Changing Jobs? Don’t Forget Your Retirement Account

People commonly make the mistake of leaving their old retirement accounts behind when they change jobs. While it’s perfectly legal to do this, there are advantages of taking your old retirement plan with you when you leave. An old account can be transferred to an IRA (Individual Retirement Account) or a new employer’s retirement plan. Here are five reasons why you should consider taking this route rather than leaving your old retirement account behind.

1. It’s Simply Easier

Having many financial accounts only makes it more difficult to manage them. It can increase stress, the number of login credentials, and the amount of paperwork that must be tracked. Reducing the number of retirement accounts you have will make managing them easier. It’s common for people to tend to feel more organized when they have fewer accounts.

If multiple retirement accounts reside at multiple financial institutions, this situation will increase the level of difficulty in managing the accounts. Consolidating the accounts also reduces the number of institutions involved with managing your path to retirement.

2. It Saves Money

Having several retirement accounts at multiple companies also increases the cost of managing them. 401(k)s, 403(b)s, and 457 accounts frequently come with annual or quarterly fees. Additional charges can include record keeping, portfolio management, and wrap fees. Having two retirement accounts open can double the cost of ownership.

Closing a single account could save $100 or more in a single year, depending on the fee structure of the specific plan.

Sometimes fees can be somewhat hidden from plan participants, so you may not even know the exact costs you're paying to keep an old retirement account open. Most likely, they'll be there if you look. If you're unsure of the exact fee structure of your account, be sure to contact your plan sponsor and request a written disclosure on what the account charges you every year.

3. Asset Allocation Could Be Easier

An investment account typically has multiple assets, and over time, the prices of the assets can drift from original targets. If the value of stocks in an account has risen significantly, for example, while the bond portion has remained flat or even declined, the portfolio will be more aggressive than you originally intended. This is where rebalancing becomes necessary. It's also important to consider rebalancing a portfolio if your risk tolerance changes.

It's easier to evaluate asset allocation if you have one retirement account instead of several. A retirement plan from one sponsor may use a different brand of mutual funds than another sponsor uses, and this situation increases the complexity involved. The fewer retirement accounts you have, the easier it will be to keep your nest egg on track and in line with proper asset class percentages.

4. It Does Away with Additional Logins

Most people have more passwords than they can keep up with and checking your retirement account balance will be easier with fewer logins. It's more difficult to figure out how well or how poorly your nest egg is performing if your retirement assets are spread across multiple accounts. Consolidating as many accounts as possible will make performance evaluation a simpler procedure.

5. It Saves Time and Reduces Stress

The more retirement accounts you have open, the more time it will take to rebalance them, monitor them, and keep up with all the paperwork. Moving multiple 401(k)s, 403(b)s, and 457 accounts into a single account could reduce the time required to manage your nest egg.

Disorganization is a common cause of financial stress and maintaining too many retirement accounts can add to that burden. Consolidating your retirement accounts can help you feel more on top of your financial situation.

While leaving your old job behind may be a good thing, it’s important to bring your retirement account with you. We understand that managing multiple financial accounts is complex, so we’re happy to help if you need assistance. Please contact us directly if you have any questions.

Sources

https://moneywithapurpose.com/old-retirement-accounts/

https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/articles/3-reasons-investors-shouldnt-leave-the-old-401-k-behind

https://money.usnews.com/investing/investing-101/articles/2018-05-16/5-reasons-to-consolidate-your-investing-accounts

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Qualified Plan Rollovers *If you've changed jobs or are retiring, rolling over your retirement assets to an IRA can be an excellent solution. It is a non-taxable event when done properly - and gives you access to a wide range of investments and the convenience of having consolidated your savings in a single location. In addition, flexible beneficiary designations may allow for the continued tax-deferred investing of inherited IRA assets. In addition to rolling over your 401(k) to an IRA, there are other options. Here is a brief look at all your options. For additional information and what is suitable for your particular situation, please consult us.*
1.- Leave money in your former employer's plan, if permitted Pro: May like the investments offered in the plan and may not have a fee for leaving it in the plan. Not a taxable event.
2.Roll over the assets to your new employer's plan, if one is available and it is permitted. Pro: Keeping it all together and a larger sum of money working for you, not a taxable event Con: Not all employer plans accept rollovers.
3. Rollover to an IRA Pro: Likely more investment options, not a taxable event, consolidating accounts and locations Con: usually fee involved, potential termination fees
4. Cash out the account Con: A taxable event, loss of investing potential. Costly for young individuals under 59 1⁄2; there is a penalty of 10% in addition to income taxes.
Be sure to consider all your available options and the applicable fees and features of each option before moving your retirement assets.