# Should You Consolidate Your Retirement Accounts?

*Presented by Kelley McGoldrick*

If you're like most people, you've saved for retirement in multiple ways, including employer plans and individual retirement accounts (IRAs). As you approach retirement, it may make sense to consolidate all of your savings into one account to achieve a coordinated investment plan.

**Why Consolidate?**
Consolidating your retirement accounts offers several potential benefits:

- **Less administrative hassle.** You'll receive just one account statement, making it easier to keep track of your funds. Consolidating your accounts also simplifies required minimum distribution calculations and tracking.
- **No overlap.** If you have multiple accounts, that doesn't necessarily mean that your investments are properly diversified. In fact, your money may be invested in similar asset classes with significant overlap. Consolidating your retirement accounts gives you a clearer view of your asset allocation picture, as well as any adjustments you may need to make.
- **Easier rebalancing.** Any retirement savings account requires periodic rebalancing to keep it in line with your objectives. By consolidating your accounts, you're more likely to achieve a cohesive investment strategy.

**How to Consolidate**
Moving a retirement account to a new employer plan or to an IRA can be done via rollover or transfer. Although these terms are often used interchangeably with transfer, there are significant differences between the two.

With a rollover, the retirement funds are paid to you directly, and you have 60 days to move them to another plan or IRA. If you are moving money from an employer plan, a 20 percent tax withholding will be deducted from the check. To avoid facing potential penalties, you must contribute enough to your new retirement account to replace the 20 percent withholding. Alternatively, you can ask your retirement plan administrator to make out a check payable to your new IRA custodian and mail it directly to you. It is then your responsibility to deposit the funds in your new account within 60 days.

With a trustee-to-trustee transfer, the funds are sent directly from one plan to another. That is why this type of transfer is often referred to as a direct rollover. Unlike regular rollovers, there is no withholding requirement for direct transfers. When requesting a transfer from your employer's plan or another retirement account, be sure to use the right terms to avoid unwanted tax consequences.

**Should You Move Your Employer Plan to an IRA?**
A former employer will generally let you keep your money in its retirement plan for as long as you want. You may also choose to move those savings to an IRA. Before making the switch to an IRA, however, it's wise to consider the following factors:

- **Investment choices.** An employer's 401(k) plan may be lower cost, but your choice of investments will be limited, as 401(k) plan sponsors tend to simplify the investment decision for employees by reducing the number of options. With an IRA, you have a potentially unlimited choice of investments, including individual stocks, mutual funds, and alternative investments rarely offered by employer plans.
- **Control over distributions.** Another benefit of IRAs is that you have more control over when your retirement savings are paid to you. Distribution requirements vary among IRA providers, so be sure to understand the choices available to you and your beneficiaries.
- **Creditor protection.** If creditor protection is a concern, both employer plans and IRAs safeguard your retirement savings from creditors to a certain extent. Employer plans generally offer better protection than IRAs do, however. The level of protection an IRA offers depends on your state laws.

- **Early withdrawal.** One reason to keep funds in an employer account, at least temporarily, is that you may need to tap into your retirement savings before you reach age 59½. There is no tax penalty for taking a distribution from your former employer's plan after you reach age 55. Although you'll still pay income taxes, you will avoid the 10 percent penalty for early withdrawal, which would be assessed if you withdrew funds from an IRA before age 59½. Exceptions to the penalty on early IRA distributions include:
    - Unreimbursed medical expenses that amount to more than 7.5 percent of your adjusted gross income
    - Disability
    - Distributions from a beneficiary IRA upon the death of the original IRA owner
    - Qualified higher-education expenses
    - Qualified first-time home purchase
    - Distributions under a "substantially equal payment" plan, per Section 72(t) of the Internal Revenue Code
- **Employer stock.** Finally, before moving funds to an IRA, talk to your advisor about the best way to handle employer stock held in your 401(k) or other employer retirement plans. There may be significant tax advantages to moving stock "in kind" to a taxable brokerage account rather than to an IRA. This is often referred to as the net unrealized appreciation strategy. You will pay ordinary income tax on what you paid for the stock, but any appreciation will be taxed at long-term capital gains rates.

**A Retirement Strategy That Works for You**
If you have any questions about consolidating your retirement accounts, don't hesitate to reach out to us. We can help you develop the best strategy for you, keeping you on track to meet your retirement goals.

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