HEALTH. WEALTH. WISDOM.

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Consolidating Retirement Accounts: Does It Make Sense for You?

Did you know that in 2021, an average of more than 3.95 million workers left their jobs each month? The Great Resignation has prompted working Americans to rethink their short- and long-term career goals, resulting in a record number of job departures.

So, what does this historic economic trend have to do with retirement accounts? Job changers often leave their 401(k) accounts behind! Having multiple retirement accounts spread among different custodians and financial services providers can be a big headache. Let's look at four reasons why consolidating your retirement plan accounts may be the cure.

1. **It's easier to keep track of one account versus multiple accounts.** No matter how many retirement accounts you own from previous employers, managing all your retirement assets in one account saves you time, effort, and frustration. Imagine having just one of everything—one statement, one password, and one account number—instead of several! Consolidation also makes it simple to track your progress toward savings goals and manage your investment options.
2. **You could pay less in fees.** Your workplace retirement plan accounts incur various investment, custodial, and administrative charges; the more accounts you own, the more fees you'll pay. By consolidating accounts, you may be able to reduce charges that could eat away at your balances over time. Also, some fees are charged based on the amount of assets; your combined account balance may meet minimum asset thresholds, thus qualifying for potential fee reductions.
3. **It will make things simpler for your loved ones when you pass.** As uncomfortable as it is to think about the prospect of passing away, making it as easy as possible for your loved ones to administer your retirement assets is an important planning consideration. By consolidating your retirement accounts, it may alleviate the need to chase down multiple account statements, call various custodians, and coordinate payments to beneficiaries.
4. **You'll reduce the risk of missing required minimum distributions (RMDs).** Generally, when you turn 72, the IRS requires you to take an RMD each year. Failing to take your RMD on a timely basis results in a hefty penalty: 50 percent of the amount you failed to withdraw! Forgetting to take an RMD could be a costly mistake; having fewer accounts makes it easier to keep track.

In most cases, account consolidation can be accomplished by rolling your old retirement account into your new employer's retirement plan or an IRA. By doing so, you'll preserve the account's tax-favored status and steer clear of early withdrawal penalties. To initiate the rollover process, contact your employer's Human Resources or Benefits department, or your retirement plan advisor, to find out how to roll old 401(k) accounts into your new account or, alternatively, contact your former employer's custodian to learn its requirements for rolling those assets into your new employer's retirement plan.

Tax Season Retirement Savings Tips

Retirement accounts are a great way to reduce your taxable income, thereby minimizing your annual income tax bill. With tax season underway, now is the perfect time to evaluate effective strategies that could help reduce your current and future taxes. Although we naturally think about taxes more as the tax-filing deadline approaches (April 18 for 2022), tax planning should be considered a year-round activity, so it's wise to revisit these topics regularly in the context of your current financial situation.

If you have the means, maximizing your annual contribution to a retirement account will give your savings strategy a healthy boost. But it's important to understand how the different types of available retirement accounts differ. The most common options include:

Employer-sponsored retirement plans, such as a 401(k) or a 403(b), allow your investments to grow with taxes deferred until you take money out through a withdrawal or distribution. Some employers offer a traditional 401(k) plan and a Roth 401(k); if yours does, you should be aware of the different rules for taxes on contributions and distributions:

- **Traditional 401(k) plan** contributions are made with pretax dollars, thus reducing your current income and, possibly, your current-year taxes. Choosing this option may make sense if you want to reduce your income in the current year and/or expect to be in a lower tax bracket in retirement. RMDs from the account begin at age 72.
- **Roth 401(k) plan** contributions are made with after-tax dollars, and the account's accumulated funds have the potential to be distributed tax free and penalty free in retirement if certain IRS requirements are met. This could make sense if you're not looking for a current-year tax deduction and anticipate being in a higher tax bracket in retirement. Under circumstances known as triggering events (one example is termination of employment), Roth 401(k) funds could be rolled tax-free into a Roth IRA and eliminate the need to take RMDs from those assets. RMDs begin at age 72 in Roth 401(k) accounts but aren't required in Roth IRAs.

If you qualify, you may also be able to contribute to an **IRA**.

- With a **traditional IRA**, contributions are generally made with pretax dollars, thus reducing your current income and, possibly, your current-year taxes. Eligibility for making tax deductible contributions to an IRA depends on your tax filing status, modified adjusted gross income (MAGI), and whether you're covered by an employer-sponsored retirement plan. RMDs begin at age 72.
- With a **Roth IRA**, contributions are made with after-tax dollars, and the account's accumulated funds have the potential for tax-free and penalty-free distribution in retirement. Eligibility for contributing to a Roth IRA is based on your tax filing status and MAGI. There is no requirement for minimum distributions when you reach a certain age.
- Converting traditional IRA assets to a Roth IRA is another strategy to consider. Generally, this move makes the most sense for those who anticipate being in a higher tax bracket in retirement than they are now. Eliminating the need to take RMDs is a meaningful benefit.

Get Extra Tax Credit!

Lastly, some individuals in certain income ranges may be eligible for a tax credit of up to $1,000 for contributing to their IRA or employer's retirement plan. The saver's credit reduces the federal income taxes that qualifying individuals or married couples pay on a dollar-for-dollar basis. Contributions to 401(k)s, 403(b)s, 457 plans, SIMPLE IRAs, SEP IRAs, traditional IRAs, and Roth IRAs are eligible for the saver's credit.

These are just a few of the most common tax planning strategies. You can work with your tax, financial, or retirement advisor to assess your current situation and determine which options could be beneficial to you. Making proactive, tax-smart decisions throughout the year is an essential piece of overall financial and tax planning.

Is Your Gym Membership Working Out for You?

Joining a gym or health club is a familiar post-holiday ritual for many Americans. For some, it's the catalyst to shedding unwanted pounds, breaking unhealthy habits, or accomplishing fitness goals. But as the fitness industry is still in pandemic recovery mode, 72 percent of gym members still aren't working out at their gyms. Are you one of them?

Consider this: The average gym or health club membership costs about $38 per month (or about $450 per year). So, ask yourself, are you getting the most out of your health club membership? If not, why not try an alternative? Here are some easy (and cost-effective) options to give you your fitness fix:

- Start a home workout, yoga, or stretching program. There are several free fitness smartphone apps to choose from, or look into free streaming workouts that you can watch on demand.
- Many outdoor activities, such as cycling, hiking, tennis, or pickleball, can be enjoyed for free. Bonus: They are even more fun when done with friends and family!
- Challenge yourself with a walking or running routine that measures your steps, distance, and calories burned. Most smartwatch or smartphone apps offer great tools to help you compete against yourself!

Pursuing these kinds of healthy activities—and saving that monthly gym membership cost—will put some money back in your pocket. And that's money you could deposit in your retirement savings account!

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