Mess and confusion, too many accounts.
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Why too many RRSP accounts can be a bad thing

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Stacks of financial statements stuffed in boxes or overflowing onto the floor: Debby Lea, a professional organizer in White Rock, B.C., says she sees it all the time when she walks through clients' homes. Many of the envelopes are unopened.

"I can understand. Over the past few years, most of us don't want to open our RRSP statements. But if you're just tossing them in a pile, you can't really say you're managing them," she says.

The problem gets worse when investors open numerous RRSP accounts and spread their money around. A GIC here with one financial institution, an equity fund there with another. Suddenly there are more fees to pay, more statements to read and file, and more complexity to track.

As it turns out, when it comes to investing for retirement, you can have too much of a good thing, explains Karin Mizgala, Vancouver-based CEO of Money Coaches Canada, a national network of fee-only financial planning experts.

For most people, more than one plan is probably too many. A disorganized investment strategy could end up lopsided with too many risky investments or too many conservative ones. It might be too aggressive, or not aggressive enough . There could be duplications. Investors could even wind up making overcontributions and forced to pay tax penalties.

“It’s hard to eyeball all of that when you have multiple accounts,” she says.

The more accounts that are opened, the tougher it becomes to track them, says Rock Lefebvre, vice-president of research and standards at the Certified General Accountants Association of Canada.

“It’s like owning one car versus owning five. You know when your one car is getting an oil change or when it has been washed. When you have five cars, it all gets a little complicated,” he says.

So how do investors end up with multiple plans? By accident, explains Mr. Lefebvre.

Say a couple takes out a mortgage with a financial institution one year and chooses to open their RRSP there, too. But three years later, they hire a financial planner who suggests other options. Based on that advice, soon that couple is buying a plan from an insurance company. Five years – and a couple of raises later – the investors decide to start pouring money into equities, so they search out a broker. It’s easy to see how a once-simple RRSP strategy gets convoluted over time.

Sometimes people who open multiple accounts also believe they’re doing what all good long-term investors do: diversifying their portfolio. But opening numerous accounts doesn’t typically achieve that goal, since an RRSP is simply an umbrella that shelters any number of investments.

“Even if you only have a single plan, you can diversify your investments in many ways,” says Mr. Lefebvre. “Put your money in guaranteed investments, mutual funds, government and corporate bonds and even exchange traded funds.”

By their very nature, mutual funds are already diversified, says Ms. Mizgala, who adds that the only people who might benefit from having more than one plan would be investors with more than $250,000. In some cases, they might want a portion of their portfolio handled differently than the rest. For instance, if the majority of the portfolio is managed conservatively, the investor might want a specialty adviser who deals with mining stock or higher-risk start-up venture capital stock.

“But to just have your investments across two companies that have similar strategies and philosophies doesn’t really make sense,” she says. Opening more than one account isn’t a logical decision. It’s an emotional one.

As clients near retirement and begin taking a good look at what they own, some choose to streamline their investments, says Cynthia Caskey, vice-president and portfolio manager with TD Waterhouse Private Investment Advice in Toronto.

"Consolidation is actually something that we're seeing more of as a trend as clients get older," she says.

It makes sense, says Harley Lockhart, a certified financial planner and senior adviser at Quail Ridge Financial Services in Kelowna, B.C. Not only do investors tend to move into more conservative investments as they reach retirement, they're looking for simplification in their portfolio, too.

"As people age, they have less capability to handle all that different information coming in," he says.

Age is also factor when it comes time to think about estate planning. It's hard enough to keep track of money if it's coming in from various annuities upon retirement, but it can be even more difficult for beneficiaries to locate if they have no idea if grandma had one RIF or three more kicking around.

"I had one guy tell me his idea of estate planning was to have his final cheque to the undertaker bounce as they lowered his casket into the grave. Fair enough. It's his plan, but most people want to leave an estate," says Mr. Lockhart.

Fortunately, consolidating RRSPs or RIFs is relatively easy. Choose the financial institution you want to continue to work with and they will prepare all the paperwork needed to transfer the funds to them.

Because you're not deregistering the RRSP, you won't be incurring any tax charges or creating income problems, says Ms. Mizgala. Just be on the lookout for any redemption or closed account charges.

"It should be straightforward. The adviser of the company you've chosen has a vested interest in helping make this transaction as smooth as possible for you," she says.