4 Reasons to Consolidate Accounts

Putting savings and investments in one place can save time and money.

Key takeaways

- Holding your investments at a single financial firm can help provide a complete view of your portfolio.
- Seeing all your investments in one place may help you track potential tax opportunities more effectively and reduce fees and commissions.
- Maintaining control over your spending is an important part of reaching your goals. Tracking spending and saving together can help you understand your full financial picture.

There's never been a more exciting time to be a financial services consumer. Technology has made world-class investment advice affordable for everyone, and competition has pushed many fees, commissions, even investment minimums down to zero.

Bringing all your investments to one institution can help make life simpler and more convenient—and maybe even save you some money. A consolidated view of your accounts, with a single company or software that provides a complete view of your finances, can make it easier to track your asset mix, tax situation, and financial life. If you consolidate assets with a single company, you may become eligible for lower commissions and fees, or additional services.

"Managing your financial life takes time, but adding the complexity of planning across multiple providers can make it more time-consuming," says Ann Dowd, CFP®, vice president at Fidelity. "Why make it hard on yourself to get a complete view of your cash flow, financial needs, and investments?"

Here are 4 ways consolidating your accounts could help simplify your financial life.

<u>1. Complete view of investments</u>

If you have investments in several locations, it can be difficult to stay on top of your overall portfolio. It's also complicated to make your investments work together. You could be duplicating exposure to certain investment types.

When you consolidate, it's much easier to take charge of your strategy and help keep your intended asset allocation on track. Moreover, rebalancing can be a much simpler task with an integrated view. It can be easier to form a clear picture of your performance and investment mix when it's all in one place.

Typical consolidation opportunities include moving money from a 401(k) held at a former job to a new employer's 401(k) plan or rolling it over to an IRA. A rollover IRA can offer more investment options and access to different services.

If you're self-employed—or considering becoming self-employed—another option to consolidate is rolling over your 401(k) into your own small business retirement plan, such as a SEP IRA or self-employed 401(k). Learn more about self-employed rollover options.

Of course, you always want to carefully consider any potential benefits of remaining in the 401(k) plan before deciding to roll it over. You'll want to think about the unique investment choices, including potentially lower cost shares, fees and expenses, and tax considerations, along with the plan's withdrawal rules and the protection it generally offers against creditors. Additionally, investors with company stock in their 401(k) or other workplace retirement plan might lose the option to elect net unrealized appreciation (NUA) if they roll these assets into an IRA and should speak to their tax advisor before making any decisions.

2. Track potential tax opportunities

Bringing retirement and brokerage accounts together with a single service provider may make it easier to implement a tax-efficient investing strategy. For taxable accounts, tax-loss harvesting may be easier when your investments are with a single provider in one account, where you can easily see your gains and losses.

Or, you may find it easier to implement an asset location strategy. Your more tax-efficient investments can be in one taxable account, while less tax-efficient assets can be kept in tax-advantaged accounts like IRAs. If they're with a single provider, it can be more convenient to keep track of them.

3. Reduce fees and commissions

Fees can affect your returns. These days, you can find index funds with low or even zero expense ratios, place online trades with no commissions, and get brokerage accounts with no account fees. When you pay less in fees, more of your money is available to potentially grow and compound over time.

If you're investing through multiple providers, you might be paying more fees than necessary.

Some providers may generally be lower cost than others. It can be a good idea to investigate the fees charged on your accounts and investments to see how much you've been paying. That can help you see how any change would impact you.

4. More effective planning

Consolidating accounts may also improve your financial planning. Being able to track your investments, spending, debt, and net worth all together can help you spot trends, identify potential problems, and change course if necessary.

Understanding of your full financial picture can also help reduce the stress of managing several different financial accounts and goals. With spending accounts in the same place as savings and investments, it's very easy to transfer money between accounts and quickly see where you stand relative to all of your goals.

For example, retirees need to determine how much to withdraw from their retirement accounts each year to ensure that their retirement savings will last their lifetimes—a so-called sustainable withdrawal rate. They also need to make sure they're meeting their required minimum distributions (RMDs) from certain retirement accounts when the time comes at age 73.

With all of your accounts under one roof, it could be easier to evaluate and implement your withdrawal strategy.

Look before you leap

If you decide to consolidate, do it wisely. Consider whether consolidating will mean liquidating certain investments and possibly incurring tax consequences. For mutual fund investors, consider the investment options, particularly if your 401(k) or workplace plan offers institutional shares, which may be less expensive. Overall, you need to be sure that the benefits outweigh any potential costs.

Creditor protection can be a consideration as well. IRAs are protected from creditors up to a certain dollar amount in personal bankruptcy proceedings but the money in an employer plan is generally shielded from creditors.

Think about safety and security as well. Look for institutions that use strong encryption, advanced firewalls, and secure emails. They should provide enhanced security around high-risk transactions—without adding a lot of extra work for you.

Consolidating is a decision that takes some time and consideration, but the potential benefits may make it worth your while. You could find it easier to set and maintain your asset allocation as well as diversify your portfolio more effectively. You might find opportunities to save money through both improved tax efficiency and the lower fees often associated with having more money at one provider. Most of all, you'll have a chance to plan more effectively and take control of your finances. That's a move that, in the end, could improve your overall financial picture.

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