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Beyond the FDIC Safety Net: Protecting Your Cash When Your Savings Exceed Insurance Limits

Imagine this: You've spent decades carefully saving money, building a comfortable nest egg that represents years of hard work and discipline. One morning, you're sipping coffee and browsing the news when headlines about a bank failure catch your eye. Your stomach drops as you realize a significant portion of your savings could be at risk because you've got an account in cash that exceeds the FDIC insurance limits.

This scenario isn't just a theoretical worry—it's a very real concern, as we have seen banks fail. The Federal Deposit Insurance Corporation (FDIC) serves as our financial safety net, offering protection of up to \$250,000 per depositor, per insured bank, for each account ownership category. But what happens when your cash savings exceeds beyond that safety net? How do you ensure your entire financial legacy remains protected?

Understanding FDIC Insurance: Your Financial Safety Net

The FDIC was born from the ashes of the Great Depression, when thousands of banks failed and countless Americans lost their life savings. Today, it stands as one of the cornerstones of our banking system's stability. Think of FDIC insurance as a financial life preserver—it's not something you think about until you really need it, but you'll be immensely grateful it's there when the waters get rough.

Here's what to know: FDIC insurance isn't just a simple blanket coverage of \$250,000 per person. It's actually more nuanced and potentially more generous than many realize. The coverage extends to \$250,000 per depositor, per FDIC-insured bank, for each account ownership category. These categories include single accounts, joint accounts, certain retirement accounts, and trust accounts.

Let me break this down with a practical example. Imagine Maria has the following accounts at First National Bank:

- A personal checking account with \$100,000
- A joint savings account with her husband containing \$300,000
- An Individual Retirement Account (IRA) with \$200,000



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Is Maria fully protected? Let's see: Her personal account falls under the single ownership category (\$100,000, fully covered). The joint account with her husband receives up to \$250,000 of coverage for each owner (Maria's \$150,000 share is fully covered). Her IRA falls under the retirement account category (her \$200,000 is fully covered). In total, Maria has \$450,000 protected by FDIC insurance at this one bank.

Does this coverage arrangement make you think differently about how your own accounts are structured? Have you considered how your current banking setup aligns with these protection categories?

When Your Savings Exceed FDIC Limits: Strategic Approaches

Many of us dream of having "too much money" for FDIC insurance to fully cover—it's a good problem to have! But it's still a problem that needs solving. When your financial reserves take you beyond the FDIC safety net, it's time to get strategic about protecting those hard-earned dollars.

Think of managing large deposits like a farmer who doesn't plant all their crops in a single field. If a storm hits one area, the entire harvest isn't lost. Similarly, spreading your financial assets across multiple institutions creates resilience in your financial portfolio. Here are several approaches to consider:

Multiple Bank Strategy: Dividing Your Financial Pie

The most straightforward approach is to spread your funds across multiple FDIC-insured banks. Each bank will provide separate insurance coverage, effectively multiplying your protection. For example, if you have \$750,000 in savings, you could place \$250,000 in each of three different banks, ensuring complete FDIC coverage.

This strategy is a bit like not putting all your eggs in one basket—a time-tested approach to risk management that remains relevant in our digital banking age. The downside? Managing multiple accounts across different institutions requires more time and attention. You'll need to track various account numbers, passwords, and potentially deal with different banking platforms. On top of that, if you have a revocable living trust, you want to ensure each account is tilted in the name of your trust, and not in your individual name.



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Utilizing Different Ownership Categories: Maximizing Protection at One Bank

Another approach involves strategically using different ownership categories within the same bank. A married couple, for instance, could have individual accounts (\$250,000 coverage each), plus a joint account (another \$500,000 in coverage, \$250,000 for each person). Here's what that could look like:

- Husband's individual account: \$250,000
- Wife's individual account: \$250,000
- Their joint account: \$500,000
- Husband's IRA: \$250,000
- Wife's IRA: \$250,000

That's a total of \$1.5 million protected at a single institution! This approach offers convenience but requires careful planning and clear documentation of ownership. If you have a revocable living trust, it's critical for me to review your options with you here to ensure your accounts are properly titled both for FDIC coverage, and for your trust/estate planning purposes.

Certificate of Deposit (CD) Laddering: Timing Your Protection

CD laddering involves purchasing certificates of deposit with varying maturity dates. This not only provides a steady stream of maturing funds but can also be structured across multiple banks to maximize FDIC coverage.

Imagine building a ladder where each rung represents a CD at a different bank. As each CD matures, you can decide whether to reinvest at the same bank or move funds elsewhere based on current interest rates and your coverage needs.

This approach is like planting different crops that harvest at different times of the year—you're always collecting something, and no single weather event can wipe out your entire yield. If you go this route, again I want to make sure your CDs are properly titled in the name of your living trust.



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Considering Credit Unions: An Alternative Safety Net

Credit unions offer an alternative to traditional banks with similar protection through the National Credit Union Administration (NCUA). The NCUA's share insurance fund protects deposits up to \$250,000, similar to FDIC coverage.

For some, credit unions offer a more personal banking experience along with competitive rates and lower fees. They can be an excellent component of your deposit-spreading strategy.

As you consider these options, ask yourself: How is my current banking arrangement structured? Could I be vulnerable to losing uninsured deposits if my primary bank were to fail? How much complexity am I willing to manage to ensure maximum protection?

Looking Beyond Traditional Banking: Additional Options

Sometimes, thinking outside the traditional banking box can provide both security and opportunity. Cash management accounts offered by brokerage firms often spread your deposits across multiple banks automatically, maximizing FDIC coverage without you having to manage multiple accounts directly.

For larger sums, Treasury securities offer the backing of the full faith and credit of the US government, and can be an effective protection, so long as you believe the US won't default on its loans. If you are concerned about the US debt crisis and whether the US will default on its loans, Treasury securities would not be a good option for you.

Remember that protection is only one consideration. You'll also want to think about accessibility, convenience, and how your deposits fit into your broader financial and estate planning goals. After all, what good is protection if it makes your financial life unwieldy or prevents you from using your money effectively?

Bringing It All Together: Creating Your Protection Plan

Protecting your financial legacy isn't just about security today—it's about ensuring that the fruits of your labor continue to benefit you and potentially your loved ones well into the future. Just as you wouldn't build a house without a solid foundation, you shouldn't build wealth without ensuring it stands on secure ground.

Taking stock of your current deposit situation is the first step. Make a list of all your deposit accounts, their balances, and ownership structures. Then, assess how much of your money currently falls outside FDIC protection. This clarity will help you determine how urgently you need to restructure your accounts.



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Next, consider which of the strategies we've discussed best fits your personal situation. Do you value simplicity and would prefer the multiple-bank approach? Or perhaps you'd like to keep your banking relationships consolidated and maximize coverage through different ownership categories?

Implementing your chosen strategy doesn't have to happen overnight. You can make changes gradually, perhaps as CDs mature or as you receive new funds to deposit.

Securing Your Financial Legacy for the Future

As your Personal Family Lawyer®, I don't just draft documents; I help you ensure you make informed and empowered decisions about life and death for yourself and the people you love. Understanding and addressing FDIC insurance limits is a crucial part of protecting your financial legacy.

That's why we start with a Life & Legacy Planning® Session, where together we'll explore how your assets fit into your broader financial picture and help you get more financially organized than you've ever been before. Then, I'll support you to create a Life & Legacy Plan that ensures your hard-earned assets are positioned to support your loved ones well into the future.

Click here to schedule a complimentary 15-minute consultation to learn more and get started today:

<https://calendly.com/lauren-tlppc>

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