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BENEFIT NEWS BRIEFS

Temporary Unlimited Coverage for Noninterest-Bearing Transaction Accounts Set to Expire January 1, 2013

Section 343 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)* provided temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts (NIBTAs) at all FDIC-insured depository institutions (IDIs) from December 31, 2010 through December 31, 2012 (*the Dodd-Frank Deposit Insurance Provision*).

During that time, all noninterest-bearing transaction accounts were fully insured, regardless of the account balance and the ownership capacity of the funds. This coverage was available to all depositors, including consumers, businesses and government entities. The unlimited coverage was separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

A noninterest-bearing transaction account is a deposit account where:

- interest is neither accrued nor paid;
- depositors are permitted to make an unlimited number of transfers and withdrawals; and
- the bank does not reserve the right to require advance notice of an intended withdrawal.
  (see, *http://www.fdic.gov/deposit/deposits/insured/temporary.html*)

With the expiration of this unlimited FDIC protection, multiemployer pension and health plans may wish to examine the level of their commercial deposits. Over the past few years, based on the low level of interest earned on "sweep" vehicles coupled with unlimited FDIC coverage of noninterest-bearing transaction accounts, some investment consultants have recommended foregoing the overnight "sweep" function and keeping the Fund's necessary cash in checking accounts. This move eliminated sweep fees and increased any available account balance earnings credits which were often higher than the earnings on "sweep" vehicles.

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As a refresher, one financial reference had these comments on “sweep” accounts:

> *Definition of 'Sweep Account'*
> A bank account that automatically transfers amounts that exceed (or fall short of) a certain level into a higher interest earning investment option at the close of each business day. Commonly, the excess cash is swept into money market funds. In a sweep program, a bank's computers analyze customer use of checkable deposits and "sweeps" funds into money market deposit accounts.
>
> This is done to provide the customer with the greatest amount of interest with the minimum amount of personal intervention. That said, sweep accounts were originally devised to get around a government regulation that limited banks from offering interest on commercial checking accounts. Now, some brokerage accounts have similar features that enable investors to gain some additional return for unused cash.
> *http://www.investopedia.com/terms/s/sweepaccount.asp#ixzz2DM5jt4h3*

Accordingly, some investment consultants are recommending that Funds request an analysis from their commercial banking representative of available “sweep” options and returns and fees, etc.

According to the *Frequently Asked Questions Regarding Notice of Expiration: Temporary Unlimited Coverage for Noninterest-Bearing Transaction Accounts,* beginning January 1, 2013, noninterest-bearing transaction accounts will no longer be insured separately from depositors’ other accounts at the same IDI. Instead, noninterest-bearing transaction accounts will be added to any of a depositor’s other accounts in the applicable ownership category, and the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount (SMDIA) of $250,000, per depositor, at each separately chartered IDI. The FAQs are available at: *http://www.fdic.gov/deposit/deposits/unlimited/expiration.html* or by “*clicking here*.”

For example, if after the expiration of the Dodd-Frank Deposit Insurance Provision a depositor under the single ownership category has $500,000 deposited in a noninterest-bearing transaction account and $250,000 deposited in a certificate of deposit, or total deposits of $750,000, the depositor would be insured for up to $250,000 and uninsured for the remaining balance of $500,000.

Now that unlimited protection is no longer available, a review of any policies set in place during the period of unlimited coverage may be in order.

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