






OAKCREST INSIGHT

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UNDERSTANDING FDIC INSURANCE

It's natural to wonder exactly how a bank safeguards your money. Fortunately, the Federal Deposit Insurance Corporation (FDIC) insurance exists for this very reason: to help protect your funds once deposited. Read on to explore the purpose of FDIC insurance, how it works, and what it covers.

What Is FDIC Insurance?

The FDIC is an independent government agency that helps protect bank depositors from the loss of uninsured deposits at an FDIC-insured bank. This organization oversees FDIC deposit insurance, which provides some protection to bank customers if an FDIC-insured institution fails. In other words, FDIC insures your money at the bank up to certain limits.

A bank failure is an unlikely situation, but it does happen. When this occurs, the FDIC provides depositors with an insurance payout. That can be up to \$250,000 per depositor per institution for each account ownership category. When two banks failed in Q1 2023, regulators took steps above and beyond the \$250,000 limit to protect deposits.^{1,2}

Remember that if your bank is an FDIC-insured institution, you don't need to apply for FDIC insurance because coverage is automatic.

The Purpose of FDIC Insurance

FDIC insurance covers traditional deposit accounts of up to \$250,000 per depositor. These traditional deposit accounts include the following:

- Checking accounts
- Savings accounts
- Certificates of deposit (CDs)
- Money market bank deposit accounts
- Prepaid cards (assuming they meet all FDIC requirements)

Certificates of deposit (CD) are time deposits offered by banks, thrift institutions, and credit unions. They may offer a slightly higher return than a traditional bank savings or checking account, but they may also require a higher deposit amount. If you sell before the CD reaches maturity, you may be subject to penalties.

Bank savings accounts and CDs generally provide a fixed return, whereas the value of money market funds can fluctuate. Money market funds are investment funds that seek to preserve the value of your investment at \$1.00 a share. However, it's possible to lose money by investing in a money market fund.

In addition, the FDIC also insures retirement accounts in which plan participants have the right to direct how they invest the money, including:

- Traditional or Roth Individual Retirement Accounts (IRA) savings accounts
- 401(k)s or other self-directed defined contribution plans
- Section 457 deferred compensation plan accounts, whether self-directed or not

The FDIC may also insure an employee benefit plan that is not self-directed, such as a pension plan.

Once you reach age 73, you must take the required minimum distributions from a Traditional IRA in most circumstances. Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

Roth IRA distributions must meet a five-year holding requirement and occur after age 59½ to qualify for the tax-free and penalty-free withdrawal of earnings. One can make these withdrawals under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Once you reach age 73, you must take the required minimum distributions from your 401(k), 403(b), 457 plan, or other defined-contribution plans in most circumstances. Withdrawals from defined-contribution plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

FDIC Insurance Limitations

Now that we understand what FDIC insurance covers let's also look at what it doesn't cover. The FDIC states that it does not cover the following:³

- Stocks
- Bonds
- Mutual funds
- Life insurance policies
- Annuities
- Municipal Securities
- Safety deposit boxes or their contents
- US Treasury bills, bonds, or notes

Stock prices' return and principal value will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus your original principal, barring default by the issuer.

Mutual funds are sold only by prospectus. Please carefully consider the charges, risks, expenses, and investment objectives before investing. Your financial professional can obtain a prospectus containing this and other information about the investment company. Please read it carefully before you invest or send money.

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If one surrenders a policy prematurely, the policyholder also may pay surrender charges and have income tax implications. Consider whether you are insurable before implementing a life insurance strategy. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits. Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contract. Withdrawals and income payments are taxed as ordinary income. If, before age 59½, one makes a withdrawal, a 10% federal income tax penalty may apply (unless an exception applies). The guarantees of an annuity contract depend on the issuing company's claims-paying ability.

Municipal bonds are subject to various risks, including adjustments in interest rates, call risk, market conditions, and default risk. Certain municipal bonds may be difficult to sell. A municipal bond issuer may be unable to make interest or principal payments, leading to the issuer defaulting on the bond. If this occurs, the municipal bond may have little or no value. If one purchases a bond at a premium, it may result in realized losses. As a result, the interest on a municipal bond may be taxable after purchase.

Municipal bonds are free of federal income tax. Municipal bonds also may be free of state and local income taxes for investors who live in the area where the bond was issued. If a bondholder purchases a share of a municipal bond fund that invests in bonds issued by other states, the bondholder may have to pay income taxes.

The federal government guarantees U.S. Treasury bonds, bills, and notes on timely principal and interest payments. However, if you sell a Treasury before maturity, it may be worth more or less than the original price paid.

FDIC Insurance and You

As mentioned above, the FDIC insures up to \$250,000 for a single or joint account per depositor; This means that you can have either one account or multiple accounts at the same bank, but only \$250,000 may be insured.

But some strategies may enhance your coverage. Hypothetically, you could set up a revocable trust and identify one or more beneficiaries to possibly increase your coverage. Each beneficiary may receive \$250,000 of coverage. For example, a revocable trust account with one owner that names three unique beneficiaries can insure themselves up to \$750,000.⁴

Remember, using a trust involves complex tax rules and regulations. Before moving forward with a trust, consider working with a professional familiar with the rules and regulations.

Citations

1. FDIC.gov, March 1, 2023
2. FoxBusiness.com, March 12, 2023
3. FDIC.gov, March 1, 2023
4. FDIC.gov, March 1, 2023

RETURNS (AS OF 03/31/23)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	3.51%	7.03%	-9.29%	16.71%
US Large Cap	Dow Jones TR	1.89%	0.38%	-4.05%	14.93%
US Small Cap	Russell 2000 TR	-4.89%	2.34%	-12.93%	16.06%
International	MSCI EAFE NR USD	1.89%	7.65%	-4.08%	10.30%
Taxable Bonds	Barclays US Agg Bond TR	2.64%	3.23%	-4.64%	-2.76%

HOW RETIREMENT SPENDING CHANGES WITH TIME

New retirees sometimes worry that they are spending too much, too soon. Should they scale back? Are they at risk of outliving their money? This concern may be legitimate. Some households "live it up" and spend more than they anticipate as retirement starts to unfold. In 10 or 20 years, though, they may not spend nearly as much.

By The Numbers

The initial stage of retirement can be expensive. The Bureau of Labor Statistics figures show average spending of \$70,570 per year for households headed by pre-retirees, Americans age 55-64. That figure drops to \$52,141 for households headed by people age 65 and older. For people age 75 and older, that number drops even further to \$45,820.¹

Spending Pattern

Some suggest that retirement spending is best depicted by a U-shaped graph -- It rises, then falls, then increases quickly due to medical expenses.

But a study by the investment firm BlackRock found that retiree spending declined very slightly over time. Also, medical expenses only spiked for a small percentage of retirees in the last two years of their lives.²

What's the best course for you? Your spending pattern will depend on your personal choices as you enter retirement. A carefully designed strategy can help you be prepared and enjoy your retirement years.

Citations

1. Bureau of Labor Statistics, 2020
2. BlackRock.com, 2023. (Based on a 2017 landmark study that looked at retirement spending.)

A TAXING STORY: CAPITAL GAINS AND LOSSES

Chris Rock once remarked, "You don't pay taxes – they take taxes." That applies not only to income but also to capital gains.

Capital gains result when an individual sells an investment for an amount greater than their purchase price. Capital gains are categorized as short-term gains (a gain realized on an asset held one year or less) or as long-term gains (a gain realized on an asset held longer than one year).

Keep in mind that the information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.

Long-Term vs. Short-Term Gains

Short-term capital gains are taxed at ordinary income tax rates. Long-term capital gains are taxed according to different ranges (shown below).¹

LONG TERM CAPITAL GAINS TAX BRACKETS (FOR 2023)

TAX BRACKET/RATE	SINGLE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD
0%	\$0 - \$44,625	\$0 - \$89,250	\$0 - \$59,750
15%	\$44,626 - \$492,300	\$89,251- \$553,850	\$59,751 - \$523,050
20%	\$492,300+	\$553,850+	\$523,0500+

It should also be noted that taxpayers whose adjusted gross income is in excess of \$200,000 (single filers or heads of household) or \$250,000 (joint filers) may be subject to an additional 3.8% tax as a net investment income tax.²

Also, keep in mind that the long-term capital gains rate for collectibles and precious metals remains at a maximum of 28%.³

Rules for Capital Losses

Capital losses may be used to offset capital gains. If the losses exceed the gains, up to \$3,000 of those losses may be used to offset the taxes on other kinds of income. Should you have more than \$3,000 in such capital losses, you may be able to carry the losses forward. You can continue to carry forward these losses until such time that future realized gains exhaust them. Under current law, the ability to carry these losses forward is lost only on death.⁴

Finally, for some assets, the calculation of a capital gain or loss may not be as simple and straightforward as it sounds. As with any matter dealing with taxes, individuals are encouraged to seek the counsel of a tax professional before making any tax-related decisions.

Citations

1. Investopedia.com, July 19, 2022
2. IRS.gov, 2023
3. Investopedia.com, May 4, 2022
4. Investopedia.com, February 24, 2023

U.S. PERSONAL SAVINGS RATE

The U.S. personal saving rate stood at 3.4 percent at the end of 2022, down from the 7.5 rate at the end of 2021. The personal saving rate is the federal government's estimate of what percent of their incomes U.S. households are saving. But market watchers and economists are mixed on what can be learned from swings in the saving rate.¹

Why Economists Struggle

They struggle with the personal saving rate because it's a derivative number – that is, it's not measured directly. Instead, the Bureau of Economic Analysis derives the saving rate from other estimates. Here's how it's calculated:²

1. The Bureau of Economic Analysis subtracts payroll and income taxes from personal income to get disposable **personal income**.
2. The Bureau then subtracts its estimate of personal outlays, which include expenditures, interest payments, and payments, from disposable personal income to get an estimate of **personal savings**.
3. The **personal saving rate** is calculated by dividing **personal income** by **personal savings**.

As currently structured, the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains – an important source of income for some.

Gaining Insight

Gaining a bit of insight into a popular economic indicator can help you better understand trends as they are discussed in newspapers and websites. However, don't let your long-term savings program be influenced by a national number.

Citations

1. StLouisFed.org, 2023
2. BEA.gov, 2023

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