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Protecting your Savings and Investments



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Protecting Your Savings and Investments

In the wake of turbulence in the financial markets, many people are reviewing the legal protections available for assets held by banks, credit unions, and securities dealers. Here are some of the protections available.

Bank deposit accounts

Generally, deposit accounts at banks insured by the Federal Deposit Insurance Corporation (FDIC) are insured up to \$100,000 per depositor per bank. FDIC insurance covers checking, NOW, and savings accounts; money market deposit accounts; and time deposits, such as certificates of deposit (CDs). It does not cover money market mutual funds, stocks, bonds, mutual funds, life insurance policies, annuities, or other securities, even if they were bought through an FDIC-insured bank.

You cannot increase your protection simply by opening more than one account in your name at the same bank (for example, splitting the money between a checking and a savings account, or opening accounts at different branches of the same bank). However, deposits that represent different categories of ownership may be independently insured. For example, a joint account qualifies for up to \$100,000 of coverage for each person named as a joint owner of the account. That coverage is in addition to the \$100,000 maximum coverage for individual accounts for each person. For example, a married couple with three accounts at one bank--they each have \$100,000 in an individual account, and they also have \$200,000 in a joint account--would qualify for FDIC coverage of the entire \$400,000.

The limit on the amount protected in one or more retirement accounts is \$250,000; this is separate from the \$100,000 coverage of individual accounts. (Remember, however, that FDIC insurance applies only to deposit accounts, not to any securities held in an IRA or other retirement account.)

Your bank may have additional protection. For example, in some states, a state-chartered savings bank must carry additional insurance to cover potential losses beyond the FDIC limits. Some banks also may participate in the Certificate of Deposit Account Registry Service (CDARS), which enables a bank to spread large CD deposits among multiple banks while keeping the amount at each individual bank, including itself, within FDIC insurance limits.

An online calculator available at the FDIC's web site (www.fdic.gov/edie/) can help you estimate the total FDIC coverage on your deposit accounts.

Credit unions

Member share accounts at most credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF). It is administered by the National Credit Union Administration (NCUA), which is an independent agency of the federal government and is backed by the full faith and credit of the U.S. Treasury. (Some credit unions are not federally insured but are overseen by state regulators; they typically have private credit insurance.)

NCUSIF insurance is similar to FDIC insurance. It covers single-owner accounts up to \$100,000 per customer per institution. Retirement accounts such as IRAs and Keoghs have separate coverage up to \$250,000. As with bank deposit accounts, independent coverage may be available for different categories of ownership. You can estimate your existing coverage by using the calculator at the NCUA's web site at <http://webapps.ncua.gov/ins/>.

Brokerage accounts and SIPC

Most brokerage accounts are protected by the Securities Investor Protection Corp (SIPC). Unlike the FDIC, the SIPC is not a governmental agency but a nonprofit corporation funded by its membership, which is comprised of broker-dealers registered with the Securities and Exchange Commission. (Any broker-dealer that is not an SIPC member must disclose that fact to customers.)

SIPC was created by Congress in 1970 to help return customer property, including both securities and cash in brokerage accounts, if a broker-dealer or clearing firm experiences insolvency, unauthorized trading or securities that are lost or missing from a customer's securities account. Many brokerages also carry additional private insurance to extend coverage beyond the SIPC limits. Should a SIPC member firm become insolvent, SIPC would request a court to appoint a trustee to supervise transfer of customer securities and cash.

For individual accounts, SIPC covers a maximum of \$500,000 per customer (including up to \$100,000 in cash) at a given brokerage house or clearing firm. As with banks, total coverage can be higher for multiple accounts at one institution, depending on how they're held. For example, a married couple could have two individual accounts with \$500,000 of coverage each, plus a joint account that would bring their aggregated coverage for that firm to \$1.5 million. Each of your retirement accounts at a given firm also is generally eligible for an additional \$500,000 of SIPC coverage (including up to \$100,000 in cash) in the event securities in your account are lost or stolen.

It's important to remember that SIPC does not protect against market risk or price fluctuations. The value of securities at a failed institution is determined as of the date upon which a trustee is appointed. If shares drop in value before a trustee is appointed, that loss of value is not covered by SIPC. In general, SIPC covers notes, stocks, bonds, mutual funds and other shares in investment companies. It does not cover investments that are not registered with the SEC, such as certain investment contracts, limited partnerships, fixed annuity contracts, currency, gold, silver, commodity futures contracts or commodities options.

You can check the status of any liquidation proceeding and if necessary, get a claim form, at <http://www.sipc.org>.

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