New FDIC Limits Increase Insured Personal Savings for Retirement

By Wesley E. Wright and Molly Dear Abshire, as published in the Houston Chronicle Senior Living Section on August 22, 2007.

Working hard and saving for retirement is a priority of many Americans. But this can be difficult when people are having to plan for longer time periods spent in retirement owing to increasing longevity rates and the ever-rising costs of living.

A federal law enacted by Congress in February 2006 may help families plan for retirement. This new law raised the Federal Deposit Insurance Corporation ("FDIC") limits effective April 1, 2006. The FDIC, of course, is the agency that insures deposits, supervises financial institutions, and manages receiverships. The new law increases the maximum amount of money in a bank account that can be federally insured.

The basic insurance limit for an individual bank account remains at $100,000. And the insurance limit on joint accounts is now $100,000 per joint owner, and this is separate from any individual accounts the joint owner may have at the same bank. However, all joint owners must be people, not such entities as corporations, trusts, estates, or partnerships. In addition, all joint owners must have equal withdrawal rights and must have personally signed the joint signature card for the account.

As an example, Mr. and Mrs. Smith have a total of $400,000 in FDIC insured accounts at one bank. This is illustrated as follows:

ACCOUNT HOLDER	**TYPE OF ACCOUNT**	**BALANCE**
Mr. Smith	Individual	$100,000
Mrs. Smith	Individual	100,000
Mr. & Mrs. Smith	Joint	200,000
TOTAL		$400,000

As for retirement accounts, an individual may have up to $250,000 (up from the previous $100,000 limit) in insured accounts at the same bank. This higher limit applies to traditional individual retirement accounts ("IRAs"), Roth IRAs, KEOGH accounts, and 401(k) accounts. The $250,000 limit applies to the total of all retirement accounts held by an individual at any given bank. Thus, opening IRA accounts at different branch locations of the same bank does not increase the $250,000 limit.

And under the new law, every five years (beginning in 2011) the FDIC will consider increasing the insurance limits on all deposit accounts based on inflation.

Thus, the new FDIC figures more than double the insurance limits on retirement accounts, which will help to make your family's retirement funds more secure. This is important when the current trend is for retirees to depend less and less on Social Security and more and more on their own personal savings. Social Security was never intended to be one's sole source of retirement income. And all have heard the reports of the possible future insolvency of the Social Security trust fund. The Social Security Administration (SSA) itself reports that, unless changes are made, that agency will have to reduce benefits by 26 percent, beginning in the year 2040.

Moreover, these changes clearly benefit many people of modest means who are planning for retirement. Older investors are often more conservative than younger ones. As a result, they prefer the security of bank accounts and certificates of deposit (CDs) over more volatile investments like stocks and mutual funds. Under this new law, such individuals can stash away more funds in investment vehicles of their choice.

It is important to note it is never too soon to plan for retirement. The sooner an individual starts, and the more diligent they are with savings plans, the more financially secure their retirement is likely to be.