

## DO YOU HAVE TOO MANY, OR TOO FEW, RETIREMENT ACCOUNTS?

It's common for workers to accumulate a gaggle of tax-qualified retirement accounts – 401(k)s, 403(b)s, SEPs, Roth and traditional IRAs – collected like dusty souvenirs over the years as they travel from job to job. The standard advice – often correct – is to minimize the number of accounts along the way and, when you retire, consolidate the remaining accounts into one or two individual retirement accounts. Yet in some situations, households can have too few accounts. What's the right number for you?

The more common problem is for people to have too many accounts. Survey results released in early February by American Express found that nearly half of all workers have multiple accounts of the same type, such as two or more 401(k)s or multiple IRAs. One out of six, said the survey, had five or more retirement accounts.

Multiple accounts can cause several problems:

- They're more difficult to manage and they can obscure the picture of your overall investment portfolio.
- Investors falsely believe that more accounts mean better investment diversification – even though the accounts may own similar underlying assets.
- Multiple accounts can swamp owners with time-consuming paperwork and make tax computation more difficult.
- Multiple accounts often mean more in custodial or other administrative fees.

Other benefits of consolidation include moving assets out of old employer-sponsored retirement accounts with limited investment options into a self-directed IRA where you have a much broader universe of investment choices. (On the other hand, IRAs are not always as protected from creditors as 401(k)s or other employer-sponsored plans.) With an IRA, you also can “stretch out” the life of the account through your heirs, which you might not be able to do with an employer-sponsored account.

Furthermore, a 2001 tax law makes it much easier than before to roll over employer-sponsored accounts into a single IRA, or vice versa.

But don't rush to consolidate. There can be good reasons for owning multiple retirement accounts, particularly multiple IRAs.

You may want to leave IRA assets to two or more beneficiaries. If they're all "human" beneficiaries, and they're all near the same age, a single IRA might be fine. But if they're significantly different ages, it often is better to set up separate accounts for each heir. The life expectancy of an account's beneficiaries determines the amount that must be withdrawn each year from that account's assets. The longer the life expectancy, the smaller the required distributions. But the withdrawal rate for multiple heirs of a single account is normally determined by the life expectancy of the *oldest* beneficiary for that account. That means the younger beneficiaries can't take the tax and deferral advantages due to the longer life expectancies they would have received under their own accounts.

You also may want to own more than one IRA if you want to donate IRA assets to a charity. Including a charity along with human beneficiaries in an IRA usually will force the human beneficiaries to take all of their distributions at once. This results in a bigger tax bill and the end of tax deferral for those assets.

New tax rules generally allow the beneficiaries to split up the IRA after the owner dies, as long as they do it by September 30 of the year following the owner's death. But it might make life easier for all if the owner splits up the IRA before death.

Another reason to consider multiple accounts is if you anticipate drawing on some but not all of your IRA money before you turn age 59 1/2. You can make early withdrawals from an IRA without triggering the ten percent early withdrawal penalty as long as the withdrawals are substantially equal periodic payments and you make them for at least five years. But the withdrawals must be based on all of the assets you own in that particular IRA. If those assets produce more income than you need, split the IRA into two or more smaller IRAs and make your periodic withdrawals from just one of the accounts.

Before consolidating or multiplying your retirement accounts, consult with a knowledgeable financial planner as to what is the best strategy for your circumstances. And be sure the transfers of assets are made directly between financial institutions to avoid unnecessary tax consequences.