

## CONSOLIDATING YOUR IRA'S

By Steven W Shirley

### Combining Multiple Retirement Accounts Can Save Time and Money

Are you one of the many Americans who changed employers several times during your career and as a result have several different retirement plans such as IRAs and 401(k)s? It's great to sock money away for retirement during your tenure at each job, but there is a downside to having multiple retirement accounts. Tracking and reporting these assets are more complicated and you could be racking up service fees for each account. Plus, miscalculating any Required Minimum Distributions could lead to a 50% penalty tax on the difference of the amount taken and the RMD. Don't forget, the IRS now requires annual tax returns to include information on whether an RMD was required for each account. It may be more efficient to consolidate, or rollover, these accounts into a single Individual Retirement Account (IRA).

Consolidation may help retirement planning since more and more future retirees may depend on IRAs in addition to Social Security and Medicare benefits. In fact, in a recent survey, 42% of Americans expressed fears related to retirement income, either that they will run out of money prematurely, or that they will have to downgrade their lifestyle in retirement<sup>1</sup>. So it's imperative to keep a close eye on your retirement assets and investment strategy. The more accounts you have, the more difficult this task becomes. Suppose you have three retirement accounts. You'll have three statements to review. Plus, you need to look at your investment mix and performance within all three accounts then compare the investments in each account side-by-side. After all, simply having multiple accounts does not ensure that your investments are diversified.

### Consolidation Simplifies Your Life

On the other hand, if you had a single account, you can simplify your record keeping and investment management. There would be only one statement to review and it would be easier to see any gains or losses. Tracking one account also makes it easy to quickly review your investment mix, and ensure that this mix matches your current goals and risk tolerance. An IRA may also offer more investment options than some employer-sponsored plans. Other administrative tasks are also easier with one account. For example, beneficiary updates or address changes can be handled with a single phone call or completing a single form.<sup>1</sup> The National Association for Variable Annuities "2005 Financial Retirement Fears" survey, March 28, 2005.

## Consolidation Saves You Money

And that's not all. In addition to saving time and effort, you could also save money by having just one retirement account. If you are paying maintenance or service fees on each account, consolidating into one IRA may help you minimize or eliminate these fees. Let's say your three retirement accounts each have an \$8,000 balance. All three custodians charge a \$30.00 annual maintenance fee for accounts with less than \$10,000 in assets. If you combine your \$24,000 into one account, these charges are eliminated, and you save \$90.00 a year. \$90 may not seem like a huge savings, but over time it really adds up. Let's take the initial investment of \$24,000. If your account earns 7% compounded interest annually during the next 30 years, you could have *over \$8,500 more* in your retirement account if you did not pay \$90 in fees each year.

For people age 70 ½ or older who must take Required Minimum Distributions, it's even more time consuming to manage multiple retirement accounts. Although RMDs may be taken from a single account, the distribution amount must be calculated based on the total in *all* of your qualified retirement accounts. Remember, the IRS now requires account owners to report whether or not a RMD was required on annual tax forms. Failure to take the RMD based on all of your accounts could lead to a 50% penalty tax on any difference between the amount taken and the RMD.

## What to Consider When Consolidating

Assets from most qualified plans can be rolled over into an IRA. These include former employer-sponsored plans such as 401(k), and government deferred compensation 457 plans, provided you are not taking income or withdrawals from them yet. Currently, assets from 403(b) can be rolled over, however, this may change due to pending legislation. In addition, funds from a Roth IRA cannot be rolled into a traditional IRA.

Before planning to consolidate accounts, owners should ensure that a *direct transfer* option is available to avoid mandatory federal income tax withholding. In a direct transfer, the withdrawal check is payable to the IRA's custodian, and assets generally retain their tax-deferred status until income is taken from the new account, because the account owner never takes constructive receipt of the funds.

Note that a *non-direct* transfer however, *does* include constructive receipt of the funds since a check is made out to the account owner. As a result, *non-direct* transfers may be subject to surrender charges and penalties, which can include a 20% automatic withholding for taxes. In addition, those funds must be deposited into a qualified plan within 60 days to avoid penalty tax. You must replace the 20% that was withheld out of

your own pocket and deposit it into your new IRA. You then get the 20% back as a tax credit on your year's return. As shown, it's much easier to complete a direct transfer when consolidating IRAs. Check with your tax advisor for additional rollover rules specific to your situation.

## **When Not to Consolidate**

Many people can benefit by combining retirement accounts into a single IRA. There are certain situations, however, when consolidating is *not* a good idea:

- Before requesting a rollover, check whether your financial institution imposes any transactions fees or other charges to complete a transfer. If there are such costs, it may be better to leave your accounts where they are.
- For non-direct rollovers, if you are under age 59 ½ at the time of the distribution, any taxable portion not rolled over to an IRA may be subject to an additional 10% penalty tax.
- If an account has an outstanding loan balance, you must pay it off before you request a rollover. Otherwise, the loan balance is treated as a taxable distribution.
- If your plan includes company stock, you could lose significant tax advantages.

## **Financial Professionals Can Help**

When completed correctly, consolidating multiple IRA accounts can save you time and money while keeping your assets growing tax-deferred. Everyone has different retirement planning goals, however, so consult with your financial professional and tax advisors to see if this if retirement account consolidation is right for you.

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