Folks:

Take-Away: FDIC insurance coverage for trust accounts just changed, and maybe not for the better.

Background: On April 1, 2024, the Federal Deposit Insurance Corporation (the FDIC) implemented many changes to its insurance coverage limits, and those coverage limits that affect Trusts. Some of these changes may lower the coverage limits for bank customers with trust accounts. Key is that while the changes are intended to 'streamline' the insurance coverage rules, the changes could inadvertently push some bank depositors over the FDIC coverage limits.

Revised Coverage Limits for Trust Accounts: Under these updated FDIC coverage rules, trust deposits are now capped at **$1.25 million** in FDIC coverage per trust owner per insured depository institution. Within the Trust, each beneficiary is eligible for insurance coverage of up to **$250,000,** but applicable up to five trust beneficiaries.

However, if the Trust has more than five beneficiaries, the overall coverage limit for the trust account remains at $1.25 million. With these coverage limits, if a trustee currently is a manager over five beneficiary trust deposit accounts for the same Trust with the $250,000 limit per trust, the trustee will need to move some accounts to another bank to ensure that FDIC insurance coverage

will protect those accounts for totals over $1.25 million.

Investment Accounts: Some investment accounts established prior to the implementation of the new FDIC rules may experience coverage reductions. For example, Certificates of Deposit (CDs) that exceed the coverage limit could become locked-in investments until the CD maturity date if the trustee opts to avoid incurring an early withdrawal penalty.

Consolidation of Trust Categories: One important change in the FDIC coverage rules involves the consolidation of revocable and irrevocable Trusts into a **unified category.** Accordingly, investors with both types of Trusts held at the same bank may witness a reduction in their combined FDIC coverage **from $500,000 to $250,000.** This change increases the likelihood of FDIC coverage loss for affected investors.

Planning Thoughts: To amplify FDIC coverage beyond $250,000, bank depositors should consider-

1. Open accounts at multiple FDIC-insured banks;

2. Establish joint accounts, which will double the coverage to $500,000; and

3. Diversify ownership categories, such as single and joint accounts to increase FDIC coverage.

Conclusion: It is critically important that bank customers understand the implications and take proactive measures to

ensure that their deposits and trust accounts are fully protected considering these new FDIC coverage limitations, and in particular, the new *unified category* for revocable and irrevocable Trusts.