneficiaries named by the owner. This applies to the combined interests for all beneficiaries the owner has named in all (both informal and formal) revocable trust deposits.
  - The result is the same as above even if the owner has allocated different or unequal percentages or amounts to multiple beneficiaries. To calculate the deposit insurance coverage, multiply $250,000 times the number of owners times the number of unique eligible beneficiaries.

Category 3 – Revocable Trust Accounts

Unequal Beneficiary Allocations – POD Account

Example 1: **Balance**

Account #1: John POD Mary	= $ 350,000
Account #2: John POD Sara	= 50,000
Total	= $ 400,000

- Are John's accounts fully insured? YES!
  - The deposit insurance coverage (DI) is calculated as the number of owners multiplied by the number of beneficiaries multiplied by $250,000.
  - In this example, there is one owner and two beneficiaries, the DI coverage is: (1) owner x (2) beneficiaries x $250,000 = $500,000.
  - Since the total of both accounts is $400,000, this amount is fully insured.

Category 3 – Revocable Trust Accounts

Unequal Beneficiary Allocations – POD Account

Example 2:	**Balance**
Account #1: John POD Mary	= $ 350,000
Account #2: John POD Sara	= 175,000
Total	= $ 525,000

- Are John's accounts fully insured? NO!
  - The deposit insurance (DI) coverage calculation is:
    (1) owner x (2) beneficiaries x $250,000 = $500,000.
  - The combined amount of $500,000 is insured with $25,000 uninsured.
  - What if the IDI fails? Can or will the FDIC "revert or default" the uninsured $25,000 back to Category 1 – Single Accounts if John has not used that category? NO!

Category 3 – Revocable Trust Accounts

What is the deposit insurance coverage for a POD account with one owner and one beneficiary?

- *There is a **misconception** that deposit insurance is determined by counting or adding the total number of owners and beneficiaries listed on a POD account.* ***This is incorrect!***

Example 3: John POD Lisa

- What is the maximum amount that can be insured for this deposit?
  - For five or fewer beneficiaries, deposit insurance (DI) coverage is determined by using the following formula:

number of owners multiplied times number of beneficiaries multiplied times $250,000 = DI

  - There is one owner of this POD (John) and there is one beneficiary on this POD (Lisa).
  - 1 owner x 1 beneficiary x $250,000 = $250,000.
  - The maximum DI coverage for this POD is $250,000, NOT $500,000.

Category 3 – Revocable Trust Accounts

What is the deposit insurance coverage for a POD account with one owner and two beneficiaries?

- *There is a **misconception** that deposit insurance is determined by counting or adding the total number of owners and beneficiaries listed on a POD account.* ***This is incorrect!***

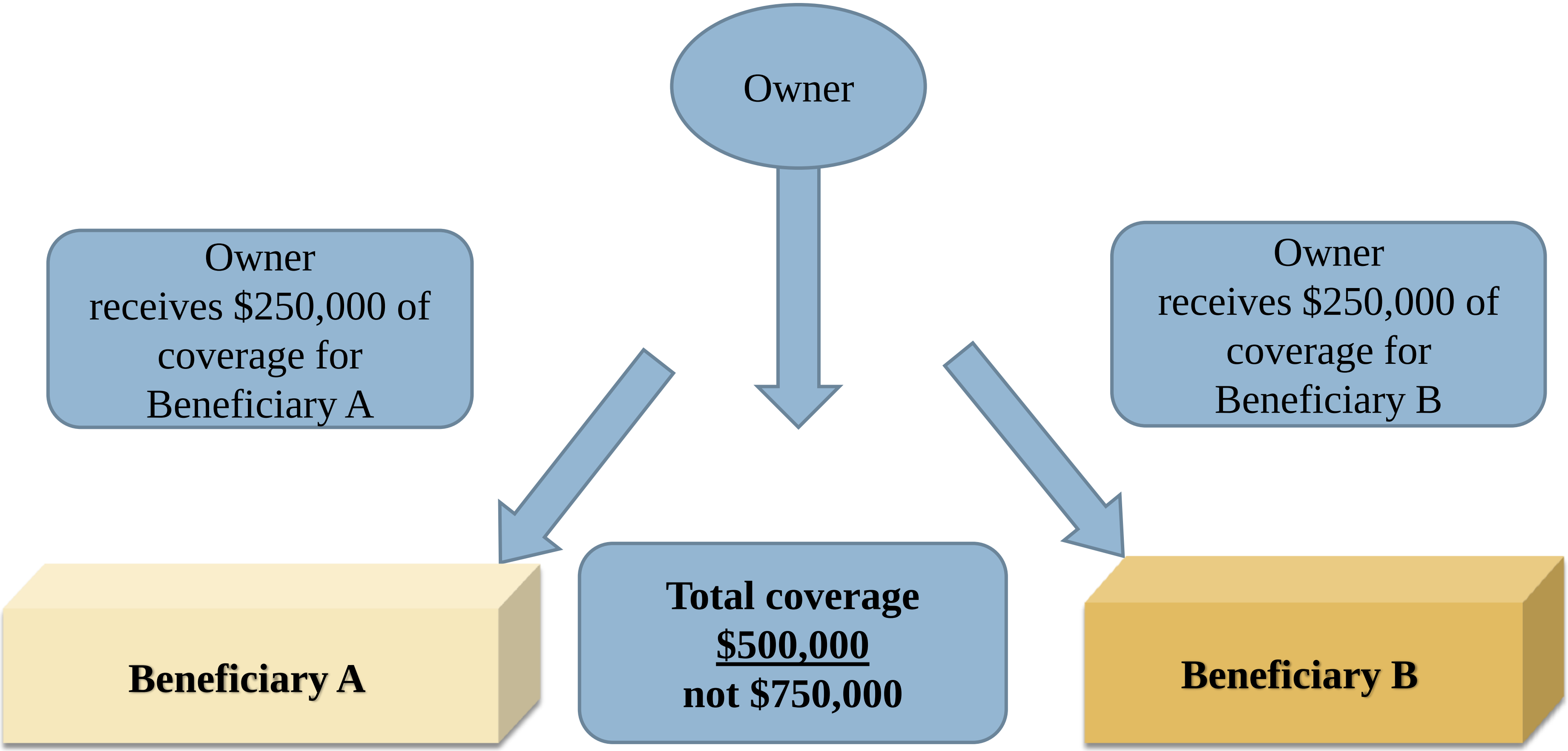
Example 4: John POD Alan and Betty

- What is the maximum amount that can be insured for this deposit?
  - For five or fewer beneficiaries, deposit insurance (DI) coverage is determined by using the following formula:

    number of owners multiplied times number of beneficiaries multiplied times $250,000 = DI

  - There is one owner of this POD (John) and there are two beneficiaries (Alan and Betty).
  - 1 owner x 2 beneficiaries x $250,000 = $500,000.
  - The maximum DI coverage for this POD is $500,000, NOT $750,000.

Category 3 – Revocable Trust Accounts



DI Coverage is based on one owner and two different beneficiaries and using the following formula:
1 owner x 2 beneficiaries x $250,000 = $500,000

Category 3 – Revocable Trust Accounts

What is the deposit insurance coverage for a POD account with two owners and one beneficiary?

- *There is a **misconception** that deposit insurance coverage is determined by counting or adding the total number of owners and beneficiaries listed on a POD.* ***This is incorrect!***

Example 5: John and Mary POD Cindy

- What is the maximum amount that can be insured for this deposit?
  - For five or fewer beneficiaries, deposit insurance (DI) coverage is determined by using the following formula:

number of owners multiplied times number of beneficiaries multiplied times $250,000 = DI

  - There are two owners (John and Mary) and there is one beneficiary (Cindy).
  - 2 owners x 1 beneficiary x $250,000 = $500,000.
  - The maximum DI coverage for this POD is $500,000, NOT $750,000.

Category 3 – Revocable Trust Accounts

How do you determine deposit insurance coverage when an owner of POD accounts identifies the same beneficiaries on multiple POD accounts?

- *There is a **misconception** that each beneficiary listed on a POD account would be counted even if the same beneficiary is listed repeatedly.* ***This is incorrect!***

Example 6: John opened three POD accounts:

Account 1 – John POD Alice
Account 2 – John POD Betty and Alice
Account 3 – John POD Cindy and Betty

- What is the maximum amount that can be insured for these deposits?
  - Although five names are listed as beneficiaries, there are only three unique beneficiaries, Alice, Betty and Cindy.
  - For five or fewer beneficiaries, deposit insurance (DI) coverage is determined by using the following formula:
    number of owners multiplied times number of beneficiaries multiplied times $250,000 = DI
  - 1 owner x 3 beneficiaries x $250,000 = $750,000. The maximum DI coverage for these PODs accounts is $750,000, NOT $1, 250,000.

Category 3 – Revocable Trust Accounts

Example 7:

Depositor with a POD account naming 3 eligible beneficiaries

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Depositor with a living trust account identifying the same 3 beneficiaries

Account # 1
David Smith
POD to
Andy, Betty and Charlie

Balance is $750,000

Account # 2
David Smith Revocable Trust which names Andy, Betty and Charlie as beneficiaries

Balance is $750,000

A depositor cannot establish both of these accounts at the same IDI and receive $1,500,000 of deposit insurance coverage!

The total coverage for both accounts combined is $750,000.

Category 3 – Revocable Trust Accounts

Example 8: Five or Fewer Beneficiaries with more than $250,000 allocations

- Facts: John is the owner of a living trust that provides the following when he dies:

Beneficiary 1 = $	350,000	to Sally
Beneficiary 2 = $	50,000	to James
Beneficiary 3 = $	200,000	to Amy
Beneficiary 4 = $	300,000	to ABC qualifying charity
Beneficiary 5 = $	300,000	to XYZ qualifying non-profit

Total = $ 1,200,000

- **Can John open this deposit at your IDI and be fully insured for the entire amount of $1,200,000? YES !**
- Since there are five or fewer unique eligible beneficiaries, we do not consider the fact that there are beneficiaries with allocations above $250,000.
- We can calculate the deposit insurance (DI) coverage as follows:
  1 owner x (5) beneficiaries x $250,000 = $1,250,000
- Because the total deposit of $1,200,000 is less than $1,250,000, the deposit is fully insured.

Category 3 – Revocable Trust Calculation

Coverage Calculation for Six or More Beneficiaries with Unequal Allocations with no uninsured funds

- If the owner is attempting to insure more than $1,250,000 and has named **six or more unique eligible primary** beneficiaries under one or more revocable trust deposits, but has **unequal percentages or dollar amount allocations to the beneficiaries, then no specific allocation to any beneficiary can exceed $250,000.**

- **If any beneficiary's allocation does exceed $250,000, then the default total insurable amount (with no uninsured funds) is a maximum deposit of $1,250,000.**

Category 3 – Revocable Trust Calculation

Coverage Calculation Steps - Six or More Beneficiaries with Unequal Allocations with no uninsured funds

- **Step 1 -** Under the trust agreement, determine what is the largest percentage allocated to any one beneficiary. If dollar allocations are used instead of percentages, then simply take the largest dollar allocation and divide that by the total amount for all allocations to convert to the largest percentage allocation.
- **Step 2 -** Take the SMDIA ($250,000) and **divide** this amount by the percentage allocation from Step 1.
- **Step 3 -** Look at the result. If the result from Step 2 is less than or equal to $1,250,000 then the maximum insurable amount is exactly $1,250,000. If the result is greater than $1,250,000, then this amount represents the maximum amount that can be deposited using this trust agreement **with no uninsured funds.**

Category 3 – Revocable Trust Calculation

Breakeven Calculation

- If one or more beneficiaries have an allocated interest **at or ABOVE 20%**, then we know that dividing the SMDIA ($250,000) by the highest percentage allocation attributable to a beneficiary under the trust agreement, the result will always be $1,250,000 or less. Therefore we can simply use the default amount of $1,250,000 as **the maximum insurable amount with no uninsured funds.**
- If all the beneficiaries have an allocated interest **at or BELOW 20%,** then we know that by dividing the SMDIA ($250,000) by the highest percentage allocation attributable to a beneficiary under the trust agreement, the result of the formula will be an amount of deposit insurance coverage **greater than $1,250,000.**

Category 3 – Revocable Trust Calculation

The chart below presents a sample of the deposit insurance coverage amount available using different percentages:

Beneficiary with Largest Percentage/Share	Break Even Calculation	Coverage Amount
19%	$250,000/.19	$1,315,789.47
20%	**$250,000/.20**	**$1,250,000.00**
21%	$250,000/.21	$1,190,476.19*

**Defaults to $1,250,000*

Category 3 – Revocable Trust Accounts

Example 9: Six or more beneficiaries with unequal interests in a revocable trust

- Facts: John's trust provides the following allocations when he dies:

Beneficiary 1 = $	400,000	to Sally	
Beneficiary 2 = $	150,000	to James	
Beneficiary 3 = $	200,000	to Amy	
Beneficiary 4 = $	225,000	to ABC qualifying charity	
Beneficiary 5 = $	175,000	to XYZ qualifying non-profit	
Beneficiary 6 = $	200,000	to JKL qualifying non-profit	
Total =	$ 1,350,000		

- Can John open this deposit at your IDI and be fully insured for the entire amount of $1,350,000? No!
- If $1,350,000 is deposited, then $1,200,000 is insured and $150,000 is uninsured because Sally's allocation of $400,000 creates $150,000 of uninsured funds.

Category 3 – Revocable Trust Calculation

Example 9 (continued):

What is the maximum amount that can be deposited using this trust with 100% of the deposit fully insured?

Step 1: Take the largest amount to be received by a beneficiary and convert this to a percentage:

$400,000/$1,350,000 = 30% (rounded)

Step 2: Take the SMDIA of $250,000 and divide this by our highest percentage allocated from Step 1:

$250,000 is then divided by 30% = $833,333

Step 3: The amount of deposit insurance coverage is the greater of either the result from Step 2 or $1,250,000. Since the calculation of $833,333 is **<u>less</u>** than $1,250,000, then $1,250,000 represents the maximum amount that can be deposited with no uninsured funds.

Category 3 – Revocable Trust Calculation

Example 10: Six or more beneficiaries with unequal interests in a revocable trust

- **Facts:** John's trust provides the following allocations when he dies:

Beneficiary 1 = $	400,000 to Sally	
Beneficiary 2 = $	150,000 to James	
Beneficiary 3 = $	250,000 to Amy	
Beneficiary 4 = $	225,000 to ABC qualifying charity	
Beneficiary 5 = $	275,000 to XYZ qualifying non-profit	
Beneficiary 6 = $	200,000 to JKL qualifying non-profit	
Beneficiary 7 = $	150,000 to Joe	
Beneficiary 8 = $	150,000 to Chris	
Beneficiary 9 = $	175,000 to Kate	
Beneficiary 10 = $	125,000 to Kathy	
--		
Total = $	2,100,000	

Can John open this deposit at your IDI and be fully insured for $2,100,000? NO!

Category 3 – Revocable Trust Calculation

Example 10 (continued):

If $2,100,000 is deposited, then $1,925,000 is insured and $175,000 is uninsured ($150,000 to Beneficiary 1 and $25,000 to Beneficiary 5).

Beneficiaries	Trust Allocation	Insured Amount	Uninsured Amount
Beneficiary 1	$ 400,000	$ 250,000	$ 150,000
Beneficiary 2	150,000	150,000	0
Beneficiary 3	250,000	250,000	0
Beneficiary 4	225,000	225,000	0
Beneficiary 5	275,000	250,000	25,000
Beneficiary 6	200,000	200,000	0
Beneficiary 7	150,000	150,000	0
Beneficiary 8	150,000	150,000	0
Beneficiary 9	175,000	175,000	0
Beneficiary 10	125,000	125,000	0
Total	**$ 2,100,000**	**$ 1,925,000**	**$ 175,000**

Category 3 – Revocable Trust Calculation

Example 10 (continued):

- **Is $1,925,000 the maximum insurable amount with 100% of the funds fully insured?**

NO!

- The maximum insurable amount is not calculated by simply subtracting the excess amount above $250,000 from Beneficiary 1 and Beneficiary 5, as this would change the grantor’s intended percentage allocation for each beneficiary.

Category 3 – Revocable Trust Calculation

Example 10 (continued):

Grantor's intended allocation is determined by dividing the specific allocation to each beneficiary by the total allocation under the trust:

Beneficiaries	Specific Allocation	Total Allocation	Percentage Allocation
Beneficiary 1	$ 400,000	$ 2,100,000	19.05 %
Beneficiary 2	150,000	2,100,000	7.14 %
Beneficiary 3	250,000	2,100,000	11.91 %
Beneficiary 4	225,000	2,100,000	10.72 %
Beneficiary 5	275,000	2,100,000	13.10 %
Beneficiary 6	200,000	2,100,000	9.52 %
Beneficiary 7	150,000	2,100,000	7.14 %
Beneficiary 8	150,000	2,100,000	7.14 %
Beneficiary 9	175,000	2,100,000	8.33 %
Beneficiary 10	125,000	2,100,000	5.95 %

Category 3 – Revocable Trust Calculation

Example 10 (continued):

What is the maximum amount that can be deposited under this trust with 100% of the funds fully insured?

Category 3 – Revocable Trust Calculation

Example 10 (continued):

Step 1: Take the largest amount to be received by a beneficiary and convert this to a percentage. $400,000/$2,100,000 = 19.05% (rounded).

Beneficiaries	Specific Allocation	Total Allocation	Percentage Allocation (rounded)
Beneficiary 1	**$ 400,000**	**$ 2,100,000**	**19.05 %**
Beneficiary 2	150,000	2,100,000	7.14 %
Beneficiary 3	250,000	2,100,000	11.91 %
Beneficiary 4	225,000	2,100,000	10.72 %
Beneficiary 5	275,000	2,100,000	13.10 %
Beneficiary 6	200,000	2,100,000	9.52 %
Beneficiary 7	150,000	2,100,000	7.14 %
Beneficiary 8	150,000	2,100,000	7.14 %
Beneficiary 9	175,000	2,100,000	8.33 %
Beneficiary 10	125,000	2,100,000	5.95 %

Category 3 – Revocable Trust Calculation

Example 10 (continued):

- **Step 2:** Take the SMDIA of $250,000 and divide this by our highest percentage allocated from Step 1:

  $250,000 is then divided by 19.05% = $1,312,336

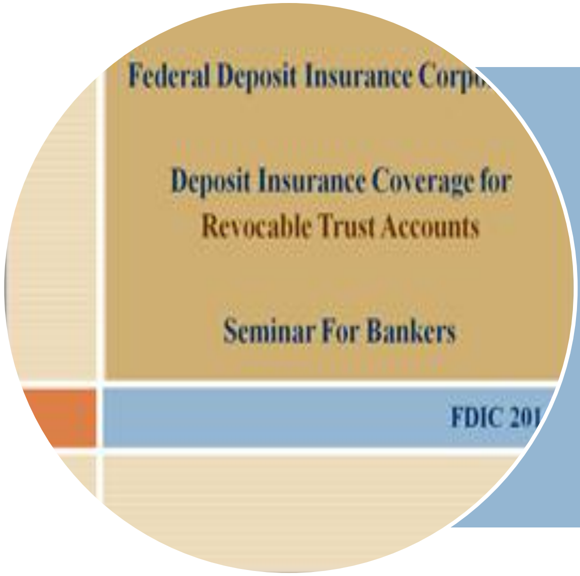
- This amount, $1,312,336, represents the total amount that would be insured in keeping with the grantor's intended allocation.
- **Step 3:** The amount of deposit insurance coverage is the greater of either the result from Step 2 or $1,250,000.
- Since the calculation of $1,312,336 is **greater** than $1,250,000, then $1,312,336 represents the maximum amount that can be deposited with no uninsured funds.

Category 3 – Revocable Trust Calculation

Example 10 (continued): Proof that the deposit of $1,312,336 is the total insured amount for all beneficiaries combined:

Trust Beneficiaries	Percentage Interest Allocation (rounded)	Dollar Allocation
Beneficiary 1	**19.05 %**	**$ 250,000**
Beneficiary 2	7.14 %	93,701
Beneficiary 3	11.91 %	156,299
Beneficiary 4	10.72 %	140,682
Beneficiary 5	13.10 %	171,916
Beneficiary 6	9.52 %	124,934
Beneficiary 7	7.14 %	93,701
Beneficiary 8	7.14 %	93,701
Beneficiary 9	8.33 %	109,318
Beneficiary 10	5.95 %	78,084
Total	**100 %**	**$ 1,312,336**

Seminar on Revocable Trust Accounts



Part 3 – Deposit Insurance Coverage Resources

Additional FDIC 2014 Seminars

FDIC 2014 Seminar for Bankers

Fundamentals of Deposit Insurance Coverage

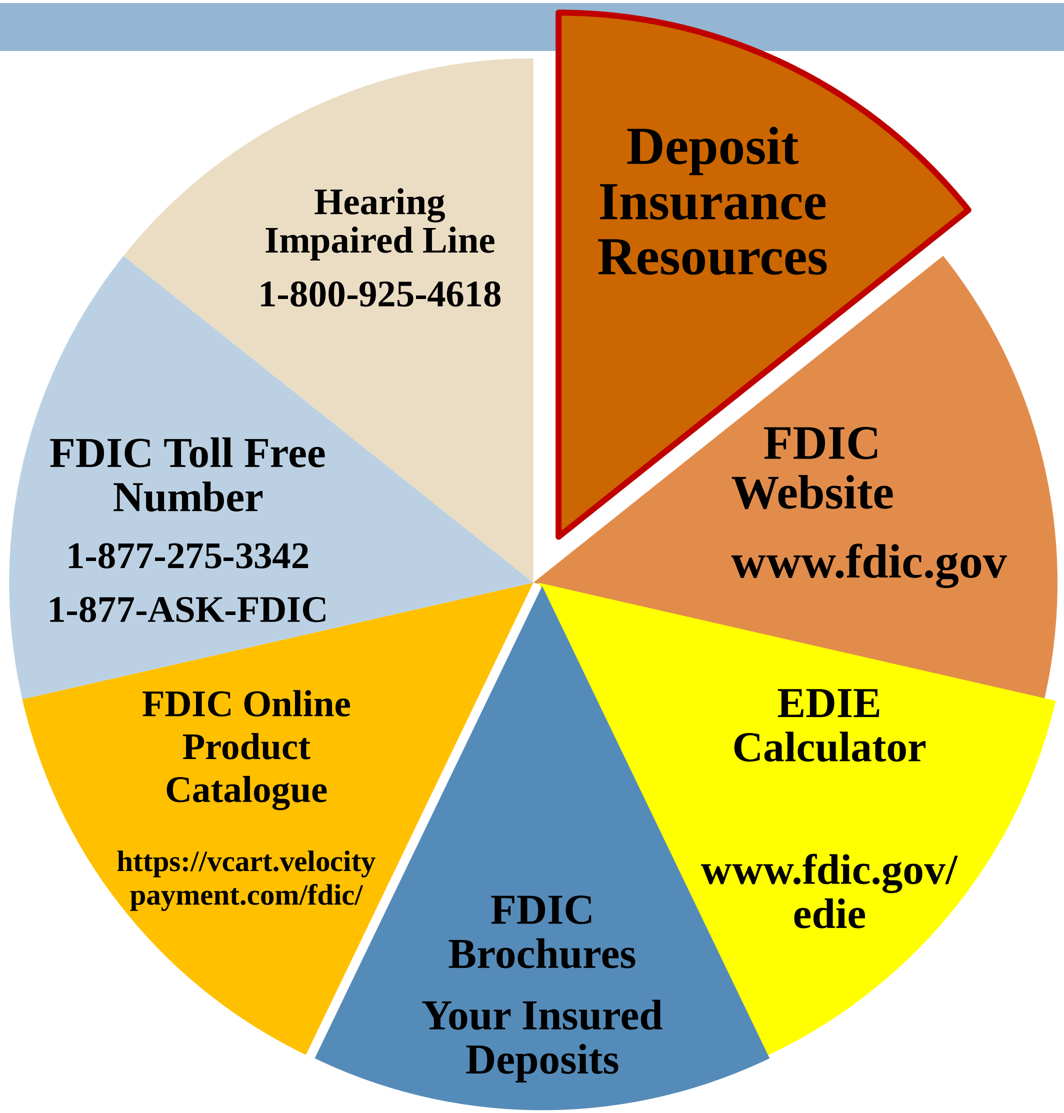
- Category 1 Single Accounts
- Category 2 Joint Accounts
- Category 3 Revocable Trust
- Category 4 Irrevocable Trust Accounts
- Category 5 Certain Retirement Accounts
- Category 6 Employee Benefit Plan Accounts
- Category 7 Corporations, Partnerships and Unincorporated Association Accounts
- Category 8 Government Accounts
- Category 9 P&I Funds in Mortgage Servicing Accounts

FDIC 2014 Seminar for Bankers

Advanced Topics in Deposit Insurance Coverage

- Category 7 Corporations, Partnerships and Unincorporated Association Accounts
- Category 8 Government Accounts
- Category 9 Principal and Interest (P&I) Funds in Mortgage Servicing Accounts
- Health Savings Accounts
- When IDIs Merge
- Right of Offset
- Pass-Through Deposit Insurance Coverage

Deposit Insurance Resources



Seminar on Revocable Trust Accounts

Thank You for Participating
in This Training

Questions?