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Financial Planning

Should You Put Your Investment Account Eggs in Fewer Baskets?

After a lifetime of changing jobs and moving, many of us have accumulated a number of investment, retirement and checking accounts at various financial institutions. When talking about investments, the concept of diversification is usually a good thing, but spreading out your assets too much can add significant time and effort to the task of managing your money. This additional complexity can create confusion and extra work, especially as we get older. Keeping all of your investments in one place – or just a few – can make life easier in a number of ways, but there are some considerations you should take into account before committing to moving assets in an effort to have fewer investment accounts.

While using multiple firms can be beneficial, in that it may give you access to additional investment choices or fee structures, it can also add to the time it takes to manage all your assets. To properly determine an overall asset allocation, you will need to think through all of your investment accounts, no matter where they are held. You might want to consider using a software app known as an account aggregator to electronically pull everything together. Otherwise, you will need to do it manually, which can take considerable time, depending on the number of accounts and investment firms involved. You should take a look at this consolidated view at least annually to make sure that the big picture still fits with your overall goals, and that the balance of your investments is still appropriate.

Having a number of IRA accounts at multiple firms can make it more difficult to calculate your annual required minimum distribution (RMD). You need to determine the amount you must withdraw from the total balance of all of your traditional IRAs. Forgetting even one account can subject you to stiff IRS penalties. It can also make distributions to your beneficiaries more complex after your death as each IRA account requires its own beneficiary designation. If you want to make a universal change to your wealth transfer plan, you will need to complete new

beneficiary designations for each IRA account you hold.

Tax season can be simpler when your accounts are more consolidated. Fewer accounts at fewer institutions equals less tax reporting documents to wait for once tax season begins. Working with consolidated accounts also helps make it less difficult to review realized and unrealized gains and losses and create a tax-efficient portfolio.

By consolidating and limiting the number of accounts you hold, you will receive less correspondence and you'll also be able to more easily monitor your finances. But keep in mind, moving funds and closing accounts may result in fees being charged. Make sure you ask about this if you decide to streamline your investment accounts. If you feel comfortable managing multiple accounts with a variety of institutions, consolidation may not be right for you. If, on the other hand, you have a desire to simplify your financial life, you might give consolidation some thought. ■

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