THE WALL STREET JOURNAL ONLINE
WSJ.com

March 28, 2005

Spring Cleaning

An account here, an account there, and pretty soon your finances are a mess. It's time to prune.

By JANE J. KIM
Staff Reporter of THE WALL STREET JOURNAL
March 28, 2005; Page R4

If spring is a good time to clean house, it's also a good time to get your financial act together.

As individuals have become more comfortable with investing in the financial markets, many have amassed a motley collection of retirement funds and brokerage accounts. Meanwhile, easy access to credit has resulted in wallets bulging with credit and debit cards. It's no wonder that many families are drowning in account statements.

Owning accounts scattered across several financial institutions not only is a record-keeping nightmare, it can also result in serious complications for you and your heirs. For one, it's virtually impossible to manage your money well and develop a comprehensive financial strategy if you can't keep track of where your money is.

And should you die unexpectedly, money that should go to your heirs could wind up in limbo. "In this country, there are billions and billions of [dollars in] unclaimed assets that have gone missing because people have ... forgotten about their assets over time," says David Bach, a financial planner in New York.

Now is a particularly good time to take stock of your accounts, as tax season compels you to comb through all your year-end statements, says Susan Hirshman, planning strategist at J.P. Morgan Funds, a unit of J.P. Morgan Chase & Co.

Here's how to prune your finances in four areas: credit cards, bank accounts, mutual funds and retirement plans.

Credit Cards

The increasing availability of credit has made it all too easy for consumers to build up an impressive collection of plastic. The typical U.S. household owns about 15 cards, including credit cards, debit cards and charge cards for particular stores, according to CardWeb.com[4] Inc., an online publisher of information about the payment-card industry.

One risk of owning many cards: If you lose track of your debts and make a late payment, you'll be hit with a late fee, and your regular interest rate on that account may be replaced with a steep penalty rate.

Most people need only one or two cards, experts say. For those who pay their balances off every month, it makes sense to hold just one credit card -- preferably one with a rewards program that returns cash or frequent-flier miles for every dollar spent. Limiting your spending to that one card will earn you those rewards more quickly.

For those who carry over balances from month to month, a two-card strategy may be best, suggests Greg McBride, an analyst at Bankrate.com[5], a consumer-finance site. Use one card, preferably one with an attractive rewards program, for everyday purchases that can be paid in full each month, and roll over any outstanding debt onto a second card that offers a low interest rate for balance transfers, Mr. McBride says.

One word of warning, though, about consolidating your credit-card debt: You may inadvertently hurt your credit score -- a measure of your creditworthiness used by lenders and others -- and be hit with a higher interest rate the next time you apply for a car loan, mortgage or any other loan. Even some insurers now check your credit score to help determine your premium.

MORE TO MANAGE

Credit and debit cards per household

YEAR	BANK CARDS	RETAIL CARDS	DEBIT CARDS	TOTAL CARDS
1990	3.4	4.1	0.1	7.6
1995	5.1	4.5	0.4	10.0
2000	5.3	4.7	1.3	11.3
2004	6.3	6.4	2.2	14.9

Number of mutual funds and fund assets owned per household*

YEAR	FUNDS	ASSETS
1998	5	$74,400
2001	6	119,700
2004	7	141,600

*Includes retirement accounts.
Sources: CardWeb.com; Investment Company Institute

Closing accounts with long track records and applying for a new card is one way you can hurt your credit score, since lenders like to see a history of reliable payments on your part. What's more, when you close accounts, your remaining debt makes up a greater proportion of your available credit -- another potential sticking point for lenders.

If you're planning to open a new account and transfer debt to take advantage of a lower interest rate, don't close any accounts; rather, just leave them inactive, suggests David Chung, vice president of business development at CreditXpert Inc., a Towson, Md., provider of credit-management software to businesses. It's also important to make sure that your credit-card companies report your credit limits to at least one of the major credit reporting agencies, Mr. Chung adds. These agencies compile information about your credit history from merchants and lenders, and lenders check with them to help determine your credit score. The three main agencies are Atlanta-based **Equifax** Inc.; GUS PLC's Experian Information Solutions Inc., of Costa Mesa, Calif.; and TransUnion LLC, based in Chicago.

Bank Accounts

Families that have multiple bank deposit accounts -- checking, savings, certificates of deposit and money-market accounts -- spread out among several banks can usually earn higher interest rates on their savings or qualify for discounts on loan rates if they move all of those accounts to one financial institution.

Consolidating account balances can also help households avoid monthly service charges and other fees that some banks charge if balance thresholds aren't met. At Cleveland-based **KeyCorp**'s KeyBank, for instance, consumers who have at least $25,000 in total balances -- including checking and savings accounts, certificates of deposit, retirement accounts, brokerage accounts, and even credit-card and personal-loan balances -- earn money-market yields on checking-account balances. The bank will also waive certain fees, like the $25 monthly service charge on checking accounts, and include perks such as free checks and an interest-rate discount of 0.25% on loans.

Keep in mind, however, that the Federal Deposit Insurance Corp. insures bank deposit accounts only up to $100,000 per individual at each institution. (Other account categories, like IRAs and trusts, are insured separately up to $100,000 each.) So, if you have significantly more than $100,000 in deposit accounts at one bank, ask yourself whether you really need that much cash and consider shifting some of that money into another account, perhaps a low-risk mutual fund.

Mutual Funds

During the 1990s, investors often snapped up mutual funds at firms with an expertise in whatever was the hot sector at the moment, be it technology, growth, value or fixed-income investing. Households that own mutual funds hold an average of seven of them, according to the Investment Company Institute, a Washington-based industry group.

Nearly two-thirds of these households own mutual funds through a retirement plan at work, and about the same percentage own mutual funds outside of such accounts, the institute says.

Holding a wide array of specialty mutual funds can be expensive, since you're likely to be paying fees for each fund manager's expertise. If you do have a number of mutual funds, start by examining what role each fund plays in your portfolio. In many cases, investors can achieve the same strategy by investing in one to three diversified funds, says Fran Kinniry, a principal in the investment-counseling unit of Vanguard Group Inc., a fund group based in Valley Forge, Pa.

Investors can also benefit from consolidating most or all of their mutual-fund accounts with one investment "supermarket" -- a firm that enables investors to hold a portfolio of funds under one umbrella and get one statement that covers them all. Boston-based Fidelity Investments, for example, offers access to more than 4,500 funds from over 390 providers.

Collecting all your funds under one roof can lower some fees. At Vanguard, investors qualify for lower fund-management expenses if their assets in Vanguard funds exceed certain thresholds. And at San Francisco-based **Charles Schwab** Corp., investors get "premium" research reports, lower commissions on stock trades and a quarterly review of their investments if total assets exceed $100,000.

In most cases, supermarkets won't charge investors a fee to transfer their mutual funds to the firm. But investors may be hit with transfer fees by the firms they're leaving. And once they have made the switch, investors may have to pay a transaction fee whenever they put new money into certain funds.

Retirement Plans

Many financial advisers recommend that when you change jobs, you move any money accumulated in a retirement plan at the old job into either a traditional individual retirement account or into your new employer's 401(k) plan, typically by having the investment firm managing your new account handle the rollover. A big mistake is to cash out of the old plan, since you not only have to pay taxes on the money withdrawn, along with a 10% penalty if you're under age 59½, but you also lose out on the future tax-deferred earnings that money would have provided for retirement.

Roughly one-third of all job changers leave their 401(k) balances with their former employer's retirement-savings plan provider, according to the Washington-based Employee Benefit Research Institute. But the risk of doing nothing is that it's easy to lose track of an old account. And consolidating all of your retirement-savings accounts from former employers into one low-cost IRA will make it easier to manage your retirement portfolio and to make sure you have the proper mix of investments for your age and risk tolerance. IRAs also typically offer more investment options than a 401(k) and greater flexibility on withdrawals.

IRAs also have estate-planning advantages. If you die with money in a 401(k) and name someone other than your spouse as the beneficiary, your former employer could insist that your account be cashed out right away, which would result in a big tax hit for your heirs. But with an IRA, you could name your children, for example, as beneficiaries, and they could draw down the account over their lifetimes, reaping years of tax-deferred -- and in some cases, tax-free -- growth, says Ed Slott, a Rockville Centre, N.Y., accountant who specializes in IRAs.

Meanwhile, rules that take effect today will benefit those who have accumulated only $1,000 to $5,000 in an employer-sponsored retirement account before moving on to a new job -- exactly the kind of account that is often forgotten. Previously, if the employee didn't roll such an account into an IRA, the employer would often arbitrarily cash it out -- leaving the employee open to taxes and penalties -- rather than continue to manage the account. Now in such cases, employers that don't want to continue to manage the account after the employee has left must roll the money over into an IRA for the employee.

For households with numerous IRAs, it's usually a good idea to consolidate those plans into one account. If you lose track of an IRA and forget to take the required minimum distributions after age 70½, you'll be hit with steep penalties and taxes, says Mr. Slott. There is, however, one good reason to keep multiple IRAs, he says: if you have a sizable plan that is likely to be split among multiple beneficiaries. In that case, it's easier to split up the account and designate a specific beneficiary for each plan while you are alive. It's more paperwork during your lifetime, but your heirs will be grateful for a much simpler estate plan.

--Ms. Kim is a staff reporter in The Wall Street Journal's New York bureau.