July 2022

Member Insights

MERCK EMPLOYEES
FEDERAL CREDIT UNION

From the desk of the President/CEO:

Challenging Times Are Nothing New to Credit Unions



It was 88 years ago just around this time of year that the Federal Credit Union Act was created. On June 26, 1934 President Franklin Delano Roosevelt signed the Federal Credit Union Act into law. What was unique about this time in our history? It was during the heart of the Great Depression and credit unions were created as one of the President's New Deal initiatives to bring credit and savings vehicles to more Americans — at a time when they needed them most.

Credit unions' roots are to serve Americans in all economic climates, even during the depths of a depression. We saw this again during the financial crisis of 2008 when credit unions expanded their financial outreach to consumers and small businesses, while other financial institutions contracted. And while we are certainly nowhere near a Great Depression or the calamity of the 2008 Financial Crisis, we do face many economic headwinds. Inflation is at a 40-year high. Energy prices are soaring, making every fill-up at the gas station much more of a consumer concern. Everyday goods such as food and clothing have seen massive price increases that are forcing consumers to spend more of their income on the "basics."

We are experiencing a major stock market downturn, with the Dow, S&P 500 and Nasdaq all in correction territory. This in no way portends a depression or even a recession, but a market downturn is maybe more impactful now than ever before in American history as millions of Americans now participate in the market through their retirement savings plans. A market downturn like we are seeing today strikes at the heart of consumer confidence.

Whether it's inflation or concern over the market's retreat, when consumers lose confidence, the economy suffers given our consumer-driven economy.

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IRA Holders: Tax Form 5498 and What You Need to Know

When people think of the tax season, they identify with getting their tax documents compiled and their returns sent to the IRS by the traditional April 15 deadline. There are some tax documents however that come after the April 15 deadline and that can sometimes cause confusion.

One such form is IRS Form 5498. Form 5498 is sent out by May 31 of each year….well after most people have already filed their taxes. Let's take a deeper dive into the 5498.

Form 5498 is sent to holders of Individual Retirement Accounts who contributed to their IRA in the preceding year. IRA holders who contributed in 2021 will receive the 5498 by May of 2022 from the trustee of their IRA. The trustee (bank, credit union, broker, etc.) will also send a copy to the IRS. Form 5498 will show any IRA contributions as well as any transfers or rollovers involving an IRA. The form also shows the Fair Market Value of your entire IRA.

Form 5498 is not required to be filed with your tax return. It is for informational purposes only.

For account holders who made an IRA contribution, unless you filed for an extension, Form 5498 will not assist you in preparing your taxes. IRA holders should always consult their statement documents of their IRAs which will show contributions for the year to complete your taxes.

Form 5498 shouldn't be confused with Form 1099-R. IRA holders that took distributions from their IRA will receive a 1099-R that provides those distribution amounts. This form will typically come in early February, well before the April 15 tax deadline, and should be filed by the account holder with their tax return. As a reminder, if you are at least 72 years old you must take a Required Minimum Distribution from your IRA, unless it is a Roth IRA.

You May Soon Be Able to Delay Your RMDs in Retirement

A bill is headed for consideration by the full Senate that would move the age at which you have to start drawing down your retirement plan savings to 75. The House of Representatives passed a similar measure, so sponsors are hoping that if the whole Senate passes the bill, the proposed delay in having to start taking distributions from IRAs and similar plans will become law.

The IRS currently requires you to start taking withdrawals, known as required minimum distributions (RMDs) from your IRA, SIMPLE IRA, SEP IRA or retirement plan account when you reach age 70.5 if you were born before July 1, 1949 or 72 if you were

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**Annual percentage rate. Visit www.merckcu.com or visit a branch for more information.*



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So, what other headwinds do we face? The housing market hasn't had rates this high in over a decade. The 30-year mortgage rate has already hit 6% this year and is sitting in the mid 5% range most days. This is a far cry from the sub 3% 30-year mortgage rates of recent years. The spike in rates has added uncertainty to the housing market, making many wonder if they missed out on selling during a strong market. Those that are seeking a new home are finding their affordability is much diminished.

The Federal Reserve is attempting to curb inflation, but its strategy will likely first bring some economic pain. The Board has raised interest rates 150 basis points since the start of the year. In July the Fed hiked rates 75 basis points, the highest single hike since 1994. The Fed is attempting to slam on the brakes of economic growth by making borrowing a lot more costly for consumers and businesses alike. This is not an easy maneuver to pull off without driving the country into a recession.

As all of this goes on, it's interesting to look back 88 years ago on June 26, 1934 to President Roosevelt's efforts to ease the economic pain on Americans during the Great Depression by ensuring they had access to credit unions. What drove the recovery back then? While World War II is often credited as helping the country emerge from the Great Depression by driving job growth, our current economy has many bright spots, including a strong labor market. We also do not face the crisis that the banking industry saw during that period with more than 10,000 banks failing during the depression. Today's financial sector is stronger than ever as increased capital requirements has made all financials better equipped to handle an economic downturn.

While times are challenging, we do have bright spots and chief among them are credit unions, which are uniquely equipped to assist in these times as was the vision 88 years ago when FDR signed The Federal Credit Union Act. As not-for-profit financial cooperatives, credit unions are the perfect institutions to be here for our members, regardless of what is happening in the economy. Be assured that your credit union remains strong, ready and willing to assist you with your financial needs. We urge members to consider borrowing wisely during this period of rate hikes and remember that while the Fed is clearly on a path of rising rates, this too will pass. Future indicators of rates already show by the end of next year, the Fed could be considering rate reductions.

Paul Gentile
President/CEO

MERCK EMPLOYEES FEDERAL CREDIT UNION
Your Prescription to Financial Health

Member Services: 732-594-3317
Loan Department: 732-594-3018
Debit Card Lost/Stolen: 800-554-8969
Credit Card Lost/Stolen: 800-237-6211

Established in 1936, Merck EFCU is federally-chartered and federally insured by the National Credit Union Administration.

NCUA

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born after that date. You may have to pay a 50% excise tax if you do not take any distributions or if the distributions are not large enough.

What the House of Representatives Did

In March 2022, the House passed the Securing a Strong Retirement Act of 2021 or SECURE ACT 2.0. The legislation seeks to replace the current age to start taking RMDs with a sliding scale that would enable anybody who turns 74 after Dec. 31, 2032, to delay RMDs until age 75. This would allow retirees to keep more money invested for an extra 18 months and defer taxes that much longer.

What the Senate Did

The Senate Finance Committee recently advanced a similar version of the House bill, known as the Enhancing American Retirement Now (EARN) Act, to the full Senate. The Senate bill raises the age at which RMDs must begin to 75 in 2032 from the current 72. The House version includes a phased approach, raising the age to 73 in 2023, 74 in 2030 and 75 in 2033.

Lawmakers on Capitol Hill appear to be moving on a bipartisan basis toward delaying the age at which retirees must begin drawing down their savings from tax-advantaged plans. The bill enjoys strong bipartisan support and is poised to pass, but it's unclear if it will reach the President's desk by the end of 2022.

Merck Retiree Dinner Dance Survey



There is a group of Merck Retirees that is exploring the possibility of hosting a Dinner Dance similar to the Merck 25-Year Dinner Dance that Merck & Co., Inc. held annually. The Credit Union is assisting our effort to determine the level of interest from Merck Retirees to host this event in the Rahway, NJ area. We are asking Merck Retirees to respond if they are interested in attending. The Dinner Dance will be held some time during the Spring of 2023 at a local venue in the Rahway area. If there is a solid response to the survey, further details on the event will follow. Please contact one or both of us if interested. Thank you for your participation. Bill Sidun, billsidun@verizon.net, 908-561-5920 or Robert Parzanese, bparz09@comcast.net, 732-277-8271. Visit www.merckcu.com for a downloadable flyer.

