Pitfalls of Leaving Behind Retirement Assets When Switching Jobs

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Lately, during financial reviews with clients and meetings with prospects, I'm hearing about 401(k) accounts that have been left behind at previous places of employment. After running into a few of these conversations, I wanted to dive a little deeper and get to the heart of how a trail of multiple retirement accounts can adversely affect your overall financial wellbeing.

For those individuals that leave behind old 401(k) accounts, their financial picture can get complicated over time. I get it—sometimes just trying to find out what your options are can be overwhelming, so the easiest choice is to just leave the accounts where they are. I have routinely seen the statistics about “forgotten” 401(k)s, but in my personal experience, it isn’t that they are forgotten, but simply a low priority. Here are five key issues to consider:

1. **Managing Multiple Accounts**
   Each job change often results in a new retirement account, leading to multiple 401(k)s spread across different employers. This fragmentation can make it challenging to keep track of various passwords, investment selections, and account statements.

2. **Outdated Beneficiaries**
   Each retirement account may have different beneficiary designations, which can lead to complications, especially if your personal circumstances change.

3. **Duplicate Administrative Fees**
   Every retirement account comes with its own set of administrative fees. Having multiple accounts means you might be paying more in fees than necessary.

4. **Asset Allocation Misalignment**
   With multiple retirement accounts, your overall asset allocation may become misaligned with your big-picture financial goals. For instance, one account might be heavily invested in stocks, while another is more conservative. This inconsistency can hinder your investment strategy and differ from the overall intent when mapping out retirement goals.

5. **Inconsistent Investment Strategy**
   An unconsolidated view of your retirement accounts can hinder your investment strategy and differ from the overall intent when mapping out retirement goals.

How can you potentially avoid these pitfalls? Rolling over old 401(k)s into an IRA or your current employer's plan can simplify management and potentially reduce fees. This approach also allows for more streamlined asset allocation and easier tracking of your investments.

Switching jobs can bring exciting opportunities, but it also introduces challenges in managing retirement savings. At our firm, we make it easy on our clients by providing the added value service of helping roll over 401(k) accounts. Then, as wealth management advisors, we continually evaluate a client's portfolio to ensure it's optimized and tracking towards their goals. Big or small, adding every puzzle piece to the financial picture matters!

Sources: ACA Adviser and Kiplinger