

Irrevocable Trust Accounts

Irrevocable trust accounts are deposits held by a trust established by statute or a written trust agreement in which the grantor (the creator of the trust – also referred to as a trustor or settlor) contributes deposits or other property and gives up all power to cancel or change the trust.

An irrevocable trust also may come into existence upon the death of an owner of a revocable trust. The reason is that the owner no longer can revoke or change the terms of the trust. If a trust has multiple owners and one owner passes away, the trust agreement may call for the trust to split into an irrevocable trust and a revocable trust owned by the survivor. Because these two trusts are held under different ownership types, the insurance coverage may be very different, even if the beneficiaries have not changed.

The interests of a beneficiary in all deposit accounts established by the same grantor and held at the same insured bank under an irrevocable trust are added together and insured up to \$250,000, only if ALL of the following requirements are met:

1. The insured bank's deposit account records must disclose the existence of the trust relationship.
2. The beneficiaries and their interests in the trust must be identifiable from the bank's deposit account records or from the trustee's records.
3. The amount of each beneficiary's interest must not be contingent as defined by FDIC regulations.
4. The trust must be valid under state law.

Note: A beneficiary does not have to be related to the grantor to obtain insurance coverage under the irrevocable trust account category.

If the grantor retains an interest in the trust, the amount of the grantor's retained interest would be added to any single accounts owned by the grantor at the same bank and the total insured up to \$250,000. For this situation to exist, the grantor must be living.

The following are situations where an irrevocable trust would NOT be insured on a per beneficiary basis, resulting in the trust as a whole qualifying for only \$250,000 in insurance coverage.

- The trust agreement does not name the beneficiaries or provide any means of identifying the beneficiaries.
- The trust agreement provides that a beneficiary will receive no assets unless certain conditions are satisfied.
- The trust agreement provides that a trustee may invade the principal of the trust (for example, for the support or medical needs of a surviving spouse or other beneficiary), with the result that the assets available for the other beneficiaries may be reduced or eliminated.
- The trust agreement provides that a trustee or particular beneficiary may exercise discretion in allocating assets among the beneficiaries, with the result that the future distribution to each beneficiary is impossible to predict.

IMPORTANT!

Since irrevocable trusts often contain conditions that affect the interests of the beneficiaries or provide a trustee or a beneficiary with the authority to invade the principal, deposit insurance for an irrevocable trust account usually is limited to a total of \$250,000.

A grantor or trustee of an irrevocable trust account who is unsure of the provisions of the trust should consult with a legal or financial advisor.