

Consolidate Your Accounts

A Simple Solution



Picture yourself on a nice summer day, relaxing by a pool, on a beach or on a golf course. Now, contrast that with sitting in your den or kitchen, going through recent statements from a half dozen or more investment accounts. Time is precious, whether you are retired and want to enjoy your golden years fully or are busy raising a family and trying to complete a long “to-do” list.

Going through financial paperwork probably doesn’t rank high on your list of preferred activities, but it is important. However, by having too many accounts, you could be passing up some enjoyable activities with friends and family or simply spinning your wheels. Having fewer investment accounts to keep track of will give you more free time to spend pursuing your favorite interests, particularly in retirement.

Simpler can be better

In addition to saving time, consolidating your accounts can simplify your finances, cut down on paperwork and eliminate duplication. A common myth is that more investment accounts, or dealing with numerous investment firms, will diversify your investments further. But the focus should be on diversifying the contents of the accounts — the actual investments — and not the accounts themselves. A more efficient and logical solution is to hold a variety of funds within a single investment account at a well-respected financial firm.

To consolidate your accounts and transfer assets between firms, select the one that you would like to continue to deal with, and obtain an account transfer form from that company. You will provide the account number and name of the firm where the money will come from. The process normally takes a couple of weeks.

What NOT to do: When transferring between tax-deferred retirement accounts, do not have money sent to you as a check. It’s simpler and less confusing to have the money transferred directly from one firm to the other. This will avoid the risk of being expected to pay taxes on a check sent to you, which could be mistaken for an account withdrawal.

Both IRAs for different tax treatment

When consolidating individual retirement accounts (IRAs), it could be beneficial to have at least one traditional IRA and a Roth IRA. Roth IRA withdrawals are tax-free because Roth IRA contributions are not tax-deductible. The tax benefit occurs

when withdrawing. In contrast, traditional IRA withdrawals are taxed because initial investments are tax-deductible. The tax benefit is received when contributing. Having both types of IRAs diversifies the tax treatment of your account withdrawals in retirement. This could be helpful because of uncertainty about future income tax rates.

A balanced approach

Another way to make investing simpler is to invest in a balanced fund or a target-date fund. Target-date funds have a mix of stocks, bonds and cash. They automatically rebalance gradually to a less risky mix of assets as a target date approaches. This reflects a decreasing time horizon and presumed lower tolerance for risk.

What can you do to consolidate your finances?

- Do you use one insurer for your home and car insurance? If so, this should entitle you to a discount on insurance premiums. ☐ Yes ☐ No
- Do you have accounts with more than one bank? Could you combine any? ☐ Yes ☐ No
- If you owe money, could you consolidate your debts? This could help to lower your interest rate.
☐ Yes ☐ No
- Are there other ways you can consolidate your finances?
