RetireReady

4 Reasons to Consolidate Retirement Accounts

Did you know Americans change jobs an average of 12 times in their lifetime? If you have changed jobs and left behind 401(k) accounts with prior employers, you know firsthand that managing retirement accounts spread among different custodians and financial services providers can be a big headache. Let's look at four reasons why consolidating your retirement plan accounts may be the cure.

1 It's easier to keep track of one account versus multiple accounts.

No matter how many retirement accounts you own from previous employers, managing all your retirement assets in one account saves you valuable time, effort, and feelings of frustration. Imagine having just one of everything—one statement, one password, and one account number—instead of several! Consolidation also makes it simple to track your progress toward savings goals and manage your investment options.

2 You could pay less in fees.

Your 401(k) plans incur various investment, custodial, and administrative charges; the more accounts you own, the more fees you'll pay. By consolidating accounts, you may be able to reduce those charges, which otherwise could eat away at your balances over time. Also, some fees are charged based on the amount of assets; your combined account balance may meet minimum asset thresholds, thus qualifying for potential fee reductions.

3 It will make things simpler for your heirs when you're gone.

As uncomfortable as it is to think about the prospect of passing away, making it as easy as possible for your loved ones to administer your estate is an important planning consideration. By consolidating your retirement accounts, it may alleviate the need to chase down multiple account statements, call various custodians, and coordinate payments to your beneficiaries.

4 You'll reduce the risk of missing RMD.

Generally, when you turn 73, the IRS requires you to take a required minimum distribution (RMD) each year. Failing to take your RMD on a timely basis result in a hefty penalty: 50 percent of the amount you failed to withdraw! Forgetting to take an RMD could be a costly mistake; having fewer accounts makes it easier to keep track.

In most cases, account consolidation can be accomplished by rolling your old retirement account into your new employer's retirement plan or an IRA. By doing so, you'll preserve the account's tax-favored status and steer clear of early withdrawal penalties. To initiate the rollover process, contact your employer's human resources or benefits department to find out how to roll old 401(k) accounts into your new account. Alternatively, contact your former employer's custodian to learn its requirements for rolling those assets into your new employer's retirement plan.

If you are considering rolling over money from an employer-sponsored plan, such as a 401(k) or 403(b), you may have the option of leaving the money in the current employer-sponsored plan or moving it into a new employer-sponsored plan. Benefits of leaving money in an employer-sponsored plan may include access to lower-cost institutional class shares; access to investment planning tools and other educational materials; the potential for penalty-free withdrawals starting at age 55; broader protection from creditors and legal judgments; and the ability to postpone required minimum distributions beyond age 72, under certain circumstances.

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