00:00:09:22 - 00:00:33:03

Speaker #1

Welcome. My name is Andrew Barron, and this is Well, it depends. The podcast where I address financial decisions that can't be answered with a simple yes or no. In this episode, I ask the question how many retirement accounts should I have? But before we begin, a short disclaimer.

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This is being recorded on December 20th, 2024. The contents of this podcast are strictly for informational purposes only, and nothing said to be taken as investment, tax, insurance or legal advice. It’s important to consult with a professional before making any financial decisions. As the strategies discussed may not be suitable for you specifically

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Getting into it. How many retirement accounts should I have? Well, it depends. Let's start with why you'd even want to have more than one retirement account. Most people are familiar with the standard options, such as a 401(K) or 403(B) through work, and maybe an IRA for little extra savings on the side.

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But as your career evolves, you might change jobs, start a business, or even start earning extra income from a side hustle. Each of these can open up opportunities or necessities for new accounts, including a step IRA, a solo 401(K), or perhaps even a Roth IRA. Suddenly, you've got a portfolio of multiple accounts instead of just managing one.

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Having multiple accounts can be a powerful strategy for both tax optimization and diversification. Let's break this down into two main categories.

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We have employer sponsored plans and individual accounts. First, let's talk about employer sponsored plans. A traditional 401(K) allows for pretax contributions, meaning the money you put in reduces your taxable income today. However, you'll pay taxes when you go to withdraw the funds in retirement.

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Conversely, a Roth 401(K) is funded with post-tax dollars. That means you don't get a tax break up front, but your withdrawals in retirement, including all of your earnings, are completely tax free. These plans are typically offered through your employer, and many employers even match a portion of your contributions, typically set as a percentage, which can make them an especially valuable part of your retirement strategy.

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Now let's talk about individual retirement accounts, which are also known as IRA’s. These accounts you open up on your own outside of an employer, like 401(k)’s you can choose between opening a traditional IRA for pretax contributions, or a Roth IRA for post-tax contributions. However, IRAs have lower contribution limits compared to 401(k)’s and eligibility to contribute to these can depend on your income.

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The big advantage of IRAs in general is the flexibility that they provide. You're not tied to an employer plan, and you often have significantly more control over your investment options inside of an IRA compared to an employer plan. Having both an employer sponsored plan as well as an IRA can give you tax advantages now, and in retirement. But here's the trade off.

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Managing multiple accounts means keeping track of different rules, contribution limits and tax implications, which can make the whole process a little bit tricky.

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So how do you decide what is right for you? Here are a few factors for you to think about. First, we have career stability. If you're in a long term job with great retirement benefits, 1 401(K) plan might do the trick.

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But if you've switched jobs a lot consolidating old accounts into possibly a rollover IRA or your new 401(K) can simplify your financial life. Then we have your income and tax strategy. High earners might benefit from using both a pre tax and a Roth account to create a mix of both tax advantaged options for retirement. Then we have your retirement goals.

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Are you saving money for an early retirement? Or perhaps you want to leave money to your kids or a charity? Different accounts have different rules for withdrawals and inheritances. Moving on, we have self-employment and side hustles. If you're running your own business or freelancing, you might need accounts such as a Sep IRA, or a solo 401(k) so that you are maximizing your contributions.

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Now, if you're already staring at a pile of accounts and feeling overwhelmed. Here are a few steps you might take. Consolidate when possible. Rolling over old, especially 401(k) accounts into one IRA, can significantly simplify your life. You also might consider automating your contributions. So no matter how many count you have, automation ensures that you're consistently saving.

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Review your accounts annually. Once a year check your accounts to make sure that you're still on track with your goals, and make any adjustments as needed. And if you're just starting off fresh, keep it simple. Open the accounts you need today and add others only when your situation specifically calls for it.

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To recap, how many retirement accounts do you have? Well, it depends. Some people do best with a single streamlined account, while others benefit from having multiple accounts so they optimize their tax strategies or adapt to life changes such as career shifts and side hustles. The key is finding the right balance, one that aligns with your financial goals and your ability to manage the complexity. Remember, simplicity isn't just easier – it can be a powerful strategy in itself. So to answer the question, how many retirement accounts should I have? Well, it depends.

SPEAKER #1:

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