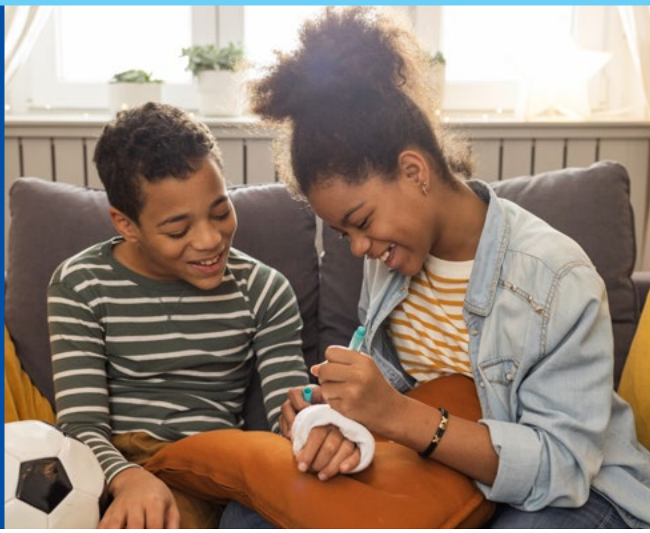
MONEY'S WORTH

for TFCU Members • April 2024



Financially preparing for the unexpected

According to Bankrate's 2024 annual emergency savings report, only 44% of Americans could pay for an emergency expense of $1,000 or more. Events like tornados, hailstorms, job loss, sudden home repairs, medical emergencies and much more can easily derail a budget if you are not careful. Having an emergency fund is an important part of financial planning. An emergency fund is a savings account set aside specifically for unexpected, urgent financial needs. Not having an emergency fund can lead to financial challenges, such as needing to take on high-interest debt, struggling to afford necessities or having to make difficult choices in the middle of a crisis. Just like you use a storm shelter to protect you from severe weather, building a financial safety net can give you peace of mind and security in the face of life's inevitable surprises.

There are several factors that need to be considered when planning how much to save in an emergency savings account. Try to save enough to cover three to six months of essential living expenses, but job stability, size of dependent family, insurance deductibles and monthly expenses should be considered when figuring out an amount for your emergency savings account. This amount can help you manage through those unexpected events without financial strain. Once you have calculated how much should be set aside for emergencies, it is time to start saving. Setting a monthly goal and making an automatic deposit can help build that savings quickly. Also, looking for ways to cut unnecessary spending can help direct more money toward your emergency fund. You will also want to look for the right type of account for your emergency fund. Make sure there is not a penalty to take money out at any time because you never know when an emergency will happen. It can help to have a separate account just for emergencies that can be reached easily and quickly. After a solid emergency fund is established, begin to allocate funds towards specific goals based on your priorities. Even with high-interest debt, it is still important to start building a small emergency fund while also focusing on paying off the debt. Being prepared for the unexpected with an emergency fund can possibly prevent attaining even more high-interest debt when faced with an emergency.

Having an emergency fund gives you peace of mind and security when the unexpected happens, preventing you from falling into high-interest debt during emergency situations. By making savings a priority and setting up automatic transfers into a liquid savings account, you can build your emergency fund efficiently. Be prepared for what life throws at you with an emergency savings account. ■

Article by Tina Herndon,
TFCU financial educator

TFCU events

Annual shareholders' meeting: April 6, 2024

Tinker Federal Credit Union's 2024 annual shareholders' meeting will take place at 3 p.m. Saturday, April 6. For more information, visit TinkerFCU.org.

Shred Day: April 13, 2024

Midwest City branch, 6501 Tinker Diagonal
8:30 a.m. - 11:30 a.m.
Please limit your amount of paper to no more than three boxes (approximately 18x12x12 inches) per car.

What is escrow and how does it work?

When you get a mortgage, there are many terms that may be new to you. If you're new to the home-buying process, you may not be familiar with how escrow works.

A mortgage escrow account is an arrangement with your mortgage lender to ensure payment of your property tax bill, homeowners' insurance and, if needed, private mortgage insurance (PMI). Most conventional mortgage lenders require PMI if your down payment is less than 20%.

The yearly and monthly costs for your escrow account will be estimated during the mortgage application process and finalized at closing. To come up with the amount, the lender will calculate how much property taxes are likely to be for a year, along with the quote you receive for homeowners' insurance and the expected PMI costs, if applicable. Money for property taxes is collected in the escrow account monthly to ensure that these taxes are paid in a timely and consistent manner.

Homeowner's insurance safeguards your home against unexpected events. Through an escrow account, your insurance premiums are consistently paid to protect your property.

The amount required for escrow is a moving target. Your tax bill and insurance premiums can change from year to year. Your servicer will determine your escrow payments for the next year based on what bills they paid the previous year. To ensure there's enough cash in escrow, most lenders require a minimum of two months' worth of extra payments to be held in your account.

Your lender or servicer will analyze your escrow account annually to make sure it is not collecting too much or too little. If the analysis of your escrow account determines that your lender or servicer has collected too much money for taxes and insurance, you will receive what is called an escrow refund.

If the analysis shows the institution has collected too little, you'll need to cover the difference. You may be given options to make a one-time payment or increase the amount of your monthly mortgage payment to make up for a shortage in your escrow account.

An escrow account is a valuable part of a mortgage that assists borrowers in effectively managing property-related expenses. By providing financial predictability and ensuring timely payments of property taxes and insurance, escrow accounts contribute to a smoother homeownership experience. ■

Article by Kara Robinson,TFCU financial educator

Should you convert your traditional IRA to a Roth?

If a Roth IRA conversion means tax-free withdrawals in retirement and a more substantial inheritance for your heirs later on, it sounds like a no-brainer. But converting a traditional IRA to a Roth doesn't make sense for everyone.

Roth IRAs are funded with after-tax dollars and, provided that several criteria are met, qualified withdrawals are tax free. If you're converting funds from a traditional IRA to a Roth IRA, you'll have to pay taxes on that income upfront. But it may be worthwhile to have access to tax-free money during retirement.

A Roth IRA conversion is worth considering if the following things apply to your situation:

To minimize income taxes, consider a Roth IRA conversion in a year that your income is lowest. The amount you convert will be added to your annual gross income and could push you into a higher tax bracket.

You live in a state with no income tax but will retire to a state with income tax. By doing the conversion in your current state, you'll avoid the state income tax on withdrawals of the converted funds.

You have most of your assets in tax-deferred accounts. Once you make the conversion to a Roth IRA, you'll have access to tax-free money in retirement. Diversifying your accounts by tax treatment will allow you to better manage your tax bracket and help optimize tax planning in retirement.

You don't need the money from the IRA in your lifetime and want to maximize the estate you leave to your heirs. Your heirs can eventually access the Roth IRA without tax implications, as long as they follow the guidelines set forth by the IRS.

Your taxable income will stay the same but you expect tax rates to go up in the future. If you think tax rates will go up in the future, it might be better to pay the tax liability now when rates are lower.

But in these scenarios, you might want to think twice about making a Roth IRA conversion, at least for now:

You're nearing retirement and you plan to use your traditional IRA to pay for living expenses. The advantage of the Roth IRA is that qualified distributions are tax free. If you need IRA funds soon, you can't give those funds a chance to grow and compound, and you haven't maximized the growth potential.

You're currently receiving or are two years away from receiving Medicare benefits. A Roth conversion would increase your taxable income and could impact how much you pay for

Medicare Part B and D premiums.

You don't have cash on hand to pay for the conversion taxes. If you don't have the cash but want to go through with the conversion anyway by selling assets to pay the taxes, look at assets without taxable gains or those that have a higher cost basis. Best practice is to use funds outside of an IRA to pay for the conversion.

You plan to give a substantial amount of your IRA to charity. A qualified charitable distribution (QCD) from a traditional IRA to an eligible charity is a nontaxable way to fulfill charitable wishes. While a QCD from a Roth IRA will also meet charitable goals, it results in unnecessary taxes paid beforehand.

Chat with your advisor before converting a traditional IRA to a Roth. While it can be a powerful move, it's not always the best choice.

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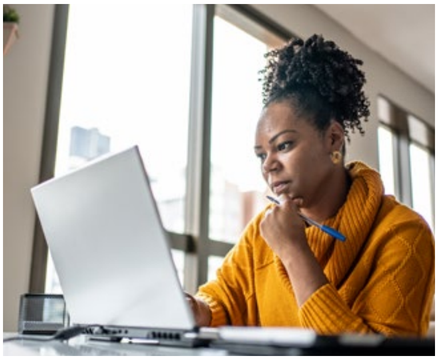
TFCU FINANCIAL ADVISORS

Decoding credit terminology



For many adults, credit is shrouded in mystery. Some of the mystery is in the language used in credit reports and credit scoring. April is Financial Literacy Month, so let's go over a few credit terms you need to know.

Credit utilization. The term credit utilization is the percentage of credit you are using compared to how much is available for you to use. Example: If John's credit card limit is $1,000 and he has a $200 balance, John's credit utilization is 20%.

Revolving. This is an account type that refers to money that is available to use more than one time. Usually, referring to a credit card or line of credit.

Collection or collection agency. After an account has become severely delinquent, a creditor may transfer or sell the account to a third-party collection agency or to a collection department. These debts are still owed, but you may be asked to pay someone other than the original creditor.

Trade line. These are accounts that require monthly payments and have the potential to report positively to the credit bureaus. Collections are not trade lines, but credit cards, loans and lines of credit are.

Delinquency. As the name implies, delinquency means the payment was late. Late payments are not reported late to credit bureaus unless they are 30 days or more delinquent.

Charge-off and write-off. These two terms mean the same thing. The terms charge-off and write-off refer to when an account has been delinquent so long the company believes it is uncollectable. This debt is still owed, but in some cases, it may be transferred to a collection agency.

Inquiry. An inquiry is when an authorized party requests a copy of a consumer's credit report. Inquiries may be hard or soft pulls.

Hard credit pull. This is when an authorized creditor makes an inquiry for the purpose of approving a credit application. Hard credit pulls are recorded for two years and may slightly reduce credit scores.

Soft credit pull. Consumers have the right to pull their own credit report any time, and these reports are not recorded and have no effect on credit scores, which makes them soft credit pulls. Authorized businesses may use soft credit pulls to preapprove consumers for credit approvals or promotions.

The terms listed are not an exhaustive list of all credit terms, but a place to begin when learning about credit reports. ■

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