

Want to be a 401(k) Millionaire?



You're young and single. Maybe you've just graduated and landed your first professional job. Perhaps you've just said "I do" or had a baby. While you're just starting out, you don't have to make millions to be a 401(k) millionaire. Consider this example, which is hypothetical and for illustrative purposes only:

If a 22-year-old woman begins participating in her employer's 401(k) by saving 6% of her \$40,000 salary (\$200 a month), and the employer matches 50% of her contributions up to 6% of her salary, then assuming a 3% increase in salary each year and a 6% annual rate of return, she will accumulate \$1,075,890 by age 65.¹

With a similar disciplined savings strategy, here are some tips on how you can hit the seven-figure mark.

Start Early

If your employer offers a 401(k) plan, enroll in it as soon as you are eligible. The key is starting early so that your funds have more time to compound, resulting in a larger amount at retirement.

Save Automatically

There's a simple truth to finding money to save — if you don't see it, you won't spend it! Pay yourself first. Having funds automatically withdrawn from your paycheck and put directly into your 401(k) plan will help you avoid the temptation that comes with having the funds deposited into your checking account with the rest of your paycheck where they are easy to access and spend.

You'll also be taking advantage of dollar cost averaging, where you commit to a set dollar amount to invest from each paycheck and as a result, you purchase more shares when the price of your selected investment is low and less shares when the price is high, resulting in a lower average cost per share than the average price per share for that investment over the same time period.

Match It

Check to see if your employer matches a certain portion of your contributions to the plan. You'll want to contribute at least as much as the employer will match. You can then increase your contributions over time, such as quarterly, annually or when you receive a pay raise.

¹ Source: AARP.org 401(k) Savings Calculator

Retirement Plans

Hit the Limit

The maximum employee contribution to a 401(k) savings plan for 2018 is \$18,500 plus an additional \$6,000 catch-up contribution for individuals age 50 or older. Please check with your plan's administrator about eligibility.

Keep Working

Everyone's retirement goals are different, but if you are able, staying on the job longer provides additional years to contribute and grow your investments. It also means your savings may support you through fewer years of retirement. ■

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