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Insured Bank and Brokerage Accounts

Federal regulators shut down Silicon Valley Bank and Signature Bank over the weekend, leading to questions on how customers can access their assets at these banks. Let's take this opportunity to revisit how and when FDIC insurance works and some differences between bank and brokerage accounts.

For insured banks, FDIC protects depositors in the event the insured bank fails. The government insurer will cover 'bank' accounts: checking, savings, money market deposits, CDs, cashier's check, and money orders. FDIC does not cover investments held in 'brokerage' accounts such as stocks, bonds, mutual funds, life insurance policies, annuities, municipal securities, boxes, treasury bills, bonds, or notes.

Funds held in a brokerage account are less likely to be impacted by a bank failure. Brokerage firms and divisions of larger banks that are brokers must prove to regulators on a weekly basis that clients' assets are properly segregated from the broker's own assets and business activities. Banks, on the other hand, operate under a federal requirement to maintain a minimum reserve of money on hand. Most of the deposited funds are used by the bank for their own business activities, including purchasing bonds and making loans.

FDIC insured bank account holders are insured up to $250k per depositor, per institution, and per ownership category. This translates to a maximum coverage of $250k for individual accounts per owner, and $250k per co-owner for joint accounts. Corporations, partnerships, and unincorporated entities within the same bank have an aggregate account coverage of $250k.

Trust bank accounts limits are determined by the number of beneficiaries. For revocable trust accounts, each eligible primary beneficiary is insured up to $250k, up to a maximum of five beneficiaries. In the event a revocable trust becomes irrevocable due to a death, the trust may retain the original FDIC coverage limits.

The FDIC rules for irrevocable trusts are more nuanced. First, non-contingent beneficiaries are insured for up to $250k per beneficiary. Non-contingent beneficiaries likely have access to the principal and income today and their access to the trust funds are not based on future conditions, such as the death of a living grantor. Contingent interests are limited to an aggregate coverage of $250k. Contingent interests in an irrevocable trust are beneficiaries whose access to principal and income are based on a future condition, i.e., at the death of the grantor. If Mary and Mark have contingent interest in an irrevocable trust, they will be covered for $125k a piece. Lastly, if a grantor retains an interest in the irrevocable trust through the ability to access the assets, or by a trustee to access the assets on behalf of the grantor, the bank account owned by the trust will be included in the grantor's individual ownership calculation.

Brokerage accounts are protected under SIPC, which covers a total amount of $500k per individual, with a max of $250k in uninvested cash. SIPC coverage applies when assets in brokerage accounts are missing in a financially troubled brokerage. SIPC protects the custody function of the broker dealer, which means that SIPC works to restore the customer's securities and cash, and claims must be proactively filed.