

A STEP AHEAD

FDIC INSURANCE: WHAT YOU SHOULD KNOW

The failure of IndyMac Bank, one of the largest bank failures in our history, has prompted numerous questions about the FDIC and its limits. The FDIC, Federal Deposit Insurance Corporation, is an independent agency of the US government created to maintain stability in the nation's financial system. It protects depositors of FDIC insured banks and savings associations ("insured banks") against loss due to the failure of the insured bank. It covers all types of deposits, checking, savings, money market and time deposits like certificates of deposit ("CDs"), dollar-for-dollar up to the insurance limit, including principal and accrued interest. The general rule is that, if a single depositor's accounts at a single insured bank total \$100,000 or less, the deposits are fully insured. Deposits in separate branches of an insured bank are not separately insured.

If, in one insured bank, a single depositor owns a checking account, a savings account and a CD in his or her name alone, the accounts are added together and only \$100,000 of the total is insured. If you have \$100,000 or less in all of your deposit accounts at the same insured bank, you don't need to worry about your insurance coverage. Your deposits are fully protected.

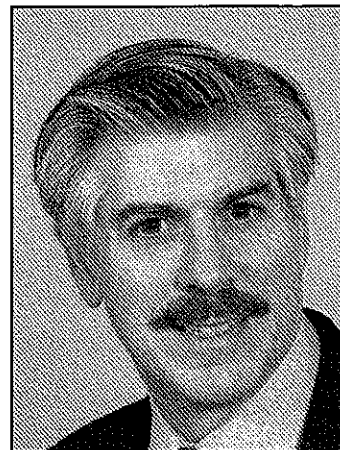
For joint accounts, accounts owned by two or more people, under FDIC rules, each person's share is considered equal unless otherwise stated in the bank's records. To determine the amount of each joint account holder's insured limit, it is necessary to determine what other accounts the individuals own at that bank. Thus, if a husband and wife, John and Joan, together own a savings and

checking account at the same insured bank totaling \$200,000, they are fully insured. But if either of them own other accounts at that bank, there may be insufficient insurance. So, if Joan's sister also opens an account at that bank and names Joan as a joint owner, Joan will be deemed to own half of her sister's account. If the sister deposits \$100,000 into that account, she will only be insured for \$50,000 because the other \$50,000 will be deemed to be owned by Joan whose insurance limit is already exhausted. Using different Social Security numbers on multiple accounts owned by the same individuals does not increase the coverage.

Payable on death ("POD") / In trust for ("ITF") accounts These are accounts that specify named beneficiaries to receive the deposits upon the owner's death. If the account is properly titled using the commonly accepted terms above, and "qualifying" beneficiaries are identified by name (spouse, child, grandchild, parent or sibling), the account is insured for up to \$100,000 for each beneficiary - provided that the owner has no other accounts at the same insured bank.

FDIC rules regarding formal revocable trusts, "Living Trusts" or "Family Trusts," are more complex. They take into consideration whether the trust was created by one or more individuals, the relationship between the trust creator and the beneficiaries, whether beneficiaries are alive at the time of the bank failure, the number of successor beneficiaries (those who receive the interests of a predeceased beneficiary), whether the beneficiaries receive equal or unequal interests or income rights, and many other

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- When Opening a Bank Account, Just Say "NO!"

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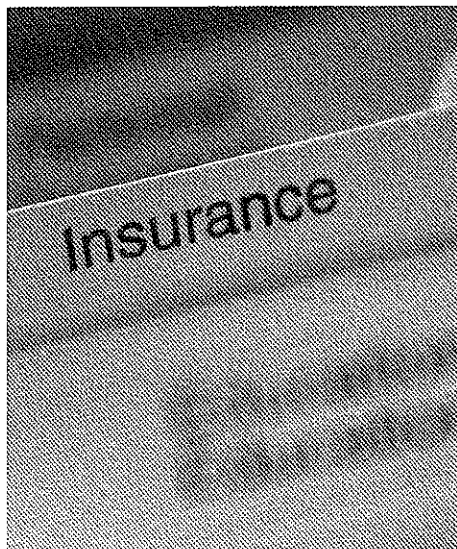
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issues. As a general rule, such accounts are insured for up to \$100,000 per owner for each "qualifying" beneficiary named in



the trust agreement (see above) and, for this reason, owning accounts in a trust may significantly increase the available insurance. Other

relatives, friends and charitable organizations do not qualify.

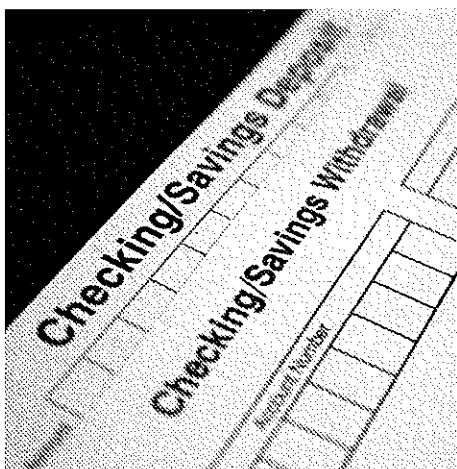
Retirement accounts such as IRAs, Roth IRAs, SEP IRAs, Section 457 deferred compensation plans, self-directed 401(k) plans and self-directed Keogh plans have a separate insurance limit, \$250,000 per owner per insured bank. Naming separate beneficiaries does not increase the insurance coverage for these types of accounts.

Periodically review your coverage, especially after a change in your life. For example, if a couple have a \$150,000 joint account (fully insured up to \$200,000), and one of them dies, the survivor has six months to restructure the account. After that, the entire account is insured as the survivor's single-ownership account, leaving \$50,000 at risk of loss if the bank fails. What happens when two insured

banks merge? The FDIC affords a grace period of six months, during which the deposits from the assumed bank continue to be separately insured, so the depositor can restructure or move accounts. CDs are insured until the earliest maturity date after the six month grace period expires.

Beware, the FDIC does NOT insure stocks, bond mutual funds, life insurance policies or annuities even if they were purchased from an insured bank. It also does not insure US Treasury bills, bonds or notes but these are separately backed by the full faith and credit of the US government. Contents of safe deposit boxes also are not protected by FDIC insurance. If you have further questions concerning FDIC insurance or the best way to title your accounts, please call Berwitz & DiTata LLP.

WHEN OPENING A BANK ACCOUNT, JUST SAY "NO!"



There are a number of ways to leave property to your loved ones after your death. Bank accounts, particularly those in joint names or with specified beneficiaries, are often used for this purpose. Anyone who has opened an account recently knows the drill. A customer service agent or "bank representative" offers to assist you. You describe the type of the account you want to establish (checking, savings, certificate of deposit) and indicate the opening deposit. In the event you are unfamiliar with

the various types of account, the bank representative will explain the options. You are given forms to complete and then the crucial question arises: To whom do you want the money to go upon your death?

Most people are not sure how to answer this very complex question. Sometimes the bank representative is insistent that a beneficiary be designated. Sometimes they suggest that you actually title the account in joint names with your

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CERTIFICATES OF DEPOSIT, A FLEXIBLE INVESTMENT TOOL

With the recent volatility of the stock market many of our clients and friends are looking for different investment vehicles. Some intend to invest in Certificates of Deposit or "CDs." Those with larger estates are considering the purchase of multiple CDs in order to benefit from the additional protection afforded by the FDIC. Please see the lead article in this issue.

CDs are time deposits that earn a rate of interest over a specified period of time, typically from 3 months to 20 years. They can be purchased in increments of \$1,000.00.

Customarily, CDs are not eligible for liquidation prior to their maturity date. One common exception is the death of the owner. This lack of liquidity can create a hardship for the CD owner if the funds invested are unavailable without penalty. Consequently, owners will sometimes "ladder" their CDs. An example of laddering is the simultaneous purchase of several CDs with different maturity dates, for instance, one 3 month CD, one 6 month CD, one for 9 months and the last for 1 year. Under this strategy, a CD will mature and become available every 3 months. If the funds invested are not needed at maturity, they can be reinvested in a new, 1 year CD. If this same strategy is employed as each CD matures, the owner will enjoy the benefit of having a CD mature every three months.

Another way to make the funds in a CD available prior to maturity is to

sell the CD on a secondary market. Essentially, this involves selling the CD to another investor. The sales price may be more or less than the original purchase price. This is particularly so if the interest rate at the time of sale is greater than the rate on the CD. FDIC insurance does not provide coverage for loss or gain resulting from the sale.

Some CDs are "callable." This allows the institution that issued the CD to require that it be redeemed prior to its maturity date. Unfortunately, the investor does not have a similar right to demand liquidation prior to the maturity date without penalty. Callable CDs will frequently have a higher interest rate than non-callable CDs because of the uncertainty as to whether the depository bank will exercise its right to call the CD. If the CD is called, the investor runs the risk that the prevailing interest rates at the time of redemption are lower than when the CD was purchased.

Opening an account with a broker can allow a CD portfolio to be more easily and effectively

managed. Brokerages are well equipped to ascertain which banks offer the best interest rates. They do not limit their search to local banks. Rather, they review the rates offered by banks throughout the United States. This cuts down on your wear and tear. Also, instead of having different passbooks or statements for each CD, all of the CDs purchased through a single brokerage account are consolidated and appear on a single statement. The CDs are individually insured by FDIC for each depository bank and are not treated as a single account.

Whether CDs are an appropriate investment vehicle for you, and whether purchasing CDs through a brokerage rather than directly from a depository bank is a better strategy, are topics which should be discussed with your financial advisor.

WOULD YOU LIKE TO READ ABOUT IT HERE?

We at Berwitz & DiTata LLP are proud of our newsletter and hope that each issue brings our clients and friends insightful and timely information. We endeavor to write articles geared to your interests and concerns. We would

be happy to receive your feedback. More importantly, if you have a question or would like us to address a particular topic, please call and let us know. We will try to include it in one of our next issues. Just call or drop us a line.

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beneficiary. Sometimes the reasons they provide may sound compelling - but, unfortunately, their helpful suggestions are often misplaced. In most cases, bank representatives are unfamiliar with your family and its issues. Keep in mind that they are not lawyers, are not trained in tax matters, and generally do not know the intricacies of elder law and estate planning. Despite their good intentions, they may give you advice which will result in adverse consequences for you and your family.

Opening a new account is not a difficult task, but there are issues you should consider before going to

the bank. For instance, if you are married, your spouse has a legal right to a portion of the property you leave at your death. Although children are often the beneficiaries of their parents' estate, this is not mandatory. If, in listing beneficiaries on an account, you name your children and one dies before you, the surviving children inherit and you may have unintentionally disinherited the children of that predeceased child. Before you go to the bank know what it is that you want to accomplish. Seek the advice of your estate planning attorney so that you understand the consequences of designating a beneficiary - or more than one. Make sure that what

you do with the account does not jeopardize your overall estate plan.

If a bank representative encourages you to deviate from your plan and title your account differently, just say "NO!" If the bank representative makes suggestions about designating one or more beneficiaries, just say "NO!" You can always make these selections at a later time. Remember, a mistake in your estate plan may not be correctable! If you become ill or incapacitated, or die, there may be no way to accomplish your real objective.

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