



FDIC Protection for Joint and POD Accounts: Not Quite as Secure as You May Think

We are writing to inform you as to the current state of Federal Deposit Insurance Corporation (FDIC) insurance protection for your bank accounts. Due to the persistent volatility in economic markets, many investors are now holding significant amounts of cash. This will certainly protect you from market volatility; however, you may not be fully protected if your bank goes out of business. In Georgia, 10 banks have failed thus far in 2010. That is in addition to the 25 that failed in 2009. Just for perspective, Georgia banks have accounted for 10% of the country's closures in 2010 and 18% in 2009. This disproportionate number of closures in Georgia demonstrates how important FDIC protection is.

Many bankers are suggesting joint and payable-on-death (POD) accounts as ways to add more beneficiaries, and thus insure more assets. While this may work in theory, there are more efficient ways to insure your assets with fewer pitfalls. This article will address some of the issues that arise when creating joint property or POD accounts.

Current FDIC Insurance Coverage

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act **permanently** raised the maximum FDIC insurance to \$250,000 per depositor, per insured bank. While this is great news, this may still be inadequate insurance coverage for individuals with significant assets or for families with all of their assets housed at one institution. For more information on the current insurance coverage limits and requirements, check out the FDIC website: <http://www.fdic.gov/deposit/deposits/insured/basics.html> Also, you can review the various account ownership categories to determine account specific coverage limits and requirements: <http://www.fdic.gov/deposit/deposits/insured/ownership.html>

Payable-on-Death Accounts

Payable-on-death accounts are bank accounts that allow you to name a beneficiary who will receive the funds at your death. Bankers often try to maximize FDIC insurance coverage by suggesting that customers name numerous beneficiaries over various accounts. Additional benefits of this strategy are that these assets avoid probate, that you can change the beneficiary at any time and that the beneficiary has no right to the funds until your death. However, there are some significant issues to consider:

- After the death of the account holder, the assets are then exposed to the beneficiaries' creditors.
- Also, the assets are exposed should the beneficiary get divorced.
- Each POD account allows numerous beneficiaries; however, you are unable to name contingent beneficiaries.
- The POD account may contradict your overall estate plan since it transfers property outside of the direction of your will.
 - Example: Your will may direct that assets be split equally among your children; yet, the POD account may create an imbalance among what children actually receive.
 - Example: Your trust may direct that assets be held until your child reaches a certain age whereas the POD assets are inherited immediately upon death.
- Minor children named as POD beneficiaries require a court appointed guardian to access their funds.
- Adult children named as POD beneficiaries may be too young to manage a large inheritance.

Joint Accounts

A joint account is yet another option that is frequently suggested to increase the FDIC insurance coverage for assets. In this scenario, the owner of the assets adds additional owners to the account registration so as to increase the number of insured depositors. Unlike the POD account, the additional owners are able to access the funds immediately. The primary benefits of joint account ownership are the avoidance of probate and timely transfer of property ownership. This strategy can be most suitable for spouses since the surviving spouse will be able to access funds immediately after the death of their spouses. Again, there are some serious issues to consider:

- Possibility of exposing the assets to the child's creditors if they are a joint owner. Either owner's creditors can threaten the funds in the case of a bankruptcy or debt collection.
- Exposes the assets should your child get divorced.

- Accidental disinheritance for estate planning purposes if the assets are transferred via joint tenants with rights of survivorship (JTROS) titling, thus possibly skipping over other desired beneficiaries.
- Joint names (with someone in addition to or other than your spouse) could remove those assets from your personal financial statement, thus understating your total net worth.
- Joint accounts may leave assets to a minor who is too young to make financial decisions, thus creating the need for a court appointed guardian before accessing the funds.
- The joint owner might have the ability to withdraw all of the funds at their will.
- It is possible that the assets could be considered a taxable gift.
- The general administrative burden of having numerous account owners spread out across numerous accounts.

Conclusion

In summary, the recent, permanent increase in FDIC insurance coverage is a major win for consumers. However, it is essential that you not expose your assets to other dangers while chasing additional FDIC coverage. The administrative burden and potential downfalls of POD and joint accounts are significant. There are more efficient ways to accomplish the same task. For instance, a revocable trust provides asset protection from creditors, minimizes the probate process and ensures flexible management of your assets during your lifetime and after your death. Also, assets within a revocable trust qualify for additional FDIC insurance coverage as long as you have additional beneficiaries named within the trust. You can review the FDIC coverage rules for trusts at:

<http://www.fdic.gov/deposit/deposits/insured/ownership4.html>

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