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Member Insights

MERCK EMPLOYEES
FEDERAL CREDIT UNION

Get to Know Your Funds Availability Policy



Funds availability refers to when you can access money that you've deposited into your account to pay bills, make purchases, and cover everyday expenses. With some exceptions, money that you add to your checking or savings account isn't always available to use right away.

Federal regulations allow banks and credit unions to hold deposited funds for a set period, meaning you can't use that money until after the hold is lifted.

Why Do Financial Institutions Hold Funds?

Financial institutions hold deposited funds for various reasons, but in most cases, it's to prevent any returned payments from your account. Depending on the type of deposit involved, it can take several days for the money you deposit to be transferred from the payer's financial institution to yours. Placing a hold on those deposited funds in the meantime allows the payment to clear your account.

Without a hold, you could write checks, pay bills or make purchases with your debit card against your balance. If the check you deposited ends up getting returned because the payer had insufficient funds, your financial institution would have to cover those payments. And, as a side effect, you could be charged returned check or overdraft fees for any transactions the financial institution must cover.

Funds availability holds protect you and your financial institution against the consequences of returned payments.

Why Do Financial Institutions Hold Checks?

Financial institutions hold checks to verify that the check will be paid. Anyone can write a check to you, but if there isn't sufficient money in their account, the check will bounce. As mentioned above, this can create headaches for both you and the financial institution, especially if you've used funds from a bounced check to pay bills or make purchases.

Checks get special treatment compared to other types of funds because there's a degree of uncertainty surrounding them. With checks, institutions don't know if the check is collectible until it's paid by the institution it's written from. This is unlike some other deposit methods. For example, if you're depositing $5,000 in cash, the financial institution has money in hand to credit to your account. And wire transfers are typically irreversible—the person who sent the transfer typically can't get the money back, so your bank can credit those funds to your account without fear of a reversal later.

What Should You Do?

It is important to understand the funds availability policy of financial institutions you have relationships with. The credit union's Funds Availability Policy can be accessed here (www.merckcu.com/disclosures/funds-availability). Get to know how your credit union protects you and other members from losses due to issues with deposited checks and other deposited items.

You also may want to discuss the best deposit option with a member service representative if you're expecting a large payment. For example, let's say that you're selling your house and expect to pocket $40,000 at closing. Your closing attorney gives you the option of receiving a paper check or a wire transfer. In this scenario, the wire transfer may be better if your bank makes those deposits available the same or next business day. While you may pay a fee for a wire transfer, it could be worth the convenience of not having to wait two to five business days or more for a paper check to clear.

Lastly, be careful when accepting check payments from unknown or untrusted sources. For example, if you're selling a car, and someone wants to pay you with a personal check, it may be safer to ask for a cashier's check. Cashier's checks are drawn against the financial institution's funds rather than a person's account and can offer more security and protection against check fraud.

Bottom Line

Understanding the funds availability policy at your current financial institution matters, so you know when your money is available to use. If you're shopping for a new financial institution or will be soon, remember to consider funds availability policies and other features and benefits when choosing where to keep your money. It is important to find a financial partner that allows you to bank the way you need to.

IRS Changes Guidelines for Inherited IRAs, Causing Confusion and Pushback

Figuring out the most efficient way to navigate the tax impact of inheriting individual retirement accounts has become more complicated since the Internal Revenue Service issued proposed new rules in February.

The rules on inherited IRAs were most recently changed in the 2019 Secure Act, which introduced a new 10-year payout rule for inherited accounts. The previous rule said those who inherited an IRA, Roth IRA or 401(k) could spread out withdrawals over their lifetime.

Many tax professionals interpreted the new 10-year rule to mean that these heirs could wait until the 10th year before taking any payouts, and that is what the IRS said in a May 2021 revision to Publication 590-B, a 69-page guide to IRA distributions. But then, in February, the IRS issued new guidance that would require heirs to take annual withdrawals in cases where the original owner died on or after his required beginning date for taking distributions.

The annual distributions are based on a formula that takes into account the IRA balance and the age of the recipient. The new guidance also applies to 401(k)s, but with those plans, employers often already set even more restrictive payout rules.

Payouts from a traditional inherited IRA are taxed like wage income. The new guidance means that many Americans inheriting an account will inherit it during their working life, and will therefore pay a much larger tax bill, say accountants.

"It's just horribly complex," says Michael Jones, a certified public accountant in Plymouth, Minn., who wrote a book in 2014 about the tax benefits of stretching out inherited IRA payouts.

Taxpayers can deal with the new law and guidance by calculating the necessary amount each year. Or, they can cash out in the first year and pay one tax bill. Taxpayers who fail to take a required distribution are hit with a tax penalty that is equal to half the amount that should have been taken out.

"Maybe just go ahead and take that vacation in France," says Mr. Jones.

Notably, spouses and certain categories of heirs including disabled individuals can still spread out the withdrawals over their lifetime. And inherited Roth IRA owners don't have to take payouts until the end of the 10-year period because Roth IRAs don't have annual payout requirements.

Sy Goldberg, an attorney in Melville, N.Y., has a client whose



mom died in her 90s in 2021. The client left two traditional IRAs, one valued at $105,000 and the other at $35,000, to her four grandchildren.

This meant there were then eight separate IRAs, with each grandchild needing to calculate their own life expectancy, and take different distributions in years one to nine. The balance would be taken in the 10th year, under the proposed rules.

"Grandma meant well, but the plan backfired," says Mr. Goldberg. The grandchildren decided it wasn't worth the hassle, so they took lump-sum distributions, he says.

In public online comments on the rules, some taxpayers and industry groups including the Investment Company Institute and the American Institute of Certified Public Accountants, are urging the IRS to kill the additional annual-distribution requirement or temporarily waive penalties for people who inherited money since 2019 but haven't taken distributions.

One taxpayer put it succinctly: "Just leave it the way it was plainly written as this is causing too much confusion."

The IRS says that it is reviewing comments and will respond to them in final rules. The proposed regulations represent the IRS's view of the law.

"I read about the change and started panicking about the penalties," says Margaret Rolo, of Rancho Mirage, Calif., who hadn't touched her $400,000 inherited IRA from her mother, who died in 2020.

Ms. Rolo says her financial adviser has told her to hold out to see how the final IRS rules play out. Taking a distribution in 2021, tacked onto a high-income year, would have meant a large tax bill, says Ms. Rolo.

Kathy Houser of Ann Arbor, Mich. handles tax filing for her family. She said that after her pilot husband inherited a $50,000 IRA from his dad in 2021, they made a financial plan to start distributions in year seven when he expects to retire, to minimize the tax bite.

The new guidance will stymie their plan.

"I was an IT professional before I retired and I can run a spreadsheet, but even this is making my head spin. It's asking a lot of taxpayers," she says.

Source: Wall Street Journal

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