

4 Reasons to Consolidate Accounts

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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 tax opportunities more effectively, and reduce fees and commissions.

One investing approach is to spread your money out in accounts at multiple financial service companies, but bringing all your investments to one institution can help make life simpler and more convenient.

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, and 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, 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 your financial life could be simplified if you decide to consolidate your financial accounts.

1. Complete view of investments

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.

For instance, moving money from a 401(k) held at a former job to your new employer's 401(k) plan or, after retirement, rolling it over to an IRA, are typical consolidation opportunities. A rollover IRA can offer more investment options, the simplicity of managing a single portfolio, and access to different services.

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 will want to think about the investment choices, fees and expenses, and tax considerations, along with the plan's withdrawal rules and any protection it might offer against creditors.

2. Track tax opportunities

Bringing retirement accounts 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, where you can easily see your gains and losses. You can look at all your holdings at once rather than having to view each account separately.

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 are with a single provider, it can be more convenient to keep track of them.

3. Reduce fees and commissions

If you're investing through multiple providers, you might be paying more fees than necessary. This is because some financial providers have thresholds for price breaks. Generally, the more assets you have with a single financial provider, the more opportunities you may have for reducing or eliminating account fees and lowering investing expenses.

This is not always the case: Some providers may offer lower cost products than others, so you need to check to see how any change would impact your particular situation.

4. More effective planning

Consolidating accounts may also improve your financial planning, such as retirement income planning. 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 are meeting their required minimum distributions (RMDs) from retirement accounts when the time comes at age 70½.

"Planning across multiple providers can make it harder to get a realistic view of your cash flow, needs, and progress," notes Dowd. "Being able to work with a single company for all your savings can make it easier."

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.

Consolidating is a decision that needs 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 to take control of your finances. That's a move that, in the end, could improve your overall financial picture.