Revocable Trust Accounts

A revocable trust account is a deposit owned by one or more people that indicates an intention that the deposits will belong to one or more named beneficiaries upon the death of the owner(s). A revocable trust account can be revoked (or terminated) at the discretion of the owner. In this section, the term "owner" means the grantor, settlor, or trustor of the trust.

There are both informal and formal revocable trusts. Informal revocable trusts, often called "payable-on-death" (POD), "Totten trust," or "in trust for" (ITF) accounts, are created when the account owner signs an agreement-usually part of the bank's signature card – stating that the deposits are payable to one or more beneficiaries upon the owner's death.

Formal revocable trusts – known as "living" or "family" trusts – are written trusts created for estate planning purposes. The owner controls the deposits and other assets in the trust during his or her lifetime. Upon the owner's death, the trust generally becomes irrevocable.

All deposits that an owner has in both informal and formal revocable trusts are added together for insurance purposes, and the insurance limit is applied to the combined total.

Payable-on-Death (POD) Accounts

The owner of a POD account is insured up to $250,000 for each beneficiary if all of the following requirements are met:

1. The account title must include a commonly accepted term such as "payable-on-death," "in trust for," "as trustee for" or similar language to indicate the existence of a trust relationship. The term may be abbreviated (for example "POD," "ITF" or "ATF").

2. The beneficiaries must be identified by name in the deposit account records of the insured bank.

3. A beneficiary must be a person, charity or another non-profit organization (as recognized by the Internal Revenue Service). All other beneficiaries are not eligible for separate coverage as revocable trust deposits.

Example 1 - POD account with one owner

Account Title	Account Balance	Amount Insured	Amount Uninsured
Father POD to son and daughter	$ 500,000	$ 500,000	$ 0

Explanation:

The owner of this POD account, the father, is insured up to a maximum of $500,000 since he has two beneficiaries on the revocable trust account. This example assumes that the beneficiaries have equal beneficiary interests in the revocable trust account and the owner has no other revocable trust accounts naming the same beneficiaries.

A common mistake that depositors make in calculating coverage for revocable trust accounts is assuming that every person named on a revocable trust account – both the owner(s) and the beneficiaries – receives up to $250,000 in insurance coverage. This is **not** correct. Each owner of a revocable trust may be entitled to insurance coverage up to $250,000 for each beneficiary that the account owner designates in the revocable trust account.

If all of the beneficiaries are eligible and have equal interests, the insurance coverage for each owner is calculated by multiplying $250,000 times the number of beneficiaries, **not** $250,000 times the number of owners plus the number of beneficiaries.

If the beneficiaries are not all eligible, or have unequal interests, the above calculation should not be used. All funds attributable to non-eligible beneficiaries are aggregated and insured up to $250,000 as the single account funds of the trust owner. In addition, if the trust account specifies different interests for the beneficiaries, the owner may only be insured only up to each beneficiary's actual interest in the trust.

Another misunderstanding is that the trust agreement itself is entitled to an additional $250,000 of deposit insurance coverage. This is **not** correct.

If a POD account has more than one owner (e.g., husband and wife) or is held for multiple beneficiaries, the insured balance of the account can exceed $250,000. The FDIC will assume that the owners' shares are equal unless the deposit account records state otherwise. Similarly, if there are multiple beneficiaries, the FDIC will assume the beneficiaries' interests are equal unless otherwise stated in the deposit account records.

Example 2 - POD accounts with multiple owners and beneficiaries.

Account Title	Account Balance	Amount Insured	Amount Uninsured
Husband and Wife POD 3 Children	$ 1,500,000	$ 1,500,000	$ 0
Husband POD Wife	250,000	250,000	0
Wife POD Husband	250,000	250,000	0
Husband POD Brother and Father	500,000	500,000	0
Total	**$ 2,500,000**	**$ 2,500,000**	**$ 0**

Explanation:

These four accounts totaling $2.5 million are fully insured because each owner is entitled to $250,000 insurance coverage for each beneficiary. The husband has $1.5 million of insurance coverage ($250,000 for each beneficiary – his three children in the first account, his wife in the second account and his brother and father in the fourth account). The wife has $1 million of insurance coverage ($250,000 for each beneficiary – her three children in the first account and her husband in the third account).

Note: The $250,000 per beneficiary insurance limit applies to all formal and informal revocable trust accounts that an owner has at the same bank.

If any of the requirements for coverage in the revocable trust account category are not met:

- The entire amount in the account, or any portion of the account that does not qualify, would be added to the owner's other single accounts, if any, at the same insured bank and insured up to $250,000.

- If the account has more than one owner, the FDIC would insure each owner's share as his or her single account

Example 3 - POD account with non-eligible beneficiary	
Account Title	**Balance**
Husband and Wife POD Corporation	$ 600,000

Owner/Beneficiary	Ownership Share	Insured Amount	Amount Uninsured
Husband POD to Corporation	$ 300,000	$ 250,000	$ 50,000
Wife POD to Corporation	300,000	250,000	50,000
Total	**$ 600,000**	**$ 500,000**	**$ 100,000**

Explanation:

Although this is a revocable trust account, the account does not qualify for insurance coverage under the revocable trust ownership category because the beneficiary of the revocable trust is not an eligible beneficiary. Instead, the owner's portion of such deposits is added to any other single ownership deposits the owner may have at that same institution and insured up to $250,000. If the husband and wife do not have any other single accounts at this institution, the $600,000 account balance would be insured for $250,000 to the husband and $250,000 to the wife as their respective single account deposits for a total of $500,000 insured, with $100,000 uninsured.

Living/Family Trust Accounts

Living or family trust accounts are insured up to $250,000 per owner for each named beneficiary if all of the following requirements are met:

1. The account title at the bank must indicate that the account is held pursuant to a trust relationship. This rule can be met by using the term "living trust," "family trust," or similar language in the account title.

2. The beneficiaries must be "eligible" as defined for POD accounts earlier.

Note: The deposit insurance coverage calculation for a formal revocable trust also requires that all owners and beneficiaries are living and the beneficiaries are identified in the trust document.

While the owners of a trust may benefit from the trust during their lifetimes, they are not considered beneficiaries for the purpose of calculating deposit insurance coverage. Beneficiaries are those identified by the owner to receive an interest in the trust assets when the last owner dies. Unlike POD accounts, the beneficiaries do not have to be identified by name in the deposit account records of the bank.

In general, determining insurance coverage for living/ family trust accounts is more difficult than for POD accounts because these formal trusts often identify multiple beneficiaries who may have unequal or dissimilar interests in the trust.

Deposit insurance coverage for a revocable living trust account depends upon the answers to the following specific questions:

- **Does the account title at the bank indicate that the account is held by a trust?** This requirement can easily be met by using the words "living trust," or "family trust," or similar terms in the account title.

- **Who are the owners of the trust?** The owners are commonly referred to in the formal revocable trust document as trustors, grantors or settlors. For the purpose of calculating deposit insurance coverage only, the trustees, co-trustees, and successor trustees are not relevant. They are administrators and have no impact on deposit insurance coverage unless they are also the owners of the trust.

- **Who are the beneficiaries of the trust?** The beneficiaries are the people or entities entitled to an interest in the trust when the last owner dies. Contingent or alternative trust beneficiaries are not considered to have an interest in the trust deposits and other assets as long as the primary or initial beneficiaries are still living, with the exception of revocable living trusts with a life estate interest.

- **Do the beneficiaries meet the eligibility requirement?** To qualify for revocable trust coverage, a trust beneficiary must be an individual, a charity or another nonprofit organization.

- **What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary?** This question does not apply to formal revocable trust deposits with five or less eligible beneficiaries. Coverage is calculated at $250,000 times the number of eligible beneficiaries up to $1.25 million. If the depositor has six or more beneficiaries and wants to insure more than $1.25 million, then the insurance coverage will be the greater of either $1.25 million or the aggregate amount of all eligible beneficiaries' proportional interests in the revocable trust(s), limited to $250,000 per beneficiary.

- **Are all the owners and beneficiaries living?** The amount of deposit insurance coverage can change if there is a death of an owner or a beneficiary. Upon the death of an owner, the FDIC provides a grace period up to six months during which the account is insured as if the owner were still living. However, the six month grace period does not apply to the death of a beneficiary named in a living trust account. See section called "FAQs About FDIC Insurance", questions 13-15, for more information.

The following section describes how insurance coverage is determined when a living/family trust has multiple beneficiaries with varying trust interests.

1. **If a living trust has multiple beneficiaries, the FDIC will assume the beneficiaries' interests are equal unless otherwise stated in the trust.**

   For example:
   A mother has a living trust leaving all trust deposits equally to her three children. A deposit account held by the trust at an insured bank could be insured up to $750,000. Since there are three beneficiaries who would inherit the trust deposits equally when the owner dies, the owner has created a trust relationship of $250,000 with each of her three children for a total of $750,000.

2. **Living trust coverage is based on the interests of beneficiaries who would become entitled to receive trust assets when the trust owner dies (or if the trust is jointly owned, when the last owner dies). This means that, when determining coverage, the FDIC will ignore any trust beneficiary who would have an interest in the trust assets only after another living beneficiary dies.**

   For example:
   A father has a living trust that leaves all of the trust assets to his son. If the son predeceases the father, the trust assets are distributed equally to the son's five children

(father's grandchildren). If the bank should fail while the son is still alive, the father's living trust account is insured up to $250,000, because there is one beneficiary who is entitled to receive the trust assets when the father dies. However, if the son predeceases his father, the five grandchildren are then the beneficiaries and the father's living trust account would be insured up to $1.25 million ($250,000 for each of the living five beneficiaries).

3. **Some living trusts give a beneficiary the right to receive income from the trust or to use trust assets during the beneficiary's lifetime (known as a life estate interest), and then other beneficiaries receive the remaining trust assets after the first beneficiary dies. In such a case, the FDIC will recognize all beneficiaries in determining insurance coverage.**

   For example:
   A husband has a living trust giving his wife a life estate interest in the trust deposits, with the remainder going to their two children equally upon his wife's death. The husband's living trust would be insured up to $750,000. In this example, the FDIC's insurance rules recognize the wife and two children as beneficiaries. Since there is one trust owner who has three beneficiaries, the husband's trust account at an insured bank would be insured up to $750,000.
4. **If a living trust has multiple owners, coverage would be up to $250,000 per beneficiary for each owner, provided the beneficiary would be entitled to receive the trust assets when the last owner dies.**

   For example:
   A husband and wife are co-owners of a living trust. The trust states that upon the death of one spouse the assets will pass to the surviving spouse, and upon the death of the last owner the assets will pass to their three children equally. This trust's deposit account would be insured up to $1.5 million. Since each owner names three beneficiaries, the owners (husband and wife) will be insured up to $750,000 each.

5. **The $250,000 per beneficiary insurance limit applies to all formal and informal revocable trust accounts that an owner has at the same bank.**

   For example:
   A father has a POD account naming his son and daughter as equal beneficiaries and he also has a living trust account naming the same beneficiaries. In this case, the deposits in both the POD account and living trust account would be added together and the total insured up to $500,000 ($250,000 per owner per beneficiary).

Note: Irrevocable trusts that are created upon the death of a revocable trust account owner will continue to be insured under the revocable trust rules.