



Should You Consolidate Your IRAs?

Everyone's financial situation is different, but people at various stages of life often share similar concerns. Here's a question from a client we encountered under such circumstances:

"I am in my 60s and recently retired from my full-time job. Over the years, I've opened several traditional IRAs and a Roth IRA. Also, I have a 'rollover IRA' with funds from a 401(k) at a previous job. Should I consolidate all of these IRAs into one for tax purposes, or should I just leave things the way they are?"

While there is no real tax benefit one way or the other, there is a trap to watch out for if you do consolidate. Combining the assets of your traditional IRAs into a single IRA could provide a few advantages, however.

For starters, it may be more flexible and cost-efficient to have just one IRA, as well as relieving you of considerable clutter if you're still receiving paper statements from all of your IRA custodians. Also, if one IRA has provided better investment returns than the other or offers other advantages, it might make sense to shift more funds to the IRA with those advantages. (Of course, past performance is no guarantee of future results.) And you may find it easier to coordinate your plans for retirement, and focus on your main objectives, with a consolidated IRA.

Moreover, consolidating accounts might help you avoid a complication that can arise when you start taking "required minimum distributions" (RMDs) from your traditional IRAs. The law mandates that you begin taking RMDs no later than April 1 of the year following the year in which you turn age 70½. These withdrawals from your account, the amount of which is based on life expectancy tables, must continue annually for the rest of your life. If you have several IRAs, you'll have to choose the source of your annual RMD. It can come from one or multiple IRAs. But no matter how you arrange the distribution, the IRS treats it for tax purposes as coming from all of your IRAs on a "pro-rata" basis.

Let's say you have four IRAs with a combined value of \$500,000, and this year you withdraw \$20,000 from one of them. The applicable percentage is 4% (\$20,000 divided by \$500,000), so it's calculated as if you had withdrawn 4% of the balance in each IRA. Consolidating your IRAs would eliminate any confusion.

Finally, be aware that you can't commingle the funds in traditional and Roth IRAs. This is the trap we alluded to earlier. Because Roths have an edge over traditional IRAs—qualified Roth distributions are tax-free and you don't have to take lifetime mandatory distributions—you wouldn't want to put them together anyway. Should you consolidate all of your Roth IRAs? Many of the same considerations that apply to combining traditional IRAs also are applicable to Roths.

This article was written by a professional financial journalist for Pension Parameters Financial Services, Inc. and is not intended as legal or investment advice.

Pension Parameters Financial Services, Inc.

28 West 44th Street, 16th Floor

New York, NY 10036

Phone: (212) 675-9360 Fax: (212) 675-9363

675 Line Road

Aberdeen, NJ 07747

Phone: (732) 583 -1313 Fax: (732) 583-6991

www.PensionParameters.com