Chapter 4: Formal Revocable Trusts

Formal revocable trusts – known as living or family trusts – are written trusts created for estate planning purposes. The owner (also known as a trustor, grantor or settlor) controls the funds in the trust during his or her lifetime and reserves the right to revoke the trust.

FDIC Requirements for Coverage

The FDIC’s rules for insurance coverage of deposit accounts held in the name of formal revocable trusts are located at 12 C.F.R. § 330.10.

As with informal revocable trust accounts, the owner of a formal revocable trust is entitled to $100,000 of insurance coverage for each qualifying “owner to beneficiary pair” established in the trust. This coverage is based on the actual interest of each qualifying beneficiary as specified in the trust.

The interests of each qualifying beneficiary in all deposit accounts established by the same grantor and held at the same bank under a formal revocable trust are insured up to $100,000 so long as *all* of the following requirements are met:

- The account title at the bank must indicate that the account is held pursuant to a trust. This rule can be met by using the terms "trust,” “living trust," "family trust," "revocable trust" or similar language in the account title. As an example, an account titled “The Charles King Revocable Trust” would meet the FDIC requirement.

- The beneficiaries must meet a specific kinship (qualifying beneficiary) requirement, which is the same for formal revocable trusts as it is for informal revocable trusts.

- The living trust agreement must provide that the deposits in the account will belong to the beneficiaries upon the last owner's death. When determining coverage, the FDIC will ignore any trust beneficiary who will have an interest in the trust assets only in the event that another beneficiary dies.

Unlike informal revocable trust accounts, the beneficiaries do not have to be identified by name in the deposit account records of the bank.

Unless the trust agreement states otherwise, the FDIC will assume that the beneficiaries have equal interests in the revocable trust account. Usually formal revocable trust agreements will describe the specific beneficial interest (dollar amount or percentage share) for each of the beneficiaries named in the trust.

Note About Trustees and Successor Trustees

A trustee or a successor trustee named in the trust agreement may have a dual status. In some cases, the trustee also is an owner (trustor, grantor, donor, maker or creator). A trustee also may be a beneficiary or a third party with no interest in the trust. While the administrative function performed by trustees or successor trustees is important, understand that ***the names and the number of trustees or successor trustees are irrelevant in calculating FDIC deposit insurance coverage***. It is the entitlement created between the owners and beneficiaries, not the trustees or successor trustees, that matters in calculating FDIC deposit insurance coverage.

When FDIC Requirements Are Not Met

If any of the FDIC's regulatory requirements for revocable trust coverage, described above, are not met, the entire amount in the deposit account, or any portion of the account that does not qualify, will be insured as the owner's single account. The combined total the account owner has in the single account category then will be insured to $100,000. If the formal revocable trust has multiple owners, the deposits will be insured as each owner's single ownership deposits.

Applying this rule, if a formal revocable trust provides a bequest to a non-qualifying beneficiary, the portion of the deposits allocated to the non-qualifying beneficiary will not be insured in the revocable trust ownership category. Instead, the deposit related to the non-qualifying beneficiary will be insured as the trust owner's single account funds and will be added to any other single account funds the owner may have at the same bank, and the total insured up to $100,000.

Important Considerations When Determining Coverage for Formal Revocable Trust Deposits

Unequal Beneficiary Interests

Caution is needed when a formal revocable trust provides a beneficiary an entitlement (either dollar amount or percentage interest) that is different from the entitlements granted the other beneficiaries under the trust. When unequal interests exist under a trust, the calculation of deposit insurance coverage may result in less than $100,000 deposit insurance coverage per beneficiary. As illustrated in examples provided later in this chapter, the owners of a trust that provides for unequal beneficiary interests cannot simply multiply the number of qualifying beneficiaries by $100,000 to calculate the amount of deposit insurance coverage.

Timing of Distributions to Beneficiaries

An additional consideration for coverage of formal revocable trusts is the timing when the beneficiaries will receive their trust interests after the owners' death. Deposit insurance coverage for a trust deposit may be significantly affected if the trust agreement provides that one or more beneficiaries must receive their funds before the distribution of the remaining funds to other beneficiaries.

Life Estate Beneficiaries

When an initial beneficiary has a life estate interest in the trust assets, special FDIC rules apply that will affect the determination of insurance coverage for the trust's deposits. A detailed discussion of life estate beneficiaries and the impact of life estate interests on coverage for revocable trusts is provided in Chapter 5 of this Guide. Careful review of Chapter 5 is essential before determining FDIC insurance coverage for any formal revocable trust that provides a life estate interest for a trust beneficiary.

Naming Formal Trusts as Beneficiaries of POD Accounts

The FDIC receives many inquiries about FDIC insurance coverage for informal revocable trust accounts titled as follows: "Name of trust owner POD the owner's formal trust." The establishment of an informal revocable trust account that is payable on death to a formal trust will result in the deposit account being insured as the owner's single account and insured with any other single accounts held by that owner at the same bank up to $100,000. An account titled in this manner does not qualify for per beneficiary coverage under the revocable trust ownership category, because a trust is not a qualifying beneficiary under the FDIC's regulations.

The following example illustrates the potential negative impact of naming a trust as the beneficiary of an informal revocable trust account: Assume that John Rogers is the sole owner of the John Rogers Living Trust and he opens an account titled "John Rogers POD to The John Rogers Living Trust." Since the John Rogers Living Trust is not a qualifying beneficiary under the FDIC's rules, all of the deposits in the POD account would be insured as John Rogers' single account funds. This deposit would be added to any other single account deposits that John Rogers has at the same bank and insured up to $100,000 including principal and interest. If John Rogers' actual intention was to establish a revocable trust deposit that qualifies for more than $100,000 in coverage based on naming multiple qualifying beneficiaries, then his intent was not met.

If there are two settlors named on an account that is payable on death to a trust (for example, "John and Mary Rogers POD to the Rogers Family Trust"), then the deposit is considered a single account deposit that is split evenly between the two settlors. Each owner's portion of the deposit is added to any other single account deposits the owner may have at the same bank and the total is insured up to $100,000.

When a Trust Owner or Beneficiary Dies

If one or more beneficiaries or owners of a trust are deceased on the date an FDIC-insured bank fails, then the amount of deposit insurance may be different than when the trust was established and everyone was living.

FDIC rules allow for a six-month grace period when the owner dies. 12 C.F.R. § 330.3(j). The rule provides for FDIC deposit insurance of the deceased owner's deposit accounts as if the owner were still living for six months after his or her death. During this grace period, the insurance coverage of the deposit owner's accounts will not change unless the accounts are restructured by those authorized to do so. The FDIC will not apply the grace period if the result will be a reduction in deposit insurance coverage.

As with informal revocable trusts, the six-month grace period does not apply to the death of a beneficiary. The deposit insurance coverage is immediately reduced upon the death of a beneficiary. Therefore, the owner or trustee of a revocable trust should consider the potential impact of the death of an owner or a beneficiary upon deposit insurance coverage of a deposit account.

In the event of the death of an owner, what was a revocable trust could become an irrevocable trust or the original revocable trust could split into an AB trust (two trusts): a revocable trust and an irrevocable trust.[1] The rules under 12 C.F.R. § 330.13 are used to calculate deposit insurance coverage for irrevocable trusts. (See Chapter 6.)

There can be a significant reduction in FDIC deposit insurance coverage when a revocable trust converts to an irrevocable trust. The primary reason is the treatment of contingent interests when calculating FDIC deposit insurance coverage. While the FDIC does not consider the impact of contingencies on a beneficiary's trust interest when calculating deposit insurance coverage for revocable trusts, such contingencies still are considered when computing deposit insurance coverage for irrevocable trusts. When a trust owner dies and a beneficiary's interest is contingent, the conversion of the revocable trust to an irrevocable trust can result in a reduction of coverage. For irrevocable trust agreements, all contingent interests are added together and insured up to $100,000.

Because of the possible reduction in deposit insurance coverage, the FDIC always recommends that the deposit insurance coverage be reviewed for a revocable trust whenever an owner or beneficiary dies. See Chapter 6 for a full discussion of the FDIC's rules and requirements for insurance coverage of irrevocable trust deposits.

[1] Married couples with a large dollar amount of assets sometimes make use of an AB trust arrangement. An AB trust currently is popular because of certain advantages under the tax laws. Upon the death of one spouse, the original revocable trust is split into an A trust (which is the deceased spouse's property and irrevocable) and a B trust (which is a revocable trust including the surviving spouse's share of the assets).

Calculating Coverage for Formal Revocable Trusts

In general, determining insurance coverage for living/family trust accounts is more complex than calculating coverage for informal revocable trust accounts. The most common reasons for complexity in calculating FDIC deposit insurance coverage for formal revocable trusts are:

- An owner or beneficiary named in the trust is now deceased
- The trust names both qualifying and non-qualifying beneficiaries
- The beneficiaries are to receive unequal amounts or percentages of the trust assets
- The trust contains ambiguous terms that make it unclear or impossible to determine the bequest

While FDIC regulations do not prescribe a specific methodology to use when calculating insurance coverage for deposits based on formal revocable trust agreements, the following six questions will assist the user in calculating FDIC deposit insurance coverage. All of these questions must be considered to calculate FDIC deposit insurance coverage accurately for a specific trust agreement.

The six questions that must be answered before a depositor can determine FDIC insurance coverage for a formal revocable trust account are:

1. *Who are the owners of the trust?*
2. *Who are the primary beneficiaries upon the death of the owners?*
3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?*
4. *Are all the owners and primary beneficiaries named in the trust living?*
5. *What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary? (This includes any specific lump sum amounts to be distributed to any beneficiary prior to the allocation by percentages.)*
6. *Is the trust properly identified in the bank's records?*

Calculating FDIC insurance coverage for most formal revocable trust deposits is a six-step process that involves obtaining answers to the six questions above and determining how these answers affect the trust's coverage.

When reviewing each of the steps discussed below, remember that you must complete all six steps to accurately determine FDIC insurance coverage for a formal revocable trust account.

<u>Step 1</u>: Identify the Owners of the Trust

The owners are commonly referenced in a revocable trust agreement using a variety of terms including settlors, trustors, grantors, donors, makers or creators.

Revocable trusts commonly have one or two owners. Revocable trusts listing three or more owners should be reviewed carefully to ensure that each named owner is in fact an actual owner of trust assets. There is a presumption when multiple owners are identified in a trust agreement that each is an equal owner of the trust assets unless otherwise specified in the trust agreement.

When two owners have unequal ownership interests in the trust assets, the calculation of the deposit insurance coverage can be complicated. The FDIC recommends that depositors contact the FDIC for assistance with questions regarding these types of trusts.

Remember that trustees and successor trustees do not affect FDIC deposit insurance coverage. It is the entitlement created between the owners and beneficiaries, not the trustees or successor trustees of the trust, that matters in calculating FDIC deposit insurance coverage.

Step 2: Identify the Primary Beneficiaries Upon the Death of the Owners

Under the FDIC's regulations, coverage up to $100,000 for the interest of each qualifying beneficiary is available only if, at the time an insured depository institution fails, (1) a qualifying beneficiary is entitled to his or her interest in the trust assets upon the grantor's death (or in the cases of a jointly owned trust, upon the death of the last owner) and (2) that ownership interest does not depend upon the death of another trust beneficiary.

As an example, assume a living trust agreement with one owner provides that all trust funds shall be distributed in equal shares to the owner's three sons following the owner's death. The trust agreement also provides that each son's one-third share of the trust funds, in the event a son dies before the distribution of the funds, shall be distributed to the deceased beneficiary's children (that is, the owner's grandchildren). If the owner and his three sons are all alive when the bank fails, the FDIC would treat the sons as the sole beneficiaries of the living trust account. The FDIC would not treat the grandchildren as beneficiaries for deposit insurance purposes since the grandchildren are not entitled to any trust assets unless their father has died.

The following are important points and guidelines that should be considered when identifying the beneficiaries of a formal revocable trust:

i. In trust agreements, the names of the beneficiaries generally are located in a section or paragraph that begins with the phrase, "upon the death of the owner…" If there are two owners, the trust agreement may include a section or paragraph that begins with the phrase "upon the death of the surviving (or last) owner…" For deposit insurance purposes, the beneficiaries are those persons or entities who shall become entitled to the trust funds upon the death of the last owner. In identifying the beneficiaries, look for those sections or paragraphs that provide instructions for the distribution of the trust funds following the death of the last owner.

ii. A formal revocable trust agreement generally provides that the trust funds, following the death of the owner, shall be entrusted to one or more trustees. For deposit insurance purposes, the trustees are not treated as beneficiaries. The possibility exists, however, that a particular person could be named in the trust agreement as both a trustee and a beneficiary. In other words, a particular person could be given the responsibility to make distributions of the trust funds and the same person might be designated to receive some of these funds. If so, the person would be treated as a beneficiary.

iii. If a named beneficiary is deceased at the time of the failure of an FDIC-insured bank, then the FDIC will not treat that person as a beneficiary. In identifying the beneficiaries of a living trust following the death of a named beneficiary, look for those sections or paragraphs of the trust agreement that provide instructions for the distribution of funds after the death of that beneficiary.

iv. A person is not a beneficiary for deposit insurance purposes if his/her interest in the trust assets depends upon the death of another beneficiary. An alternate or contingent beneficiary – that is, an individual who would receive the trust deposits if a named beneficiary were to die before the account owner – does not qualify as a beneficiary for FDIC insurance purposes. Consider the example of a trust agreement providing that the interest of the owner's son will be distributed to a charitable organization if the son were to die before the owner. If the son is living when the bank fails, the FDIC would not treat the charitable organization as a beneficiary because the organization's interest would depend upon the death of another beneficiary (that is, the owner's son). On the other hand, if the son is deceased when the bank fails, the FDIC would treat the charitable organization as a beneficiary.

v. Some formal revocable 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 the life estate beneficiary as well as the remainder beneficiaries in determining insurance coverage. Unless otherwise indicated in the trust, the FDIC will assume that a beneficiary with a life estate interest has an equal share of the trust with the other beneficiaries. (See Chapter 5 for a discussion of FDIC insurance coverage of deposits held by revocable trusts that provide for life estate beneficiary interests.)

vi. If a formal revocable trust with only one owner provides for payments to a surviving spouse, then the spouse is treated as a beneficiary. This is true under all of the following circumstances:

- Payments are periodic or monthly payments (e.g., payments of interest or income)
- Payments are lump-sum payments
- Payments are discretionary payments (such as payments for medical expenses)

vii. A formal revocable trust co-owned by two individuals (for example, a husband and wife) frequently provides for lifetime payments to the surviving owner following the death of the first owner. When a living trust agreement includes such provisions, the owner of a revocable living trust is not treated as a beneficiary. For deposit insurance purposes, the beneficiaries are those persons or entities who shall become entitled to the trust funds following the death of the last owner – not persons or entities who shall receive funds prior to the death of the last owner.

viii. A trust agreement might provide that the revocable trust, upon the death of the owner, shall cease to be a revocable trust and instead shall become an irrevocable trust. In other words, the trust agreement might provide that the trust funds shall become assets of an irrevocable trust. This does not mean that the future irrevocable trust is a beneficiary of the revocable trust. If a living trust agreement provides that the trust funds shall pass into an irrevocable trust upon the death of the owner, the irrevocable trust is not treated as a beneficiary of the revocable trust during the lifetime of the owner. Rather, the irrevocable trust is viewed simply as a mechanism through which the trust funds shall be distributed in the future to the beneficiaries. Thus, in identifying the beneficiaries of the revocable living trust during the lifetime of the owner, you must identify those persons and entities who shall receive the trust funds through the irrevocable trust following the death of the owner.

ix. Under the terms of some living trust agreements, the death of an owner results in the creation of two or more trusts. Common names for such trusts include the following: survivor's trust, marital trust, family trust, bypass trust, A trust and B trust. If a trust agreement provides that the trust funds shall pass into one or more new trusts upon the death of one or both owners, the future trusts are not treated as beneficiaries of the revocable trust before the death of any owner. Rather, the future trusts are viewed simply as mechanisms for distributing the trust funds. As explained above, in identifying the beneficiaries of the revocable living trust before the death of any owner, you must identify those persons (such as children) and entities (such as charitable organizations) who shall receive the trust funds through the future trusts.

x. A living trust agreement may provide for the payment of debts and funeral expenses following the owner's death. This does not mean that the funeral home is a beneficiary. For deposit insurance purposes, the owner's creditors and the funeral home are not treated as beneficiaries even though they may receive some of the trust funds under the terms of the trust agreement following the owner's death. In identifying the beneficiaries for deposit insurance purposes, you should look for those sections or paragraphs of the trust agreement that provide instructions for the distribution of the trust funds after the payment of debts and expenses.

xi. A living trust agreement may instruct the trustee to make payments of certain amounts (large or small) to designated persons or entities (such as friends or charities) before distributing the balance of the trust funds to other persons or entities (such as the owner's children). In such cases, the beneficiaries include those persons or entities who shall receive amounts "off the top" as well as those persons or entities who shall receive the balance of the trust assets. For deposit insurance purposes, the beneficiaries are those persons or entities who shall become entitled to the trust funds upon the death of the last owner. In identifying beneficiaries, the FDIC does not distinguish between beneficiaries who shall receive distributions "off the top" and beneficiaries who shall receive a percentage or portion of remaining funds. This is true even if the possibility exists that the payments "off the top" will exhaust the trust funds.

xii. Under a formal revocable trust agreement, payments might not be limited to qualifying beneficiaries as that term is defined in the FDIC's insurance coverage rules (the owner's spouse, children, grandchildren, parents or siblings). The agreement might instruct the trustee to make payments to non-qualifying beneficiaries (such as cousins or friends or charitable organizations). When identifying the beneficiaries of the trust, the non-qualifying beneficiaries may not be disregarded. When identifying the beneficiaries, you must include all persons or entities entitled to the trust funds upon the death of the last owner. The inclusion of non-qualifying beneficiaries in the trust agreement generally will affect the insurance coverage of the trust account.

xiii. A beneficiary's interest may be contingent, such as when a trust agreement provides that a particular person shall receive a portion of the trust funds only if certain conditions are met. For example, a trust may provide that a person will receive some trust assets only if he or she graduates from college. Alternatively, a trust agreement may provide that a particular person shall receive a portion of the trust funds only if the trust funds are not exhausted during the lifetime of the surviving spouse. Under the FDIC's regulations, coverage up to $100,000 for the interest of a qualifying beneficiary is available "irrespective of . . . conditions in the trust that might prevent a beneficiary from acquiring an interest in the deposit account upon the account owner's death." This means that a person or entity will be recognized as a beneficiary even if the interest of that person or entity in the trust funds is contingent.

Assume that a particular living trust agreement provides that the owner's only child shall receive all of the trust funds (after the death of the owner) when the child graduates from college. In addition, assume that the trust owner's bank fails when the owner is living and the child is 10 years old. Under these circumstances, the FDIC would treat the child as the sole beneficiary of the living trust account (that is, the FDIC would assume that the child would graduate from college someday).

Step 3: Determine Whether the Primary Beneficiaries Are Qualifying or Non-qualifying Beneficiaries

FDIC deposit insurance coverage for revocable trusts is up to $100,000 from each owner to each qualifying beneficiary. The kinship requirement for formal revocable trusts is the same as for informal revocable trusts. A beneficiary is a qualifying beneficiary under 12 C.F.R. § 330.10 (a) only if the beneficiary is the owner's spouse, child, grandchild, parent or sibling, as defined below:

- Spouse only means a person of the opposite sex who is a husband or wife, under the federal Defense of Marriage Act (1 U.S.C. § 7)

- Child includes a biological child, adopted child and step-child

- Grandchild includes a biological grandchild, adopted grandchild and step-grandchild

- Parent includes a biological parent, adoptive parent and step-parent

- Sibling includes an adoptive sibling, step-sibling and half-sibling

Any beneficiary who does not meet the kinship requirement described above is a non-qualifying beneficiary for the purpose of FDIC deposit insurance coverage.

All of the following relationships are examples of non-qualifying beneficiaries for the purpose of FDIC deposit insurance coverage:

- "In-laws" (mother-in-law, father-in-law, brother-in-law, etc.)
- Aunts, uncles, nieces, nephews, cousins
- Former spouse
- Great-grandchild
- Grandparent
- Godchild
- Domestic partner
- Charitable organization (for example, universities, religious organizations)
- Business entities
- Pets
- Trusts

If a revocable trust has co-owners, then it is possible for a beneficiary to be a qualifying beneficiary as to one owner but not the other. If a beneficiary does have this dual status under a specific revocable trust agreement (that is, a qualifying beneficiary as to one owner and a non-qualifying beneficiary as to the other owner), this status will affect the calculation of deposit insurance coverage. The amount or percentage of a revocable trust deposit attributable from an owner to a non-qualifying beneficiary is treated as the single ownership deposit of that owner and is added to any other single ownership deposits of the owner at the same FDIC-insured institution.

When a non-qualifying beneficiary is named under a formal revocable trust agreement, the portion of the trust's deposit payable to that beneficiary is insured under the single ownership category. The FDIC refers to this situation as a *reversion* of the non-qualifying deposit funds to another insurance category – in this case from the revocable trust category to the single ownership category. The reason for the reversion is that the requirements for coverage under the revocable trust category have not been met.

<u>Step 4</u>: Determine the Interests of the Primary Beneficiaries

To determine the interests of the beneficiaries, you will need the trust agreement and a list of the primary beneficiaries as determined under Step 2. In addition, to determine insurance coverage for an existing deposit account in the name of the trust, you will need the balance of the account (or the amount that the owner intends to deposit at the bank). Proceed with Step 4 in the order set forth below.

i. First, place the beneficiaries in the proper order**.** In many cases, formal revocable trust agreements do not provide for an immediate distribution of all trust funds to all beneficiaries upon the death of the last owner. Rather, the agreement provides for the distribution of the funds in a prescribed sequence.

Consider “The Robert Logan Revocable Trust,” which provides upon the death of the owner that:

- $250,000 shall be distributed to a charitable organization
- Then, from the remaining funds, $100,000 shall be distributed to the owner’s son and $50,000 to the owner’s daughter, and
- Then, from any remaining funds, equal shares shall be distributed to the owner’s four grandchildren when the youngest grandchild reaches the age of 21

Under the terms of this trust, the charitable organization could be termed an “initial beneficiary” because it will receive funds before the other beneficiaries. The son and daughter could be termed the “first group of remainder beneficiaries” because they will receive a portion of any remaining funds after the distribution to the initial beneficiary. Finally, the grandchildren could be termed the “second group of remainder beneficiaries” because they will receive any remaining funds after the distribution to the first group of remainder beneficiaries. Thus, the beneficiaries of The Robert Logan Revocable Trust deposit account would be ordered as follows:

- Initial beneficiary: charitable organization
- First group of remainder beneficiaries: son and daughter
- Second group of remainder beneficiaries: four grandchildren

ii. After placing the beneficiaries in the proper order, allocate funds to the initial beneficiaries. In determining the interests of the beneficiaries, the FDIC simply follows the terms of the trust agreement. In other words, the FDIC allocates funds to initial beneficiaries before allocating funds to any remainder beneficiaries.

For example, assume the balance of an account in the name of The Robert Logan Revocable Trust (as described above) is $180,000. Under the terms of the trust agreement, the initial beneficiary must receive $250,000 before any funds are distributed to the remaining beneficiaries. In accordance with this distribution scheme, the FDIC would allocate the entire balance of the deposit account ($180,000) to the initial beneficiary (that is, the charitable organization).

iii. After allocating funds to the initial beneficiaries, subtract this amount from the balance of the deposit account. Then, you must allocate the remaining funds (if any) to the first group of remainder beneficiaries. In the example above, the funds allocated to the charitable organization ($180,000) must be subtracted from the balance of the account ($180,000). The difference is zero. In the absence of any remaining funds, no funds would be allocated to the first group of remainder beneficiaries.

iv. After allocating funds to the first group of remainder beneficiaries, subtract this amount from the remaining balance (if any) of the deposit account. Then, you must allocate the remaining funds (if any) to the second group of remainder beneficiaries (and so on with any additional groups of remainder beneficiaries). In the example above, the funds allocated to the first group of remainder beneficiaries is zero because the balance of the account – after allocating funds to the initial beneficiaries – is zero. With a balance of zero, no funds would be allocated to the second group of remainder beneficiaries.

v. After allocating all funds in the deposit account, you must apply the insurance limit. In the example of The Robert Logan Revocable Trust described in the paragraphs above, the insurance limit would be applied in the following manner:

The Robert Logan Revocable Trust Deposit Account Balance: $180,000				
Owner to Beneficiary	**Ownership Share**	**Single Account**	**Insured Amount**	**Uninsured Amount**
Robert Logan to Charitable Organization	$180,000	$100,000	$100,000	$80,000
Son	0		0	0
Daughter	0		0	0
Grandchild 1	0		0	0
Grandchild 2	0		0	0
Grandchild 3	0		0	0
Grandchild 4	0		0	0
Total	**$180,000**	**$100,000**	**$100,000**	**$80,000**

Note that the charitable organization is not a qualifying beneficiary (that is, the owner's spouse, child, grandchild, parent or sibling). For this reason, the interest of the charitable organization ($180,000) must be added to any single ownership accounts maintained by the owner at the same bank. Thus, in this example, $100,000 is insured and $80,000 is uninsured (assuming Robert Logan has no other single accounts or trust deposits at the same bank).

Step 5: Determine Whether the Owner(s) and Primary Beneficiaries Are Living

Deposit insurance coverage provided for a formal revocable trust deposit usually will decrease significantly when a trust owner or beneficiary dies. For that reason, the FDIC strongly recommends that trust owners review their insurance coverage whenever one of the owners or beneficiaries dies.

FDIC rules state that when a deposit owner dies, the FDIC will insure the deposit as if the owner were still living for six months after the owner's death, unless application of the rule will result in a reduction in deposit insurance coverage. The six-month grace period does not apply to the death of a beneficiary. Consequently, deposit insurance coverage is reduced immediately upon the death of a beneficiary.

In the event of the death of an owner, a revocable trust could become an irrevocable trust or the original revocable trust could split into an AB trust (two trusts): a revocable trust and an irrevocable trust. In a situation where there is a revocable trust with a single owner who dies, the trust will become irrevocable because the owner can no longer revoke the trust or change any of the terms and conditions. After the six-month grace period has expired, the irrevocable trust must be calculated using the requirements provided in 12 C.F.R. § 330.13. See Chapter 6 for a discussion of FDIC insurance coverage for irrevocable trust deposits.

Step 6: Verify That the Trust Is Properly Identified in the Bank's Records

To obtain FDIC insurance coverage for a deposit under the revocable trust account category, FDIC regulations require that the account title at the bank must indicate that the deposit is held pursuant to a trust agreement. This rule can be met by using a term such as "living trust," "family trust," "revocable trust," or "trust" in the account title. As an example, an account titled “The George Green Revocable Trust” would meet the FDIC requirement.

It is not necessary that the owner's name be identified in the title. For example, the account could be titled “The Green Family Trust.” Sometimes there may be supplemental language in the title including the names of trustees and descriptive language such as the date the trust was created. This additional language listing the trustees is acceptable but unnecessary for FDIC insurance purposes.

Though the names of the beneficiaries must be included in the bank’s records for informal revocable trust deposits (POD accounts), the names of beneficiaries do not need to be in the bank records for formal trusts. However, the beneficiaries must be identified in the trust agreement. Although the actual beneficiary names are not required, the relationship of the beneficiaries to the owners must be identifiable in the trust document.

Calculating Coverage for Formal Revocable Trusts

Once you have reviewed and understand the six steps involved in calculating coverage for formal revocable trusts, you can determine the maximum amount of deposit insurance coverage available at a single FDIC-insured bank under any trust agreement.

Many formal revocable trust agreements follow a similar pattern of one or two owners (typically a husband and wife) designating children as beneficiaries to receive equal distributions of the trust assets upon the owners' deaths. The rest of this chapter presents examples that demonstrate how to apply the six-step process to different types of trust arrangements.

The examples contained in the remainder of Chapter 4 explain how to calculate deposit insurance coverage in the following situations:

- Revocable trusts with **qualifying beneficiaries** who have **equal interests**
- Revocable trusts with **qualifying beneficiaries** who have **unequal interests**
- Revocable trusts with **non-qualifying beneficiaries** who have **equal interests**
- Revocable trusts with **qualifying and non-qualifying beneficiaries** who have **unequal interests**
- Revocable trusts with beneficiaries who receive **lump sum cash distributions**
- **When a beneficiary or owner identified in the trust dies**

Some of the examples are very basic and the amount of FDIC deposit insurance coverage can be calculated easily. As mentioned previously, the calculation of the amount of deposit insurance coverage can be complicated by circumstances such as unequal allocations to beneficiaries, the existence of non-qualifying beneficiaries, or the death of an owner or beneficiary.

Important Note About Trusts With Life Estate Beneficiaries

The FDIC has special rules that apply to coverage for formal revocable trusts that provide life estate interests for beneficiaries. Chapter 5 discusses the special FDIC rules that apply to coverage of trusts with life estate interests and contains examples illustrating how these rules are applied to coverage of a trust’s bank deposits. Review of Chapter 5 is critical before determining coverage for any revocable trust that provides a life estate interest for one or more beneficiaries.

Revocable Trusts With Qualifying Beneficiaries Who Have Equal Interests

Calculation of coverage for formal revocable trusts with qualifying beneficiaries who have equal interests is simple and straightforward. Calculation of coverage for these trusts is similar to the process used for informal revocable trusts described in the preceding chapter.

Example 16 Formal Revocable Trust One Owner and One Qualifying Beneficiary	
Account Title	**Balance**
John Parker Revocable Trust	$100,000

Facts: John Parker wishes to open a deposit account linked to his formal living trust titled "The John Parker Living Trust, dated January 1, 2000" and have all of the funds fully insured. The trust indicates that he is the sole grantor/owner of the trust and both he and his wife are trustees. The trust lists his son, David, as the sole beneficiary to receive 100% of all his assets when he dies. Everyone named in the trust is living. John Parker has no other deposits at the bank.

Analysis:

1. *Who are the owners of the trust?* John Parker is the sole owner named in the trust agreement. (Since John Parker's wife is a trustee and not an owner or beneficiary, her designation as trustee is irrelevant in calculating FDIC deposit insurance coverage for this deposit.)

2. *Who are the primary beneficiaries upon the death of the owner?* David Parker is the sole beneficiary.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* John Parker's son, David, is a qualifying beneficiary.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. Both the owner and the beneficiary are living.

5. *What is the dollar amount or percentage interest the each owner has allocated to each primary beneficiary?* The sole beneficiary is to receive 100% of the deposit upon the owner's death.

6. *Is the trust properly identified in the bank's records?* The deposit account title "The John Parker Living Trust" would meet the FDIC's regulatory requirement.

This trust account is insured up to $100,000 since there is one owner and one qualifying beneficiary who will receive the deposit when the owner dies.

Example 17 Formal Revocable Trust One Owner, Two Beneficiaries Who Have Equal Interests	
Account Title	**Balance**
The Michael Collins Living Trust	$200,000

Facts: Michael Collins wishes to open a deposit account linked to his formal living trust titled "The Michael Collins Living Trust, dated June 9, 2003" and have all of the funds fully insured. The trust indicates that he is the sole settlor of the trust and both he and his wife, Mary, are trustees. The trust identifies his son, Joe, and daughter, Margaret, as the co-beneficiaries. Each beneficiary will receive 50% of the trust assets when the owner dies. Everyone named in the trust is living. The trust also provides that his son must graduate from college to receive his bequest. Michael Collins has no other deposits at the bank.

Analysis:

1. *Who are the owners of the trust?* Michael Collins is the sole owner named in the trust agreement. (Since Mary Jones is a trustee and not an owner or beneficiary, her designation as trustee is irrelevant in calculating FDIC deposit insurance coverage for this deposit.)

2. *Who are the primary beneficiaries upon the death of the owner?* There are two beneficiaries named in the trust agreement, Margaret and Joe, the owner's children.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* A son (Joe) and daughter (Margaret) are both qualifying beneficiaries as to the owner.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owner and both beneficiaries are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* Each of the co-beneficiaries (son and daughter) is to each receive 50% of the deposit upon the owner's death. Since this is a revocable trust, the condition requiring the son to graduate from college to receive his beneficiary interest will not affect the insurance coverage.

6. *Is the trust properly identified in the bank's records?* The deposit account title "The Michael Collins Living Trust, dated June 9, 2003" would meet the FDIC's regulatory requirement.

Coverage for Example 17 can be stated as:		
Owner to Beneficiary	**Ownership Share**	**Insured Amount**
Michael to Joe (son)	$100,000	$100,000
Michael to Margaret (daughter)	100,000	100,000
Total	**$200,000**	**$200,000**

The maximum amount of deposit insurance coverage available at a single FDIC-insured institution using this trust agreement is up to $200,000 since there is one owner and two qualifying beneficiaries with equal interests.

Example 18 Formal Revocable Trust Two Co-owners, Three Qualifying Beneficiaries With Equal Interests	
Account Title	**Balance**
The Hall Family Trust	$600,000

Facts: Gary Hall and his wife, Jessica, together own The Hall Family Trust. The trust specifies that upon the death of one spouse, the deposits will pass to the surviving spouse and, upon the surviving owner's death, the deposits will pass in equal shares to their three children: Nancy, Betty and Carol.

Analysis:

1. *Who are the owners of the trust?* Gary Hall and his wife, Jessica, are the joint owners named in the trust agreement.

2. *Who are the primary beneficiaries upon the deaths of the owners?* There are three beneficiaries named in the trust agreement: Nancy, Betty and Carol.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* Nancy, Betty and Carol are the daughters of Gary and Jessica Hall and, therefore, are qualifying beneficiaries for both owners under this trust agreement.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owners and all beneficiaries are living.

5. *What is the dollar amount or percentage interest the owners have allocated to each primary beneficiary?* Each of the co-beneficiaries (three daughters) is to receive equal interest in the trust assets upon the death of the last owner.

6. *Is the trust properly identified in the bank's records?* The deposit account title "The Hall Family Trust" would meet the FDIC requirement.

Coverage for Example 18 can be stated as: • Gary's ownership share = $300,000 • Jessica's ownership share = $300,000		
Owner to Beneficiary	**Ownership Share**	**Insured Amount**
Gary to Nancy	$100,000	$100,000
Gary to Betty	100,000	100,000
Gary to Carol	100,000	100,000
Jessica to Nancy	100,000	100,000
Jessica to Betty	100,000	100,000
Jessica to Carol	100,000	100,000
Total	**$600,000**	**$600,000**

The Hall Family Trust is insured up to a maximum of $600,000. Each owner has a qualifying trust relationship to each of the three beneficiaries, resulting in insurance coverage up to $300,000 per owner, for a total of $600,000.

Revocable Trusts With Qualifying Beneficiaries Who Have Unequal Interests

FDIC insurance coverage for revocable trust accounts is based on the interests of each qualifying beneficiary named in the trust. Unless the trust agreement states otherwise, the FDIC will assume that the beneficiaries have equal interests in the revocable trust account. Usually formal revocable trust agreements will describe the specific beneficial interest (dollar amount or percentage share) for each of the beneficiaries named in the trust. Sometimes, generic language such as "equal shares" will be used to indicate that each beneficiary is to receive an equal percentage of the trust.

If a revocable trust specifies that one or more beneficiaries has a different entitlement (either dollar amount or percentage interest) from the other beneficiaries under the trust, then you need to be careful in calculating the amount of deposit insurance to avoid uninsured funds. When unequal interests exist under the trust, the calculation of the deposit insurance coverage may result in less than $100,000 deposit insurance coverage per beneficiary. Therefore, the owners of a trust with unequal interests cannot simply multiply the number of qualifying beneficiaries by $100,000 to calculate the amount of deposit insurance coverage.

When a trust provides that the beneficiaries are to receive different dollar amounts or percentage distributions, the best way to determine the maximum amount the trust can deposit at one bank – and have all its deposits fully insured – is to use the method shown in the example below.

Example 19
Formal Revocable Trust
One Owner, Two Qualifying Beneficiaries, Unequal Distributions

Facts: Mary Jones is the sole owner of the Mary Jones Living Trust. Her trust provides that upon her death, her daughter Sally is to receive 60% of the trust assets and her son Mike is to receive 40% of the trust assets. Mary wants to know the maximum amount that would be fully insured in a deposit account in the name of her trust at one bank.

Analysis:

1. *Who are the owners of the trust?* Mary Jones is the sole owner of the trust.

2. *Who are the primary beneficiaries upon the death of the owner?* There are two beneficiaries named in the trust agreement: Sally and Mike.

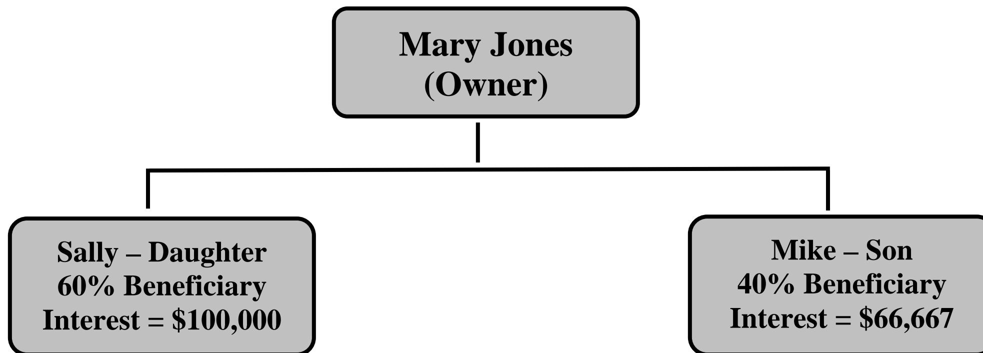
3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* Both beneficiaries are the owner's children and, thus, are qualifying beneficiaries.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owners and all beneficiaries are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The beneficiaries do not share equally in the trust assets. Sally has a 60% interest in the trust assets while Mike has a 40% interest in the trust assets.

6. *Is the trust properly identified in the bank's records?* The deposit account title "The Mary Jones Living Trust" would meet the FDIC's regulatory requirement.

To calculate the maximum deposit balance that can be fully insured for this trust at one FDIC-insured bank, divide $100,000 (the maximum insured amount per beneficiary) by the largest percentage interest allotted to a beneficiary. In this example, $100,000 is divided by 60%, which is the largest percentage allocated to a beneficiary (Sally). Thus, the maximum account that this trust can deposit at one bank and have all the funds fully insured is $166,667.



Maximum Fully Insured Amount =
$100,000 / 60% = $166,667

Coverage for Example 19 can be stated as: **Mary Jones Living Trust – Maximum Fully Insured Amount = $166,667**				
Owner to Beneficiary	**Beneficiary % Interest**	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Mary to Sally	60%	$100,000	$100,000	$0
Mary to Mike	40%	66,667	66,667	0
Total	**100%**	**$166,667**	**$166,667**	**$0**

If the trust account has a deposit of $166,667 at one bank, then Mary to Sally's interest of the deposit is $100,000 (60% of $166,667) and Mary to Mike's interest of the deposit is $66,667 (40% of $166,667). Any deposit in excess of $166,667 will result in uninsured deposits.

Revocable Trusts With Non-qualifying Beneficiaries Who Have Equal Interests

If a formal revocable trust provides a bequest to a non-qualifying beneficiary, the portion of the deposits allocated to the non-qualifying beneficiary will not be insured in the revocable trust ownership category. Instead, the deposit related to the non-qualifying beneficiary will be insured as the trust owner's single account funds and will be added to any other single account funds the owner may have at the same bank, and the total insured up to $100,000.

Example 20 Formal Revocable Trust One Owner, Qualifying and Non-qualifying Beneficiaries Who Have Equal Interests	
Account Title	**Balance**
The Beatrice Singer Living Trust	$200,000
Beatrice Singer (single ownership account)	20,000

Facts: Beatrice Singer's living trust states that, upon her death, all of the trust assets will belong equally to her husband and her nephew. Beatrice also has an account for $20,000 in her name alone (single ownership account) at the same bank. Beatrice has no other deposits at the bank.

Analysis:

1. *Who are the owners of the trust?* Beatrice Singer is the sole owner of the trust. She is also the owner of the single account.

2. *Who are the primary beneficiaries upon the death of the owner?* There are two beneficiaries named in the trust agreement: Beatrice's husband and Beatrice's nephew.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* The husband is a qualifying beneficiary; the nephew is a non-qualifying beneficiary.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owner and both beneficiaries are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* Each of the beneficiaries shares equally in the trust assets.

6. *Is the trust properly identified in the bank's records?* The account title "The Beatrice Singer Living Trust" would meet the FDIC's regulatory requirement.

Coverage for Example 20 can be stated as:

Owner to Beneficiary	Ownership Share	Revocable Trust Account	Single Account	Insured Amount	Uninsured Amount
Beatrice to Husband	$ 100,000	$100,000		$100,000	$0
Beatrice to Nephew	100,000		$100,000	100,000	20,000
Beatrice Singer	20,000		20,000		
Total	**$220,000**	**$100,000**	**$120,000**	**$200,000**	**$20,000**

If the trust account has a balance of $200,000, the husband's share – $100,000 – would be insured under the revocable trust ownership category and the nephew's share – $100,000 – would be insured as Beatrice Singer's single account funds. If Beatrice already had a single account for $20,000, the nephew's interest ($100,000) would be added to her other single account funds and the total would be insured for $100,000, leaving $20,000 uninsured.

Revocable Trusts With Qualifying and Non-Qualifying Beneficiaries Who Have Unequal Interests

The examples in this section show the effect on insurance coverage when a trust has non-qualifying beneficiaries and the interests of the beneficiaries are unequal. As shown in the previous sections:

- When a formal revocable trust provides a bequest to a non-qualifying beneficiary, the portion of the deposits allocated to the non-qualifying beneficiary will be insured as the trust owner's single account funds and will be added to any other single account funds the owner may have at the same bank, and the total insured up to $100,000.
- When a trust provides that the beneficiaries are to receive different dollar amounts or percentage distributions, the best way to determine the maximum amount the trust can deposit at one bank – and have all its deposits fully insured – is to divide $100,000 by the interest of the beneficiary who will receive the largest portion of the trust's deposit.

Example 21 Formal Revocable Trust – One Owner Qualifying and Non-qualifying Beneficiaries With Unequal Interests	
Account Title	**Balance**
The Frank Kelly Revocable Trust	$300,000

Facts: Frank Kelly has a formal revocable trust that provides for the following distributions upon the death of the owner: 40% shall be distributed to his girlfriend (Michelle Carson); 35% shall be distributed to the owner's son; and 25% shall be distributed to the owner's daughter. Frank Kelly would like to deposit $300,000 at one bank but he wants to be sure that all of his deposits would be covered by FDIC insurance. Can a $300,000 deposit belonging to the Frank Kelly Revocable Trust be fully insured at one FDIC-insured bank?

Analysis:

1. *Who are the owners of the trust?* Frank Kelly is the sole owner named in the trust agreement.
2. *Who are the primary beneficiaries upon the death of the owner?* There are three beneficiaries identified in the trust agreement: the owner's girlfriend, son and daughter.
3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* Two of the three beneficiaries are qualifying. The son and daughter are qualifying but the girlfriend is not qualifying.
4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owner and all of the beneficiaries are living.
5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The girlfriend is entitled to receive 40% of the trust assets, the son is entitled to receive 35%, and the daughter is entitled to 25% of the trust assets.
6. *Is the trust properly identified in the bank's records?* The account title "The Frank Kelly Revocable Trust" would meet the FDIC requirement.

Coverage for Example 21 can be stated as: **The Frank Kelly Revocable Trust Deposit Account Balance: $300,000**				
Owner to Beneficiary	**Beneficiary % Interest**	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Frank to Michelle Carson (girlfriend)	40%	$120,000	$100,000	$20,000
Frank to Son	35%	105,000	100,000	5,000
Frank to Daughter	25%	75,000	75,000	0
Total	**100%**	**$300,000**	**$275,000**	**$25,000**

Because the owner's girlfriend is a non-qualifying beneficiary, her interest in the trust deposit – $120,000 (40% of $300,000) – would be added to the owner's single ownership accounts (if any) at the bank and the total insured up to $100,000. In this example, $20,000 of the girlfriend's interest would be uninsured.

The other two beneficiaries meet the FDIC's kinship requirements (that is, they are qualifying beneficiaries). For this reason, the interest of each of the other beneficiaries would be insured separately up to $100,000 as revocable trust deposits. Because the son's share ($105,000, or 35% of $300,000) of the deposit exceeds $100,000, his share is insured for $100,000 and uninsured for $5,000. The daughter's share is less than $100,000 so her share is fully insured.

In summary, with a balance of $300,000, an account in the name of the Frank Kelly Revocable Trust would be insured in the amount of $275,000 and uninsured for $25,000.

It is important to note that if the Frank Kelly Revocable Trust had a deposit account at a bank with a balance of $275,000, that amount would not be fully insured; this figure is merely the insured amount when the trust's total deposit balance at one bank is $300,000.

To calculate the maximum deposit balance that can be fully insured for this trust at one FDIC-insured bank, divide $100,000 (the maximum insured amount per beneficiary) by the largest percentage interest allotted to a beneficiary. In this example, $100,000 is divided by 40%, which is the largest percentage allocated to a beneficiary (Michelle). Thus, the maximum account that this trust can deposit at one bank and have all the funds fully insured is $250,000.

Coverage for Example 21 can be stated as: **The Frank Kelly Revocable Trust – Maximum Fully Insured Amount = $250,000**				
Owner to Beneficiary	**Beneficiary % Interest**	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Frank to Michelle Carson (girlfriend)	40%	$100,000	$100,000	$0
Frank to Son	35%	87,500	87,500	0
Frank to Daughter	25%	62,500	62,500	0
Total	**100%**	**$250,000**	**$250,000**	**$0**

If the trust deposit totals $250,000 at one bank, then Frank to Michelle's interest of the deposit is $100,000 (40% of $250,000), Frank to his son's interest of the deposit is $87,500 (35% of $250,000) and Frank to his daughter's interest of the deposit is $62,500. Any deposit in excess of $250,000 will result in uninsured deposits.

Revocable Trusts with Beneficiaries Who Receive Lump Sum Cash Distributions

An additional consideration for coverage of formal revocable trusts is the timing of the beneficiary's receipt of the trust assets. If one or more beneficiaries are entitled to receive their funds before the distribution of trust assets to other beneficiaries, then this right could have a significant impact on the calculation of the amount of deposit insurance coverage.

Example 22
Formal Revocable Trust – One Owner
Lump Sum Distribution to Qualifying Beneficiary Less Than $100,000
Two Remainder Qualifying Beneficiaries With Equal Interests

Facts: Harry Lewis is the sole owner of a formal revocable trust titled "The Harry Lewis Living Trust." He wants to deposit the maximum amount of funds at one bank that can be fully covered by FDIC insurance. Harry is the sole owner of the trust, and he and his wife are co-trustees. Harry's attorney, Chris Thompson, is the successor trustee. The trust provides that Harry's wife, Suzy, is to receive $80,000 if Harry predeceases her; then, their two children, Betty and Jane, would receive equal shares of the remaining trust assets. Everyone named in the trust is living.

Analysis:

1. *Who are the owners of the trust?* Harry Lewis is the sole owner named in the trust agreement. (Since Suzy is a trustee and not an owner, her designation as trustee is irrelevant in calculating FDIC deposit insurance coverage for this deposit. The designation of Chris Thompson as successor trustee is also irrelevant in calculating FDIC deposit insurance coverage for this deposit.)

2. *Who are the primary beneficiaries upon the death of the owner?* There are three beneficiaries named in the trust agreement – Suzy, Betty and Jane.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* The spouse and children are all qualifying beneficiaries.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owner and the beneficiaries are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The trust agreement provides that Harry's wife, Suzy, is to receive $80,000 before any other distributions. Assuming the trust assets exceed $80,000, then the two daughters will share equally in the remaining assets.

6. *Is the trust properly identified in the bank's records?* The account title "The Harry Lewis Living Trust" would meet the FDIC requirement.

Coverage for Example 22 can be stated as:				
Owner to Beneficiary	**Beneficiary % Interest**	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Harry to Suzy	$80,000	$80,000	$80,000	$0
Harry to Betty	50% of remainder	100,000	100,000	0
Harry to Jane	50% of remainder	100,000	100,000	0
Total		**$280,000**	**$280,000**	**$0**

Suzy's lump sum distribution of $80,000 is insured in full since a qualifying beneficiary is insured up to $100,000. When lump sums of $100,000 or less are provided under a trust agreement, then the FDIC provides deposit insurance for the exact amount of the distribution. In addition, the distributions to the two daughters are equal and the FDIC provides insurance up to $100,000 for the interests of each child. Therefore, as shown above, the maximum amount that Harry Lewis can deposit in his trust at one bank and have all of the funds fully insured is $280,000.

Example 23
Formal Revocable Trust – One Owner
Lump Sum Distribution to Qualifying Beneficiary Greater Than $100,000
Two Remainder Equal Qualifying Beneficiaries

Facts: Jackie Lee wishes to open a deposit account linked to her living trust titled "The Jackie Lee Living Trust, dated January 5, 2007." She wants to deposit only the amount that can be fully insured at one bank without having any portion of the deposit uninsured. The trust indicates that she is the sole owner of the trust and the trustee. The trust provides that her husband, Robert, will receive $125,000 if she predeceases him and, then, their two sons, Joe and Sam, are to receive equal shares of the remaining trust assets. Everyone named in the trust is living.

Analysis:

1. *Who are the owners of the trust?* Jackie Lee is the sole owner named in the trust agreement.

2. *Who are the primary beneficiaries upon the death of the owner*? There are three beneficiaries named in the trust agreement – Robert, Joe and Sam.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* Jackie's husband (Robert) and two sons (Joe and Sam) are all qualifying beneficiaries.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Yes. The owner and beneficiaries are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The trust agreement provides that Jackie's husband, Robert, is to receive $125,000 before any other distributions. Only after this lump sum distribution is satisfied will the remaining assets be distributed equally to the two sons, Joe and Sam.

6. *Is the trust properly identified in the bank's records?* The account title "The Jackie Lee Living Trust" would meet the FDIC requirement.

The maximum amount that Jackie Lee can deposit at one FDIC-insured bank and have all of her funds fully insured is $100,000. Since the most that can be insured from an owner naming a specific qualifying beneficiary is $100,000, the bequest from Jackie to Robert will limit the maximum fully insured amount at one bank to $100,000. Any deposit over $100,000 will be allocated to Robert (up to $125,000) with the result that the amounts over $100,000 attributable to Robert would be uninsured.

When a Beneficiary or Owner Identified in the Formal Revocable Trust Dies

Coverage for revocable trust deposits is based on the bequest of an owner to each qualifying beneficiary. Stated another way, the FDIC insures the interest of each qualifying beneficiary provided by each trust owner in the bank deposit, up to $100,000 for the interests of each qualifying beneficiary per owner. The number of owners and qualifying beneficiaries is crucial in determining the amount of available FDIC insurance coverage. Therefore, when an owner or beneficiary of a trust dies, the amount of deposit insurance usually is significantly different than when everyone was living.

As previously discussed, FDIC rules allow for a six-month grace period when the owner dies. The rule provides for FDIC deposit insurance of the deceased owner's deposit accounts as if the owner were still living for six months after his or her death. The six-month grace period does not apply to the death of a beneficiary. The deposit insurance coverage is immediately reduced upon the death of a beneficiary.

Another way the death of an owner can affect FDIC coverage is when a revocable trust becomes an irrevocable trust or the original revocable trust splits into an AB trust (two trusts): a revocable trust and an irrevocable trust. There can be a significant reduction in FDIC deposit insurance coverage when a revocable trust converts to an irrevocable trust. The primary reason is the treatment of contingent interests when calculating FDIC deposit insurance coverage. While the FDIC does not consider the impact of contingencies on a beneficiary's trust interest when calculating deposit insurance coverage for revocable trusts, such contingencies are a factor when computing deposit insurance coverage for irrevocable trusts. See Chapter 6 for a full discussion of the FDIC's rules and requirements for insurance coverage of irrevocable trust deposits.

Example 24 Formal Revocable Trust – Two Owners Coverage After an Owner Dies	
Account Title	**Balance**
Abbot Family Trust	$600,000

Facts: Donald and Linda Abbot are the co-owners of a formal revocable trust that names the couple's three children – Kathy, Dennis and Joan – as equal beneficiaries to receive the trust assets after the last owner dies. The trust agreement provides that, following the death of the first owner, the trust shall be a revocable trust owned by the surviving spouse. The Abbots establish a $600,000 deposit at a bank where they have no other bank deposits. After the account is established, Donald dies. How does Donald's death affect FDIC insurance coverage for the Abbot Family Trust's bank deposit?

Analysis:

1. *Who are the owners of the trust?* Donald and Linda Abbot are equal co-owners of the trust.

2. *Who are the primary beneficiaries upon the death of the owner*? There are three beneficiaries named in the trust agreement – Kathy, Dennis and Joan.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* The couple's three children are all qualifying beneficiaries for both co-owners.

4. *Is everyone named in the trust living – both owners and beneficiaries?* Donald, a co-owner of the trust, died more than six months ago. Linda Abbot and the three children (beneficiaries) are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The trust agreement provides that the trust assets shall be distributed equally to the three children upon Linda Abbot's death.

6. *Is the trust properly identified in the bank's records?* An account titled "The Abbot Family Trust" would meet the FDIC requirement.

***Coverage for Example 24* while both co-owners are alive can be stated as:**			
Owner to Beneficiary	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Donald to Kathy	$100,000	$100,000	$0
Donald to Dennis	100,000	100,000	0
Donald to Joan	100,000	100,000	0
Linda to Kathy	100,000	100,000	0
Linda to Dennis	100,000	100,000	0
Linda to Joan	100,000	100,000	0
Total	**$600,000**	**$600,000**	**$0**

After the expiration of the six-month grace period following Donald's death, total deposit insurance coverage for this account is reduced from $600,000 to $300,000.

Coverage for Example 24 after Donald dies (after expiration of six-month grace period) can be stated as:			
Owner to Beneficiary	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Linda to Kathy	$200,000	$100,000	$100,000
Linda to Dennis	200,000	100,000	100,000
Linda to Joan	200,000	100,000	100,000
Total	**$600,000**	**$300,000**	**$300,000**

The FDIC's deposit insurance regulations provide that the owner of a revocable trust account must be alive in order to qualify for coverage in the revocable trust account category. If Linda wishes to have her deposits fully insured, she can open a deposit account in the name of her trust at another FDIC-insured institution and obtain deposit insurance up to $100,000 for the interests of each qualifying beneficiary.

Example 25 Formal Revocable Trust – One Owner, Two Beneficiaries With Equal Interests Coverage After One Beneficiary Dies	
Account Title	**Balance**
Jonathan Stuart Living Trust	$200,000

Facts: Jonathan Stuart is the owner of a formal revocable trust that names his two parents as equal beneficiaries to share equally in the trust assets when he dies. Jonathan establishes a $200,000 deposit at a bank where he has no other bank deposits. After the account is established, Jonathan's father, Paul, dies. How does Paul's death affect FDIC insurance coverage for the Jonathan Stuart Living Trust's bank deposit?

Analysis:

1. *Who are the owners of the trust?* Jonathan Stuart is the sole owners of the trust.

2. *Who are the primary beneficiaries upon the death of the owner*? There are two beneficiaries named in the trust agreement – Jonathan's mother and father.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* Jonathan's parents are qualifying beneficiaries.

4. *Is everyone named in the trust living – both owners and beneficiaries?* One of the beneficiaries, Paul, died recently.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The trust agreement provides that trust assets shall be distributed equally to Jonathan's mother and father. However, since his father has died, all of the trust deposits would go to Jonathan's mother when Jonathan dies.

6. *Is the trust properly identified in the bank's records?* An account titled "The Jonathan Stuart Living Trust" would meet the FDIC requirement.

***Coverage for Example 25,* while both beneficiaries are alive, can be stated as:**			
Owner to Beneficiary	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Jonathan to Paul (father)	$100,000	$100,000	$0
Jonathan to Amy (mother)	100,000	100,000	0
Total	**$200,000**	**$200,000**	**$0**

***Coverage for Example 25,* when Paul dies, can be stated as:**			
Owner to Beneficiary	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Jonathan to Amy	$200,000	$100,000	$100,000
Total	**$200,000**	**$100,000**	**$100,000**

Immediately upon Paul's death, the insurance coverage of this account is reduced from $200,000 to $100,000. The reduced insurance coverage reflects the existence of one revocable trust account owner with one qualifying beneficiary.

Example 26 Formal Revocable Trust – One Owner, Multiple Beneficiaries With Contingent Interests Converts to Irrevocable Trust When Owner Dies	
Account Title	**Balance**
The Kathleen Wilson Family Trust	$500,000

Facts: Kathleen Wilson names her five children as equal co-beneficiaries of her formal revocable trust, which converts to an irrevocable trust when Kathleen Wilson dies. The trust provides that the assets may be distributed equally to Kathleen's five children but contains conditions that affect the beneficiaries' ability to receive their trust shares after the owner dies. After establishing a fully insured $500,000 deposit at an FDIC-insured bank, Kathleen Wilson dies. What impact does her death have on FDIC coverage of the trust's deposits (after the expiration of the six-month grace period)?

Analysis:

1. *Who are the owners of the trust?* Kathleen Wilson (deceased) is the sole owner named in the trust agreement. The trust became an irrevocable trust when Kathleen died.

2. *Who are the primary beneficiaries upon the death of the owner*? There are five beneficiaries named in the trust agreement.

3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?* The beneficiaries are all Kathleen's children, so they are all qualifying beneficiaries. It is important to note, however, that since the Kathleen Wilson Family Trust is now an irrevocable trust, the requirement that the beneficiaries meet the FDIC's kinship requirement is no longer relevant.

4. *Is everyone named in the trust living – both owners and beneficiaries?* No. The trust owner has died and the FDIC's six-month grace period has expired. All of the beneficiaries are living.

5. *What is the dollar amount or percentage interest the owner has allocated to each primary beneficiary?* The trust agreement provides that Kathleen's five children are to receive the trust assets equally upon her death. However, the trust agreement contains contingencies that affect whether the beneficiaries are entitled to receive the funds. These contingencies were not a factor in determining FDIC insurance coverage when the trust was revocable, but they are a critical factor now that the trust has become irrevocable.

6. *Is the trust properly identified in the bank's records?* An account titled "The Kathleen Wilson Family Trust" would meet the FDIC requirement.

***Coverage for Example 26 while the owner and all beneficiaries are living* can be stated as:**			
Owner to Beneficiary	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Kathleen to Child-1	$100,000	$100,000	$0
Kathleen to Child-2	100,000	100,000	0
Kathleen to Child-3	100,000	100,000	0
Kathleen to Child-4	100,000	100,000	0
Kathleen to Child-5	100,000	100,000	0
Total	**$500,000**	**$500,000**	**$0**

While living, Kathleen established a deposit account for $500,000 that was fully insured under the FDIC's rules for insurance coverage of revocable trust deposits. Upon her death, however, the trust became irrevocable. The trust contains certain conditions on the receipt of trust funds by the beneficiaries. Because of these conditions, the beneficiaries' interests do not meet the "non-contingent trust interests" requirement in the FDIC's insurance regulations. (See Chapter 6.) Since the irrevocable trust rules apply following the expiration of the six-month grace period, all the children's interests are contingent trust interests and are added together and insured up to $100,000 as the owner's single account funds.

When Kathleen dies, coverage for Example 26 is reduced as follows:			
Owner to Beneficiary	**Ownership Share**	**Insured Amount**	**Uninsured Amount**
Kathleen to Children (All children's interests are contingent)	$500,000	$100,000	$400,000
Total	**$500,000**	**$100,000**	**$400,000**

In this example, the death of the revocable trust owner has resulted in a decrease of FDIC deposit insurance coverage for the owner's trust from $500,000 to $100,000. The reduction in coverage results from the conversion of the trust from a revocable trust to an irrevocable trust, and the consequence of all beneficiaries having contingent interests.