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Member Insights

MERCK EMPLOYEES
FEDERAL CREDIT UNION

From the desk of the President/CEO:

All Eyes on the Federal Reserve in 2022 as Rates Tick Up

The stock market gets so much attention in today's financial environment, but consumers should also pay close attention to the bond market and what U.S. Treasuries are doing. There has been tremendous action in these markets of late and it's a signal that change is coming in the interest rate environment, which is critical to borrowers and savers alike.

Short term rates have already spiked dramatically since this time last year. For perspective, the 2-Year Treasury was approximately 1% at the time of this column, and it was just 0.12% last year. The 5-Year Treasury was 1.56%, up from just 0.43% last year. On the longer end, the 10-Year Treasury increased from 1.09% a year ago to 1.74% today and the 30-year from 1.85% to 2.06%. Rates are clearly on the rise, so why and what does it mean?

As for why the rise, for one the Federal Reserve has slowed down its bond buying program where it was buying billions of bonds monthly and pumping liquidity into the market which can artificially keep rates low. Also, the Fed's recent minutes of its latest meeting indicated more Fed board members being agreeable to raise its core rate, the overnight rate, in 2022. Prior to this, all the language coming out of the Fed was that this wouldn't happen until 2023. Why the change? For one they are backing off somewhat from their previous belief that inflation was temporary or "transitory" as the Fed put it. As more Americans pay more for everything from gas at the pumps to goods at the grocery store and elsewhere, inflation has proven stickier than they first believed.

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IRS Publishes New Required Minimum Distribution (RMD) Tables

For the first time since 2002, the Internal Revenue Service has updated its Uniform Lifetime Table and lowered the size of RMDs. The new tables, which now project longer lifespans, are used to calculate RMDs from individual retirement accounts, 401(k)s and other retirement savings vehicles each year. This means that starting in 2022, retirees can keep more money in a tax-deferred retirement account.

What Are RMDs and How Are They Calculated?

Traditional IRAs and 401(k)s allow retirement savers to defer taxes until they withdraw money from their accounts. This allows the money to continue to grow at a faster rate over time. The IRS does, however, require you to withdraw a specific amount each year once you reach a certain age. This limits you from keeping the funds in a retirement account forever.

The following accounts are subject to RMDs: Traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k) plans, 403(b) plans, 457(b) plans, profit sharing plans, other defined contribution plans. Roth IRAs are not subject to RMDs.

To calculate your RMD, first, look up the market value of your retirement account as of Dec. 31 from the previous year. Then, divide that value by the distribution period figure that corresponds with your age on the IRS Uniform Lifetime Table. You can also visit Merck EFCU's Retirement Central (https://bit.ly/RMDCalc). For example, a 72-year-old retiree with $500,000 in her IRA would divide $500,000 by her distribution period figure, which is 27.4. As a result, she would be required to withdraw at least $18,248 from her IRA in 2022.

Why The New RMD Formula Is Good For Retirees

The IRS has raised the average life expectancy from 82.4 to 84.6. With a higher life expectancy, retirees will likely need to spread their assets over more years. Due to the need to cover additional years, RMDs that begin in 2022 will be less than they were under the previous formula.

Since smaller withdrawals will be required each year, more of your retirement assets can remain in an IRA, 401(k) or tax-deferred account. Smaller RMDs will lessen your tax liability and could potentially drop you into a lower tax bracket - good news for retirees or those subject to RMDs.

Under the previous Uniform Lifetime Table, a 72-year-old with $500,000 in her 401(k) would have been required to withdraw $19,531 ($500,000/25.6) during her first year of taking RMDs. That's $1,283 more that would have been subject to income taxes compared to the smaller minimum withdrawal required under the revised table.

Meanwhile, a 72-year-old with $2 million in his retirement account would have been required to withdraw $78,125 under the older formula ($2 million/25.6). However, the

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Featured Loan & Deposit Rates

Auto Loans as low as **3.00% APR***	**E-Checking** as high as **0.25% APR***	**Credit Cards** as low as **8.25% APR***
Savings as high as **1.00% APR***	**IRAs** as high as **1.50% APR***	**Home Equity** as low as **3.25% APR***

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

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If the Fed does act that means it will cost more to borrow money in 2022 as many loan products, such as home equities and credit cards, are tied to the prime rate. Also, a rising 10-year Treasury often correlates with higher mortgage rates, which we are already seeing as 30-year mortgage rates are now routinely well over 3%. Historically 3% mortgage rates are still low, but there's a good chance they will creep up in 2022 if things continue. This could leak into the real estate market as a higher cost of borrowing could flatten real estate prices, though so far very little has slowed down the housing market. But be aware if you are in the market to borrow, expect to see a higher rate environment in 2022.

With nearly half of Americans now touched by the stock market one way or the other, either through direct stock holdings, mutual funds or in retirement accounts such as IRAs and 401ks, what impact will rising rates have on stocks? Historically, rising rates means an overall less robust stock market, especially in certain sectors such as large tech firms, but nothing is certain in this environment given the unprecedented extended low-rate environment we had, the wild card of the supply chain that when it clears could drive serious economic growth, and other factors. At the time of this column, the Dow was on track for 7 straight days of losses and the S&P its fifth straight day so this rate impact is being felt early in the year.

Fortunately, at the credit union we maintain our disciplined approach to our bond portfolio and work to ensure our members have the best rates available, but like all other businesses we will be impacted by the changing rates. As always, we urge members to take a long-term, disciplined approach to their financial lives and not overreact to market changes.

Paul Gentile
President

It's 5 Stars for Your Credit Union!

Merck Employees Federal Credit Union has once again been awarded the highest possible financial health rating by Bauer Financial, an independent rating agency for credit unions and banks.

The 5-star rating reaffirms the credit union's excellent financial health. Bauer Financial utilizes a number of financial measurements to rate institutions by pulling data directly from the institution's regulatory filings. In the case of MEFCU, the rating is based on the credit union's Call Report data from the National Credit Union Administration that can be found on www.ncua.gov. Some of the key criteria Bauer utilizes to determine the rating includes capital ratio, liquidity, delinquency, earnings, charge-offs, and others.

"The credit union's financial stature has been built by using sound principles and practices that ensure solid financial footing no matter what type of economic environment we are in. The board and credit union team are dedicated to ensuing the credit union is operating with the highest standards for safety and soundness," said MEFCU President Paul Gentile.

BauerFinancial has been rating institutions since 1983. Bauer is not paid by institutions for the rating. Consumers can view institution ratings by visiting www.bauerfinancial.com.

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updated formula results in an initial RMD of just $72,992 ($2 million/27.4), meaning this retiree would keep an extra $5,133 growing tax-deferred in his retirement account.

In summary, for the first time since 2002, the IRS updated the actuarial tables that determine the amount of money a person must withdraw from their IRA or 401(k) at a certain age. The SECURE Act changed the RMD age from 70.5 to 72 and the updated Uniform Lifetime Table has lowered the size of RMDs. This allows you to keep more of your assets in a tax-deferred account. Remember, RMDs are only the minimum amount that must be withdrawn each year. You can always withdraw more from an IRA or 401(k), but keep in mind: the larger the distribution, the larger your tax bill.

A financial advisor can be a trusted resource when it comes to planning for your decumulation phase. Finding a qualified financial advisor doesn't have to be hard. Visit Retirement Central (https://bit.ly/RetirementCentral) for more information.

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