

The Planning Quarterly

Issue 12 | May 2023



PEAPACK PRIVATE

Wealth Management

Welcome to the May 2023 issue of the Peapack Private Planning Quarterly. We're covering a variety of topics this issue, from buying your first home, to tax help with making it more energy efficient. We're also reviewing the different insurance regimes for your cash and investment assets. Please reach out to our authors or to any of our investment and planning professionals with your questions and feedback. Ask your own questions—you may inspire a future article. Our guidance can help you achieve your financial goals.

peapackprivate.com

Click to jump to a desired article

[Time to Buy a House? Insight & Tips for First-Time Homebuyers](#) ▶

[Lowering Your Energy Costs: Understanding the Energy Income Tax Credits and Home Energy Rebate Programs](#) ▶

[Planning With Your Tax Return](#) ▶

[How Safe are Your Deposits?](#) ▶

Time to Buy a House? Insight & Tips for First-Time Homebuyers

By Matthew Yard, Wealth Planning Analyst

Buying a home is a major financial decision, and for first-time homebuyers, it can be a daunting and overwhelming process. From establishing a budget, to finding the right mortgage, there are many factors to consider before making the big leap. However, with the right preparation and guidance, buying a new home can also be an exciting and rewarding experience. Whether you're just starting to consider buying a home or are already deep into the process, these tips can help you feel more prepared as you kickstart the next chapter of your life.

1. Identify your needs.

Identifying your needs in a home is a crucial initial step for any first-time homebuyer. You may have always dreamed of that sprawling two-story mansion with a large, lush, green backyard, but have you considered what you truly need in a home? Take some time to think about what you really need and want in a home. Consider factors such as location, size, number of bedrooms and bathrooms, outdoor space, and amenities like a pool or garage. Does a townhouse or condo make more sense than a single-family home for your family's needs? Think about your lifestyle and what type of home would best suit you. For example, if you work from home, you may want a home office or a separate workplace. If you have children or are planning to start a family, you may need a home with a yard or in a good school district. Identifying your needs upfront will help you narrow down your search while also saving you time and effort throughout the more tedious aspects of the home buying process.



2. Work with a reputable mortgage consultant.

Once you have determined what is important to you in a home, it is crucial to work with a reputable mortgage consultant to ensure that you receive the best possible financing options for your new home. A reputable mortgage consultant will help you understand the mortgage process, determine your budget, and select the best loan program that suits your financial situation. Mortgage consultants also play a vital role in helping you obtain a pre-qualification letter. A pre-qualification letter is a document provided by the lender that outlines how much you can afford to borrow based on your income, expenses, credit score, as well as other factors. A pre-qualification letter can then be used to demonstrate to real estate agents and sellers that you have the financial means to purchase a home within a certain price range. Additionally, mortgage consultants can provide you with a variety of options for interest rates when helping you secure a home loan. One option is a fixed interest rate, which remains the same for the life of the loan. A fixed interest rate will provide you with stability and predictability in monthly payments. Another option is an adjustable-rate mortgage (ARM). An adjustable-rate mortgage typically has a lower interest rate but can fluctuate based on market conditions. Consultants may also offer the option to pay for mortgage points up front, meaning you can pay an initial fee to lower the interest rate. Each mortgage point bought costs one percent of the mortgage amount, therefore, if you buy one point on a \$300,000 mortgage, it will cost you \$3,000. Your interest rate is typically reduced by 0.25% for each point bought. While mortgage consultants are extremely helpful in the home buying process, it is important that you help the consultant as well. Prior to meeting with a mortgage officer, it is beneficial to get all your documentation in order. This means dusting off the filing cabinet and obtaining the following documentation: your most recent two years of Federal tax returns, your most recent two years of W-2s, one month of pay stubs, your most recent two months of bank statements for all accounts: checking, savings, 401k, investments, etc., and a copy of your driver's license. Overall, in a competitive real estate market, having a reputable mortgage consultant can be the difference between securing the home of your dreams or losing out to another bidder.

3. Understand additional costs associated with homeownership.

Owning a home can be a valuable asset and a path to a more stable financial future. First-time homebuyers may be shocked by the chunk of change homeownership can take out of their pockets. The actual cost of owning your own property involves many overlooked expenses beyond the monthly mortgage payments. The down payment is one of the largest expenses associated with buying a home. In general, it is recommended that buyers aim to put down 20% of the purchase price. If a 20% down payment seems unrealistic, there is still good news. Very few lenders still require a 20% down payment at closing. However, a large down payment opens the door for many great benefits. Putting down 20% or more at closing can help you avoid private mortgage insurance (PMI). PMI is insurance that protects the lender if you default on your loan. Most lenders will remove PMI once you reach 20% equity in your home. A larger down payment may also give you access to lower interest rates and give you a competitive edge over other buyers in the market. However, those who cannot afford a large down payment need not worry, Federal Housing Administration (FHA) loans are here to help. An FHA loan is a government backed mortgage insured by the Federal Housing Administration that requires lower minimum credit scores and down payments than conventional loans. FHA loans typically require a 3.5% down payment and a credit score of 580 or higher. This type of loan is especially popular with first-time homebuyers.

Unfortunately, your down payment isn't the only thing you will need to bring to the closing table. Closing costs are another large expense at the time of purchase. Closing costs widely vary depending on where you live but you can expect to pay 3 – 6% of your loan amount in closing costs. Closing costs typically include the price of the application fee, home appraisals, one year's worth of a homeowners insurance premium as well as other various costs.

As a homeowner, you will be required to pay property taxes. The township, city, or county in which you reside will determine the property tax rate. To determine how much you will owe in taxes, you will need to multiply the property tax rate by the value of your home. The effective average rate nationwide is 1.1% but can be as high as 2.2% in New Jersey... ouch. Monthly property taxes can easily total \$500 to \$1,000 or more a month. Property tax may not be limited to your real estate. Many states also require you to pay taxes against personal property such as cars and boats. Property tax is a payment in perpetuity so unfortunately, even after you have paid off your mortgage, you will not be able to escape paying property tax.

Homeowners and flood insurance premium payments should also be recognized as associated costs of owning a home. Homeowners insurance protects your property and possessions against unforeseen circumstances such as theft, fire, and weather-related damages. Flood insurance, on the other hand, protects your home in the event of flooding, which is typically not covered by standard homeowners insurance policies. The average cost of homeowners and flood insurance will vary widely depending on several factors such as the location of the home, the age of the home, the level of coverage needed and the insurance company. However, on average, property owners pay \$1,200 annually in homeowners insurance and \$700 in flood insurance. Investing in the right insurance policies can provide you with peace of mind and financial protection in the long run. Make sure to speak with a reputable insurance agent to ensure that you have the right amount of coverage and are prepared for any challenges that come your way as a first-time homeowner.

Depending on where you live, you may be required to pay monthly homeowners' association fees. These fees cover the costs of services that benefit the whole community such as garbage collection or snow plowing.

Lastly, maintenance expenses are one of the essential costs of homeownership and must be factored into your budget. Regular home maintenance helps keep the property in good condition and prevent significant problems down the road. These expenses typically include regular upkeep of your lawn and landscaping, repairing, or replacing appliances and systems such as HVAC, plumbing & electrical systems, maintenance of the exterior & interior of your home, pest control services, and roofing and gutter services. Additionally, unexpected repairs and emergencies may arise, requiring immediate attention and money. On average, a typical homeowner spends roughly \$1,500 - \$2,500 a year on regular property maintenance. The cost of maintenance expenses can vary widely due to home size and amenities. The 10% rule is a good way to measure and save for the cost of maintenance expenses. To estimate the cost of maintenance on your home, put aside 10% of all your main monthly expenses (mortgage, taxes, insurance). For example, if these main expenses total \$2,000, put aside \$200 each month that can go towards paying the maintenance expenses.



4. Work with a reputable real estate agent.

Once you have identified your needs, met with a mortgage consultant, and considered the additional costs of owning a home, it is time to get in contact with a reputable real estate agent. A good real estate agent can be an invaluable resource when it comes to buying your first home. Real estate agents will help you navigate the process, negotiate with sellers, and provide you with valuable insights and advice regarding the local market and current trends. Working with a real estate agent can save you time and money. They will help you avoid costly mistakes and provide guidance on figuring out what the best financing option is for you.

Buying your first home can be a stressful and overwhelming process, but it doesn't have to be. By utilizing the tips and insights in this article and by approaching the process with a clear understanding of the financial considerations, you can create a smooth and easy home buying experience. Now that you've done your research, you're ready to take the leap from home buyer to homeowner. Congratulations!



Contact Matthew Yard at myard@pgbank.com or (908) 698-1056 with any questions.

Lowering Your Energy Costs: Understanding the Energy Income Tax Credits and Home Energy Rebate Programs

By Jenny Gan, MBA, MST, CPA & Sarah Vehap, MBA



Congress passed the Inflation Reduction Act in August 2022, which may be the most significant commitment to clean energy to date. The Act includes several ways to lower your energy costs through tax credits and rebate programs - Energy Income Tax Credits and Home Energy Rebates.

What are the Energy Income Tax Credits?

The Inflation Reduction Act amended the existing credit for energy efficient home improvements and the credit for residential energy property. These credits last longer and have a greater financial impact for the taxpayers than previous credits related to energy efficiency.

1. Energy efficient home improvement credit

Prior to its extension and expansion through the passage of the Inflation Reduction Act, the energy efficient home improvement credits amounted to a lifetime credit of \$500 through December 31, 2022. The Act amended the credit to be worth up to \$1,200 per year for qualifying property placed in service on or after Jan. 1, 2023, and before Jan. 1, 2033.

The new credit has an annual limit rather than a lifetime limit. If you can manage to spread your qualifying home improvements over the 10-year life of the credit, you could receive up to \$12,000 back on your taxes as compared to only \$500 allowed under the previous credit. Additionally, you can receive up to an additional \$2,000 per year for making qualified investments in heat pumps and biomass stoves and boilers.

Which home improvements qualify for the Energy Efficient Home Improvement energy tax credit?

Beginning January 1, 2023, the credit is equal to the lesser of 30% of the sum of amounts paid for qualifying home improvements or the annual \$1,200 credit limit. Within the aggregate \$1,200 limit, annual dollar credit limits apply to specific items including:

- Home energy audits: \$150
- Exterior doors: \$250 per door (up to \$500 per year)
- Exterior windows and skylights, central A/C units, electric panels and related equipment, natural gas, propane and oil water heaters, furnaces, or hot water boilers: \$600.

In addition to the \$1,200 credit limit above, a separate aggregate yearly credit limit of \$2,000 applies to electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and biomass boilers. This means you can claim a maximum total yearly energy efficient home improvement credit amount up to \$3,200.

These credits are non-refundable, meaning they can offset your tax bill but will not be refunded to you if they exceed your tax bill.

2. Residential Clean Energy Credit

The Residential Clean Energy Credit is a renewable energy tax credit extended and expanded by the 2022 Inflation Reduction Act. The credit is worth 30% of certain qualified expenses for residential clean energy property. The Inflation Reduction Act extended and modified the existing energy credit through 2034, modified the applicable credit percentage rates, and added battery storage technology as an eligible expenditure.

The credit applies for property placed in service beginning 2022 through 2032. Starting in 2033, the credit percentage rate phases down to 26% for 2033, then to 22% for 2034, and finally to no credit being available after December 31, 2034. This credit is also non-refundable.

Which equipment qualifies for the Residential Clean Energy Credit?

Equipment that qualifies for the Residential Clean Energy Tax Credit includes solar, wind, geothermal, and fuel-cell technology:

- Solar panels, or photovoltaics, for generating electricity
- Solar-powered water heaters for water used inside the home (at least half of the home's water-heating capacity must be solar and water for swimming pools and hot tubs do not qualify)
- Wind turbines that generate up to 100 kilowatts of electricity for residential use
- Geothermal heat pumps that meet federal Energy Star guidelines
- Fuel cells that rely on a renewable resource (usually hydrogen) to generate power for a home (minimum 0.5 kilowatts of power generation capacity)
- Battery storage technologies

3. What type of residence qualifies for these credits?

The credits are available to homes located in the United States and must be owned and used by the taxpayer as the taxpayer's principal residence. The credits are available only for certain improvements made to second homes located in the United States, and the credits are never available when the improvements are made to homes not used as a residence by the taxpayer.

4. Are credits available for existing home or new home?

The rules vary by credit.

- Under the Energy Efficient Home Improvement Credit: a taxpayer can claim the credit only for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, and not for a newly constructed home.
- Under the Residential Clean Energy Property Credit: a taxpayer can claim the credit for qualifying expenditures incurred for either an existing home or a newly constructed home.

5. Bottom Line

The elimination of the lifetime credit cap for the energy efficient home improvement credit and the expanded list of qualifying expenditures available for both credits have the potential to incentivize investments in qualifying property. However, taxpayers should carefully consider the annual limitations, credit percentage phaseouts, and residential use requirements (e.g., primary, or secondary residence) that may apply to credit claims.

What are Home Energy Rebate Programs?

The Inflation Reduction Act includes two provisions in the energy rebate program - Home Efficiency Rebates and Home Electrification and Appliance Rebates. The intent is to help people save money on energy bills, upgrade to clean energy equipment, improve energy efficiency, and reduce indoor and outdoor air pollution.

(Note - The rebates fall under the purview of The Department of Energy (DOE). The funds are not yet available, as the DOE is conducting outreach and developing guidance. They anticipate making funds available later in 2023 to the state energy offices.)

“The Act amended the credit to be worth up to \$1,200 per year for qualifying property placed in service on or after Jan. 1, 2023, and before Jan. 1, 2033”

1. Home Efficiency Rebates

Award grants to state energy offices to develop a whole-house energy saving retrofits program that will provide rebates to homeowners and aggregators for whole-house energy saving retrofits (single-family and multi-family buildings).

- States may use up to 20% of awarded funds for planning, administration, or technical assistance.
- States must use at least 80% of awarded funds to provide single-family and multifamily households with discounts for efficiency upgrades that are predicted to save at least 20% of the home's energy use.
- Cost share requirement dependent on income level.
- Will remain available through September 30, 2031.

2. Home Electrification and Appliance Rebates

Award grants to state energy offices and Tribal entities to develop and implement a high-efficiency electric home rebate program.

- A State energy office or Native American Tribe may use up to 20% of the grant amount for planning, administration, or technical assistance.
- The remaining funds are for rebates for the purchase of high-efficiency electric home appliances.
- Cost share requirement dependent on income level and price of appliance.
- Will remain available through September 30, 2031.

3. Potentially Eligible Equipment & Housing Types

Rebates may apply to the installation of –

- Electric heat pump clothes dryer
- Electric heat pump for space heating and cooling
- Electric heat pump water heaters
- Electric panel & wiring upgrades
- Electric stove, cooktop, range, or oven
- Air sealing
- Duct sealing
- Insulation
- Materials to improve ventilation
- Potentially other energy-saving technologies

Where applicable, technologies must be certified under EPA's ENERGY STAR program.

In the following types of buildings –

- Single-family homes
- Multi-family residential buildings
- Newly constructed homes
- Rental properties



4. Money Potentially Available Per Household

Households with Incomes above 80% Area Median Income (AMI)	Efficiency	Lower energy savings: 50% of project costs up to \$2,000 Higher energy savings: 50% of project costs up to \$4,000
	Electrification	50% of project costs up to \$14,000 (Household income must be below 150% AMI)
Households with Incomes below 80% Area Median Income (AMI)	Efficiency	Lower energy savings: 80% of project costs up to \$4,000 Higher energy savings: 80% of project costs up to \$8,000
	Electrification	100% of project costs up to \$14,000
Multifamily/Rental Housing Building Owner	Efficiency	Lower energy savings: \$2,000/unit up to \$200,000 Higher energy savings: \$4,000/unit up to \$400,000
	Electrification	50% of project costs up to \$14,000/unit (>50% of units must have income <150% AMI)
Multifamily/Rental Housing Building Owner with >50% of Households <80% AMI	Efficiency	Lower energy savings: 80% of the project cost up to \$4,000/housing unit Higher energy savings: 80% of the project cost up to \$8,000/housing unit
	Electrification	Lesser of 100% of project costs or \$14,000/unit

Source: U.S. Department of Energy. December 16, 2022. *IRA Home Energy Rebate Program Informational Webinar*. (Retrieval information: [IRA Home Energy Rebate Program Informational Webinar - YouTube](#))

5. Illustrative Examples of Two Households

Smith Household in Allentown, PA

The Smiths want to insulate their home to make their home more comfortable and save on energy bills.

Smith income: \$68,000
80% AMI for Allentown, PA: \$72,500
Eligible for lower-income rebate level? **YES**

Project Scope	
Attic Insulation	\$3,000
Whole-home Air Sealing	\$1,000
Duct Sealing & Insulation	\$1,500
Smart Thermostat	\$200
Gross Project Cost	\$5,700

Modeled energy savings from project: **24%**
Eligible Rebate: **\$4,000**
Project Cost to Smith Household: **\$1,700**

Jones Household in Columbia, SC

The Jones' want to update their home's dated electrical systems and save on energy bills.

Jones income: \$72,000
80% AMI for Columbia, SC: \$64,500
Eligible for lower-income rebate level? **NO**

Project Scope	
Electrical Panel Upgrade	\$3,700
Electrical Wiring Upgrade	\$1,800
Electric Heat Pump	\$6,500
Kitchen Hood Ventilation	\$800
Gross Project Cost	\$12,800

Over cost limits for technologies or total cost: **No**
Eligible Rebate: **\$6,400 (50%)**
Project Cost to Smith Household: **\$6,400**

Source: U.S. Department of Energy. December 16, 2022. *IRA Home Energy Rebate Program Informational Webinar*. (Retrieval information: [IRA Home Energy Rebate Program Informational Webinar - YouTube](#))

Contact Jenny Gan at jgan@pgbank.com or (908) 331-9653 or Sarah Vehap at svehap@pgbank.com or (908) 227-3773 with any questions.

Planning With Your Tax Return

By Patricia Daquila, MBA, CPA, CFP®

As the old line goes, everyone complains about taxes but no one does anything about them. Perhaps you can: take out your most recent tax return and follow along. It can help you determine why you pay the taxes you do and what steps you can take now to minimize that number for 2023. For those who are 63 or older, reducing your Adjusted Gross Income (AGI) may also reduce your future Medicare Part B premiums. Medicare premiums are based on income from two years prior.

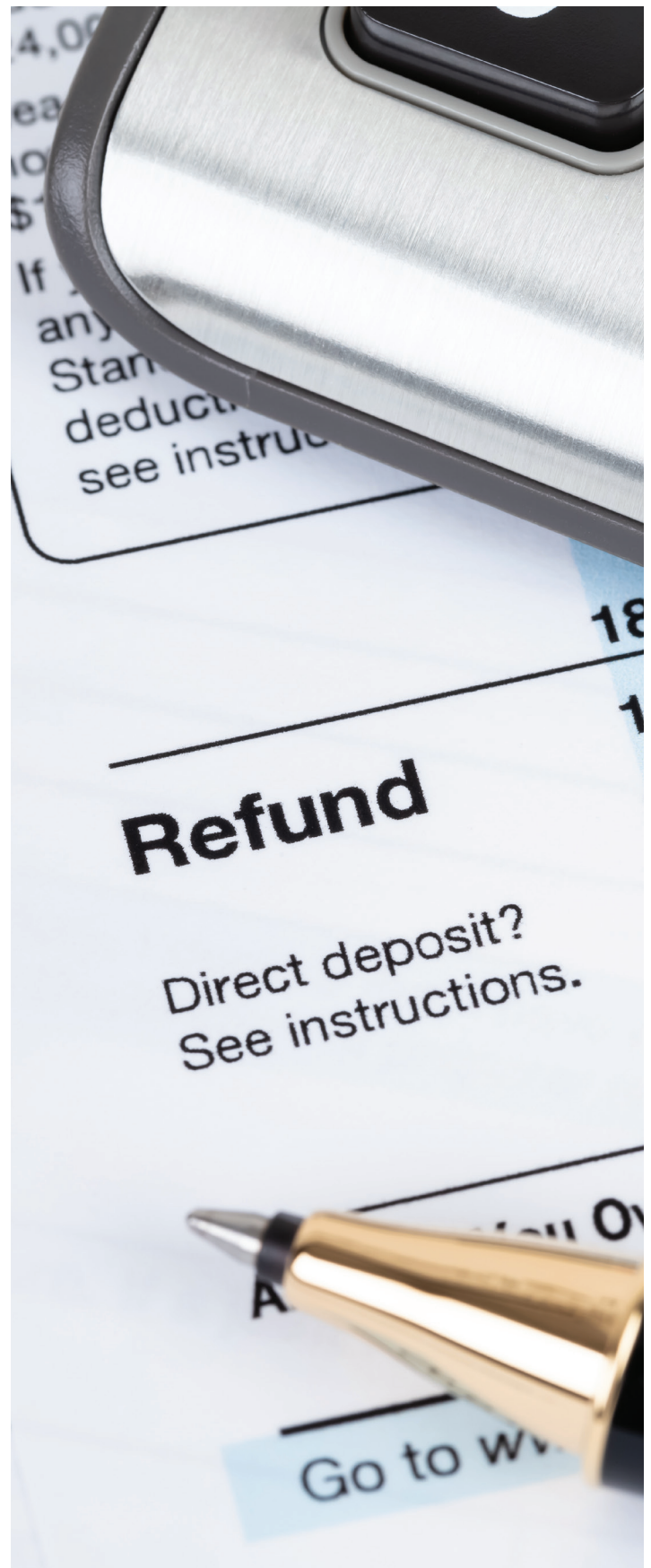
Most of the action takes place on page one of your 1040. The key number is your AGI—line 11, near the bottom of the page. That number determines whether you'll pay the Medicare surtax on unearned income (\$250,000 for married filing jointly and \$200,000 for singles—not subject to inflation). Your AGI is also key in determining your ultimate tax rate, which can be as high as 35%.

Note that AGI is determined without regard to standard or itemized deductions. Those play an ever-decreasing role in determining your ultimate tax bill. Much of what is on page one applies to specifically targeted groups; this discussion focuses on the more general deductions.

Start with line 1A, your W-2 income. The number shown is after your contributions to your employer retirement plan (401(k), 403(b), or 457) and Flexible Spending Account or Health Savings Account contributions. The more you contribute to those plans, the more you reduce your taxable income. This year, you can contribute up to \$22,500 to your employer retirement plan (\$30,000 if you are at least age 50). You can also contribute \$3,050 to an FSA or as much as \$7,750 to an HSA (\$3,850 if single), which will reduce your earnings. The more you save for yourself, the more you save in taxes.

Next is taxable interest, and this line should be close to zero. Put taxable fixed income in your retirement accounts, to shield the interest from tax. If you do hold fixed income in a taxable account, it should be tax-exempt bonds. If you buy a tax-exempt bond from your resident state, it is exempt from both Federal and State taxation.

Most dividends are qualified. Those are taxed at 15 percent (20 percent if you're in the highest tax bracket). Because of the favored tax rate, taxable investment accounts should be directed toward stocks. Just be aware that significant dividend income can increase the tax rate on other, ordinary income.



You can make charitable gifts with IRA distributions (line 4b). This is called a qualified charitable distribution. For those at least aged 70-1/2, you can direct that up to \$100,000 of IRA distributions go directly to a qualified charity. Doing so keeps the distribution off your tax return entirely. That's usually better than taking the funds into income and reporting a charitable deduction. Check with your tax advisor to see if you're better off making gifts from your IRA or with appreciated securities.

Most investors who receive Social Security benefits are taxed on 85 percent of them. That's the case if your other income (including tax free interest and half of your Social Security benefits) exceeds \$44,000 for married filing jointly or (\$34,000 for single taxpayers).

Line 7 is capital gains and losses; ideally that number should be a loss of \$3,000. You can balance capital gains each year with capital losses. If you recognize more losses than gains, you can use up to \$3,000 of those losses against ordinary income and carry the balance forward indefinitely. Another way to keep gains off line 7 is to make charitable gifts with significantly appreciated stock. By doing so, you avoid paying capital gains tax on the profits on the stock, but get to deduct the entire value of your contribution. If you do have net capital gains, those are taxed at a maximum rate of 15 percent (20 percent if you are in the highest bracket and 0 if you are in a lower tax bracket).

“You can make charitable gifts with IRA distributions (line 4b). This is called a qualified charitable distribution. For those at least aged 70-1/2, you can direct that up to \$100,000 of IRA distributions go directly to a qualified charity.”

If you are self-employed, either as your main profession or on the side, you have significant control over your business income (line 8). That number is after expenses, so deduct what you are entitled to. You can also shelter some of your business income into a tax deferred retirement account such as a SEP IRA, solo 401k, or a Keogh plan. This will reduce your self-employment income. Just be aware that if you are showing losses in multiple years, this can trigger an IRS inquiry into whether the business is real or merely a hobby.

You may or may not be able to control some items on line 8—income flowing through from real estate, partnerships, LLCs, trusts, S corporations, and the like. To the extent you manage any of those entities, you may be able lower your taxable income (ideally, without depressing cash flow).

This pretty much gets you to “total income.” There are a few adjustments that can reduce total income to reach Adjusted Gross Income. A few of the deductions are educator expenses, alimony paid, and an IRA deduction. However, an IRA deduction is limited if you are covered by a retirement plan at work and your income exceeds certain levels. If you are not covered by a retirement plan at work then your IRA deduction is allowed in full up to \$6,500 (\$7,500 if age 50 or over) in 2023.

Most taxpayers take the standard deduction--\$13,850 if single and \$27,700 if married filing jointly (a bit more for seniors). Post-2017, itemizing deductions has become less common. The state and local tax deduction is capped at \$10,000 for both single taxpayers and married filing jointly. Mortgage interest is limited if your mortgage loan exceeds \$750,000. Medical costs are only deductible if they exceed ten percent of your income, and charitable contributions generally are limited to 60 percent of your adjusted gross income for cash gifts and 30 percent of your adjusted gross income for non-cash gifts.

If you have recurring tax refunds (line 34), decrease your withholding, and place the increased funds into some other savings vehicle. There is no excuse for making interest-free loans to the government.

Finally, if you are in the top bracket (\$517,200 of taxable income for married couples and \$459,750 for singles), the 15 percent tax rate on dividends and long-term capital gains is boosted to 20 percent.

What is the moral of this story? It is difficult to reduce your tax bill, but the biggest steps you can take are those on the front page of your tax return.



Contact Patricia Daquila at pdaquila@pgbank.com or (908) 642-6029 with any questions.

How Safe are Your Deposits?

By Cynthia Aiken, MBA, CFP®

The recent headlines about the failures of Silicon Valley Bank, Signature Bank and First Republic Bank are raising questions about the safety of client deposits in all institutions. However, there are organizations in place to protect consumers' financial assets at banks, credit unions, and brokerage firms.

Bank Deposits - Protected by the FDIC

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress to maintain stability and public confidence in the nation's financial system. To accomplish this mission, one of its key functions is to insure bank deposits. The agency was established under legislation signed by President Franklin D. Roosevelt during the Great Depression. It ensures that your bank deposits are safe, even if the bank goes under. The FDIC is funded by premiums paid by banks and savings associations and protects deposits up to certain limits.

Current Bank Insurance Limits

What are the coverage limits? The FDIC insures accounts in various categories at each institution. Deposit accounts with a single owner - including checking, savings, money market deposit accounts (not money market mutual funds) and certificates of deposit - are covered up to \$250,000 for the sum of all deposits at one institution. If your combined deposit accounts are higher than the limit, you could move some funds to another bank where you will have a separate set of coverage limits.

Joint deposit accounts are considered separately and up to \$250,000 of your share of the total deposits is insured. For example, if you and your spouse have a joint checking account and a joint savings account at one bank, the total coverage that you and your spouse can expect for the combined joint accounts is \$500,000 (or \$250,000 for each of your ownership in the joint accounts). This coverage of the joint accounts is in addition to the coverage you have for any accounts in your name alone at that institution.

Coverage also extends to retirement accounts – IRAs, 401(k)s, profit sharing plans, self-directed Keogh plans, and Section 457 deferred compensation plans – up to \$250,000 for one client at one institution. Living Trusts, Payable on Death accounts, and Irrevocable Trusts are insured for a maximum of \$250,000.

Funds invested in stocks, bonds, mutual funds, exchange traded funds, life insurance policies or annuities are not insured by the FDIC, even if they are purchased at an insured institution. Furthermore, the FDIC does not cover safe deposit boxes or their contents.

Credit Union Protection

Deposits in most **credit unions** are protected by the National Credit Union Share Insurance Fund (NCUSIF) – not the FDIC. This federal agency was set up in 1970 and operates much like the FDIC. Your credit union accounts are covered to the same limits as bank deposits - \$250,000 for all your individual accounts combined at each credit union, up to \$250,000 for each person's share of their joint accounts at each credit union and up to \$250,000 for all your retirement accounts, such as IRAs.

Limits are separate for each credit union. If you have individual accounts at two different credit unions, you have \$250,000 in NCUSIF coverage for each account. Like the FDIC, the NCUSIF covers deposit accounts, such as savings accounts, checking accounts, money market accounts and CDs.

The NCUSIF is administered by the National Credit Union Administration, an independent federal government agency that charters and supervises federal credit unions and most state-chartered credit unions. State-chartered credit unions outside the federal-insurance framework may be covered by private insurance, but it is wise to check the deposit limit and coverage of any state-chartered credit union before making deposits.

To check the coverages of your account balances, use the tools at www.fdic.gov and www.mycreditunion.gov.



Brokerage Accounts and SIPC

What about **investment and brokerage accounts**? These accounts are protected by the Securities Investor Protection Corporation (SIPC) – an independent body that protects investments and brokerage accounts if the brokerage firm fails. By law, brokerages are required to keep customers' cash and investments separate from the firm's funds. If a member firm fails, and the firm has exhausted all other options, such as merging with another brokerage firm, SIPC will oversee the liquidation of that firm to recover clients' missing assets, cash, and securities. SIPC divides the broker's remaining assets among the clients and uses its own funds to purchase the same number of shares owned by the client and to replace funds in a client's account up to \$500,000 per account with a limit of \$250,000 in cash. Depending upon the success of SIPC recovery, the client may receive more than \$500,000. SIPC is typically successful in making most clients whole. Further, many brokerage firms purchase insurance above SIPC limits—ask if yours does.

Unlike FDIC and NCUSIF, SIPC is not a government agency and has no authority to investigate fraud at member firms. Investigations of that type are handled by the Financial Industry Regulatory Authority (FINRA), the industry's self-regulatory organization, and the Securities and Exchange Commission (SEC).

Banking System Safety Net

According to the FDIC, roughly 57% of deposits are insured. Many accounts with uninsured deposits belong to businesses, which use them for payroll and operating expenses. In the cases of Silicon Valley Bank and Signature Bank, the FDIC issued an exception to the insurance limits to cover all depositor accounts – even accounts with balances above the \$250,000 limit. If the regulators determine that a broader deposit guarantee for higher limits is needed, they must ask Congress to lift the cap across all banks.

The current FDIC insurance coverage amount was set at \$250,000 in 2008. Using the increase in money supply from 2008 to 2022 – from \$7.965 trillion to \$21.43 trillion – as a proxy, the current \$250,000 FDIC insurance limit could reasonably be upped to approximately \$672,500. A big jump!*

*https://www.wsj.com/articles/raise-fdic-insurance-limit-banking-crisis-silicon-valley-bank-republic-594af774?mod=Searchresults_pos12&page=1



Contact Cynthia Aiken at caiken@pgbank.com or (973) 276-0843 with any questions.



PEAPACK PRIVATE

Wealth Management

Nondeposit investment products are not insured by the FDIC; are not deposits or other obligations of, or guaranteed by, Peapack-Gladstone Bank; and are subject to investment risks, including possible loss of the principal amount invested.

