MONEY 101 EDUCATION
12. 85 What is SIPC insurance, and will it protect my stock and bond portfolio from declining in value?

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SIPC insurance for brokerage firms is similar to FDIC protection for bank failures. Here's what is and isn't covered.

Your bank account balances are generally insured by the FDIC up to the coverage limits. This is the coverage that applied during the failure of Silicon Valley Bank (in 2023).

However, assets in your *brokerage account* are protected by a different entity — the nonprofit Securities Investor Protection Corporation or SIPC.

If your broker or robo-advisor fails financially and investors' assets are missing or at risk, the SIPC will step in to make you whole by providing up to $500,000 in coverage.

Here are the basics of SIPC and what it does and doesn't cover.

SIPC coverage provides ...

- Up to $500,000 in total coverage per customer (or per account if the accounts are of separate capacities – see below) for lost or missing cash and securities assets from a customer's accounts held at the institution.
- Up to $250,000 can be applied to protect cash in a customer's account that has yet to be invested in securities.
- Protection in case of unauthorized trading or theft from an account.

SIPC insurance doesn't cover ...

- Investment losses or worthless stocks or other securities.
- Losses due to account hacking unless the firm was forced into liquidation due to the hack.
- Claims against harmful or inappropriate investment advice. The Financial Industry Regulatory Authority, the Securities and Exchange Commission, and state securities regulators handle complaints about firms.

Does your brokerage company provide SPIC insurance?
Firms that sell stocks, bonds, and other investments to the public and the clearinghouses that handle account transactions are required by law under the Securities Investor Protection Act of 1970 to be members of the SIPC. Customers don't have to sign up for it, and individual investors can't purchase extra coverage.

12. 85 What is SIPC insurance, and will it protect my stock and bond portfolio from declining in value?

To determine if your brokerage firm provides the insurance, scroll to the bottom of nearly any page on a brokerage firm's site, and you should see the SIPC membership disclosure. If yours does not provide SPIC insurance, it may be time to find a new fiduciary.

Is SIPC coverage enough?
That depends on ...

Your account balance: SIPC coverage is limited to $500,000 per customer. However, if you have more than that at the institution, you may still be insured for a more significant amount based on …

- **How the accounts are titled:** The "per-customer" coverage rule is based on **ownership capacity**. If, for example, you have an IRA account in your name and a joint account with your spouse, the SIPC treats them as separate accounts and insures each up to $500,000. (Unlike with FDIC coverage, joint accounts aren't insured to the total amount for each account holder with SIPC insurance.)

- Other examples of separate capacity include accounts held for a trust or a corporation, by a guardian for a ward or minor, or by an estate executor. A margin account is not considered a separate capacity.

The amount of cash in the account: Claims on money that's not invested and is in cash are capped at $250,000. That $250,000 counts toward the full $500,000 policy. SIPC protection may not be adequate if you keep a lot of cash in your brokerage. Note that money market mutual **funds** and certificates of deposit (CDs) are considered investments, not cash, under the rules.

If, after adding up your assets in all their separate and combined capacities, SIPC coverage falls short, consider moving a portion of your money to a different institution.

What if you have a Roth and a traditional IRA at one brokerage?
If you have a Roth IRA and a traditional IRA at the same institution, SIPC protection treats them as separately insured accounts. It provides up to $1 million in protection, or $500,000 on the Roth account and $500,000 on the regular IRA.

What happens if your brokerage goes out of business?
Even if your brokerage does shut down or become insolvent, other layers of protection will shield you from loss before the SIPC needs to step in. FINRA (Financial Industry Regulatory Authority) states: "In virtually all cases when a brokerage firm ceases to operate, customer assets are safe and typically are transferred in an orderly fashion to another registered brokerage firm."

12. 85 What is SIPC insurance, and will it protect my stock and bond portfolio from declining in value?
Those other layers of protection include regulatory requirements for brokerage firms to keep customer assets segregated in separate accounts from the firm's own money and to have a minimum amount of liquid assets on hand, which are like an emergency fund for a broker.

If your broker gets to the liquidation phase before you get back your money, a court-appointed trustee for the liquidation will notify you of how to file a claim. (You can also go to sipc.org to request a claim form.)

The amount of your claim will be the value of the cash and securities in your account minus any debt you owe the brokerage firm (any margin loans, for example) on the date the SIPC files the court application for liquidation.

SUMMARY CHART

	SIPC (brokerage firms)	**FDIC (banks)**
Coverage amount	Up to $500,000 per customer, which includes a maximum $250,000 of cash coverage. For customers with multiple accounts, protection is determined by whether those accounts are of separate capacity.	Up to $250,000 per depositor, per institution and per ownership category
What is covered	Stocks, bonds, Treasury securities, certificates of deposit, mutual funds, money market mutual funds held at an SIPC member firm	Money in deposit accounts, including checking and savings accounts, money market deposit accounts (not money market mutual funds), certificates of deposit
What isn't covered	Investment losses Investments in commodity futures, fixed annuities, currency, hedge funds or investment contracts (e.g., limited partnerships) not registered with the SEC Accounts of partners, directors, officers or those with a significant/beneficial ownership in the failed firm	Mutual fund investments (stock, bond or money market), stocks, bonds, Treasury and other investment products purchased at a bank, brokerage or dealer Annuities Life insurance policies Safe deposit box contents
Who is covered	U.S. and non-U.S. citizens with accounts at a member institution	U.S. and non-U.S. citizens with accounts at a member institution

Sources: Securities Investor Protection Corporation [1] and Federal Deposit Insurance Corporation

To view the original article, see:
https://www.nerdwallet.com/article/investing/sipc-insurance-what-it-does-and-does-not-protect?SIPC Insurance: Understand Your Coverage and Protections