FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC BOARD APPROVES FINAL DEPOSIT INSURANCE RULES ON EMPLOYEE BENEFIT PLANS, RETIREMENT ACCOUNTS, "GRANDFATHERED" TIME DEPOSITS

The FDIC Board of Directors today approved final deposit insurance rules affecting certain individual retirement accounts (IRAs), self-directed Keogh accounts and other self-directed employee benefit plan accounts. The regulations also include features aimed at giving depositors an opportunity to adjust to the new limitations, such as "grandfather" provisions that exempt certain time deposits from the rule changes until after they mature.

The vast majority of the FDIC's deposit insurance regulations, such as the basic rules providing that individual accounts are insured to $100,000 separately from qualifying joint accounts, remain unchanged by the law. The new rule implements Section 311 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), which primarily affects deposits such as pension and other retirement fund deposits.

The 1991 law and the rule changes could affect a large number of depositors. Therefore, the FDIC Board voted to require each insured institution to inform customers of the new rules in a one-time mailing by October 10, 1993, using a brief notice developed by the agency. Each institution is being given the option of mailing the notice to all of its depositors or only those customers who have the types of accounts affected by the rule changes.

The FDIC also plans to help explain the rule changes to depository institution employees and the public through several educational initiatives, including revisions to the FDIC's popular _Your Insured Deposit_ pamphlet.

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Most of the rule changes take effect this coming December 19, although certain provisions already have taken effect under the timetable in FDICIA.

Retirement account coverage: As specified in FDICIA, effective December 19, 1993, an individual's deposits at the same institution in any combination of Individual Retirement Accounts (IRAs), self-directed Keogh Plan accounts, "457 Plan" accounts (a deferred compensation plan established by certain state and local governments and not-for-profit organizations) and self-directed defined contribution plan accounts will be protected by federal insurance up to $100,000 in the aggregate. This is a reduction from the maximum of $400,000 in insurance coverage now provided for deposits in these four types of retirement plan accounts. The FDIC rule closely tracks the statutory language. The existing insurance coverage remains in effect for certain time deposits under the grandfather provisions described on the next page.

"Pass-through" insurance: The new law also continues "pass-through" insurance coverage for most employee benefit plans (i.e., $100,000 per individual participating, not $100,000 per plan). However, certain employee benefit plan accounts kept in undercapitalized institutions and other institutions not authorized by the FDIC to accept brokered deposits will be covered only up to $100,000 per plan, not $100,000 per participant. FDICIA made this provision of the law effective December 29, 1992. The FDIC does not currently publicize its list of insured institutions that are ineligible to accept brokered deposits, but the agency is considering ways to inform depositors when an institution becomes undercapitalized and therefore cannot provide pass-through insurance coverge.

Vested interests: As specified in FDICIA, the agency will recognize and insure only the vested interests of participants in certain employee benefit plans. This differs from current FDIC rules, which recognize and insure both vested and unvested amounts.

Grandfather provisions: Under the final rule, any certificate of deposit or other time deposit established before December 19, 1993, generally will be subject to the insurance rules that existed on the date of deposit and will come under the new rules only at the first maturity date after December 19, 1993. Any rollover or renewal of a time deposit before December 19, 1993, will be considered a new deposit and will be subject to the rules then in effect.

Other revisions: Effective December 19, 1993, the new law also eliminates deposit insurance coverage for most "benefit-responsive" Bank Investment Contracts (BICs), a type of liability issued by a bank and usually acquired by a pension fund. The law also expands coverage for 457 Plan deposits to $100,000 per participant at both banks and savings associations, not just at savings associations as previously was the case.

The final rules are scheduled to go into effect 30 days after they appear in the Federal Register, except as otherwise noted in the regulations.

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