

FDIC Insurance: What you need to know after the bank failures in 2023

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In the spring of 2023, a string of US bank failures, notably Silicon Valley Bank, First Republic Bank, and Signature Bank, rattled bank depositors' confidence across the country. While the headlines were fraught with negative predictions for the banking system at large, depositors of the banks that failed were ultimately made whole, and the situation eased.

About the FDIC

The ordeal has reminded us that banks are not infallible and can put even the safest perceived asset — cash — at risk of permanent loss. It also underscored the critical role FDIC Insurance plays in maintaining stability and confidence in the banking system.

The Federal Deposit Insurance Corporation (FDIC) was founded in 1933 during the Great Depression to increase public faith in US Banks. Member Banks would pay a premium to the FDIC, and in return, the bank's deposits would be insured against losses up to a specific amount in the event of that bank's collapse. In 1933, this amount was \$2,500, or about \$55,000 in 2023 dollars. Today, the coverage amount is \$250,000 per depositor, institution, and category.

How this effects you

What does this mean for your bank savings, and how much coverage are you eligible for?

Not all banks are covered

Banks have to elect and pay to be insured by the FDIC, so there isn't blanket coverage across the banking system. In fact, when trying to find a covered bank, one simply has to look for the FDIC logo within the actual bank or on their website, as members will display it prominently. Credit Unions insure through a similar organization called the National Credit Union Administration.

How much is covered

"Per Depositor, Per Institution" means that one person (Depositor) carries FDIC Insurance for all accounts under their name at one insured bank (Institution) up to \$250,000.

For example, if the same individual owns additional accounts at another member bank, they qualify for added coverage up to \$250,000 on those accounts. However, suppose this individual has cash levels exceeding \$250,000 at either of these institutions. In that case, they run the risk of holding uninsured cash, potentially putting these funds at risk in the event of a bank failure.

"Per Category" refers to who owns the account and, thus, how much coverage the owner is obligated to.

For example, a single individual at one bank can own an account for themselves outright, jointly own an account with another person, and name a Revocable Trust as the owner of a third account. In such a situation, all three "categories" would receive the maximum coverage of \$250,000 for a collective total of \$750,000 for this individual's assets.

Regarding a Joint account, both account holders are covered at \$250,000 each or \$500,000 total between them.

As you can imagine, "Per Depositor, Per Institution, Per Category" can lead to confusion about coverage amounts as one's financial situation becomes more complex. To help with this, the FDIC created the Electronic Deposit Insurance Estimator (EDIE) calculator to clearly lay out total coverage amounts for assets under varying ownership. FDIC's EDIE calculator can be found here: <https://edie.fdic.gov/>

Finally, it's important to note what qualifies for coverage and what doesn't. For member banks eligible assets include checking accounts, savings accounts and money market accounts, as well as certificates of deposit, cashier's checks and money orders. Assets held at banks that don't qualify for insurance include marketable securities such as stocks, bonds, mutual funds, annuities, life insurance policies and items stored in safety deposit boxes.

Without knowing when the next banking crisis will arise, it's all the more important to take action now and plan ahead. All it takes is a few simple steps to ensure your bank deposits are safe.

- Confirm your bank is a Member FDIC, and if it isn't, consider switching to one that is.
- Utilize the EDIE Calculator for a simple understanding of what assets are covered and what ones aren't.
- Consult with a Mesirow Wealth Advisor for help planning sound and sensible strategies to maintain the safety of your cash.

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Sources:

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