Potential Benefits of Consolidating Your Assets

If you hold investments at a number of financial institutions and/or with multiple advisors, it can be a challenge to know where you stand. Consolidating your investments with one financial institution and/or advisor may provide you with many benefits, including greater clarity about your overall financial picture.

See the big picture

Some of the potential advantages include the following:

Effective asset allocation

Asset allocation refers to the process of diversifying investments within an investment portfolio among the major asset classes, such as cash, bonds, and domestic and foreign stocks. Asset allocation is considered the cornerstone of prudent investing and ensures that the structure and content of a portfolio accurately reflects investors' circumstances, objectives, risk tolerances and constraints. By diversifying investments across different asset classes, investors may reduce overall risk against market volatility while providing an opportunity for growth.

Consolidating your investment assets may help you clearly track your investments and provide the opportunity to effectively diversify your portfolio, manage risk and avoid duplication of investments. It may also make the process of rebalancing your portfolio easier to manage.

Tax efficiency

Tax treatment for investment income generally depends on the income type (i.e. interest, dividends or capital gains) and the account type in which the income is generated (i.e. non-registered or registered account).

For example, income earned from investments in your Retirement Savings Plan (RSP) is exempt from tax until withdrawn. However, withdrawals are generally 100% taxable based on your marginal tax rate. In your non-registered account, capital gains and Canadian dividends are taxed at lower rates than other kinds of income such as interest or foreign dividends.

With consolidation, it may be easier for you to identify tax-effective ways to structure your investments within your registered and non-registered accounts. For example, if you are looking to invest in investment vehicles that produce interest income such as bonds, bond mutual funds, or Guaranteed Investment Certificates (GICs), you may consider investing within an RSP to take maximum advantage of its tax sheltered growth.

Integrated approach to financial planning

A holistic financial plan is an integrated, comprehensive and customized financial solution: integrated to meet all your needs and increase the effectiveness of your investment plan; comprehensive to encompass your family's current goals, plans for the future, and hopes for generations to come; and customized to reflect your aspirations and the unique situation you have created for your family. Consolidating your assets with one advisor may give your advisor a clearer picture of your financial situation so that he/she can better understand your circumstances in order to provide you with appropriate financial planning advice.

Save time

Consolidating your investment assets may help you save valuable time in many ways:

Consolidated reporting

With consolidation, you may minimize the number of investment statements received on a regular basis, thereby making it easier to track your investments and

their overall performance. You may also reduce the number of tax slips that you receive and the amount of time and associated cost in preparing for your annual tax return.

Simplified administration

With consolidation, you may be able to reduce the amount of time you spend on managing your investments.

For instance, coordinating retirement income during your retirement years could be a challenge if your registered and non-registered assets are with multiple financial institutions or advisors. In addition, when you are ready to convert your RSPs to Retirement Income Funds (RIFs), it may be difficult to manage multiple RIF accounts as you will be required to make minimum RIF withdrawals from each individual account annually. With consolidation, you and/or your advisor may find it easier to identify all available income sources, and determine tax-efficient withdrawal plans that may maximize your after-tax retirement income. Consolidation may also make it easier for you and/or your advisor to monitor your assets to ensure that you have sufficient income from all sources and will not deplete your retirement savings prematurely.

With respect to estate planning, having assets at multiple locations may cause the estate settlement process to be more complicated and more difficult for your executor. Therefore, consolidation may help simplify the estate administration and settlement process.

Save money

Consolidating your investment assets or accounts may help you reduce your overall fees and investment charges. It may also help you meet investment minimums more easily or qualify for any fee discounts that may be offered by your financial institution.

Before consolidating your assets consider the following:

Potential one-time fees and penalties

There may be potential charges and penalties associated with closing an account or transferring assets from one account or financial institution to another.

For instance, you may be charged account transfer fees when you transfer your investments from one financial institution to another. Early redemption fees may also apply to investments such as mutual funds and segregated funds.

Before consolidating your investment assets, be sure to consult with your financial advisor to understand the potential fees and penalties that may apply.

Tax implications

There may be tax consequences associated with consolidating your investment assets.

For instance, when investments within your non-registered account are transferred “in-cash”, these assets are liquidated, sold, or redeemed based on market value so that the account may be transferred to the receiving institution in the form of cash. Such transactions may be subject to commission charges and may trigger capital gains or losses. In-cash transfers are sometimes necessary if the receiving institution cannot hold your existing investment or asset types. In addition, products such as GICs are generally not transferable in-kind prior to the maturity date.

Before consolidating your investment assets, be sure to understand the tax implications and check the terms and conditions of the investment products that you currently hold.

Investment protection

Before consolidating your assets or accounts, be sure to consider the potential impact that it may have on your existing investment protection.

For instance, the Canada Deposit Insurance Corporation (CDIC) is a federal Crown corporation created by Parliament to protect your deposits made with member financial institutions in case of failure. Most Canadian chartered banks, loan companies and trust companies are CDIC members. However, some financial institutions that take deposits are not members of CDIC. Therefore, be sure to fully understand your CDIC coverage and how it may impact your decision to consolidate.

Similarly, if you have an account at a member institution of the Canadian Investor Protection Fund (CIPF), you are eligible for coverage if you suffer a financial loss due to the insolvency of the member institution. Again, be sure to fully understand your CIPF coverage and how it may impact your decision to consolidate.

Consolidation may not be suitable for all investors. Be sure to consult your financial and tax advisors to determine whether this strategy is appropriate to your personal circumstances.

Last Revised: September 29, 2011