Fidelity Investments reported that the number of 401(k) millionaires—investors with 401(k) account balances of $1 million or more—reached 233,000 at the end of the fourth quarter of 2019, a 16% increase from the third quarter's count of 200,000 and up over 1000% from 2009's count of 21,000. Joining the ranks of the 401(k) millionaires is actually quite achievable, but you'll need to be consistent, patient, and appropriate in your investing choices.

Key Takeaways

- Begin contributing to a 401(k) plan as early as you can.
- Contribute regularly and at appropriate levels.
- Be hands-on in terms of your investments within your 401(k), and don't be afraid to take risks, especially when you are young.

Contribute Consistently and Enough

Becoming a 401(k) millionaire is slow going, not unlike training to run a long-distance race. When you first become eligible to contribute to a 401(k) plan, contribute as much as you can. If your employer offers a match, contribute enough to earn the full match. Not doing so is leaving free money on the table.

The key is to start early. Even if you can only afford to contribute 3% of your salary, get started now. Try to increase that to 4% or 5% the next year and each year until you approach the maximum contribution limit. For 2021, the limit is $19,500, with an additional $6,000 catch-up contribution for those 50 or older at any point during the year.

Invest Appropriately

Select your 401(k) account investments based on your financial objectives, age, and risk tolerance. The general rule is that the longer you have until retirement, the more risk you can take. If you don't take an appropriate amount of risk, your account won't grow as fast as it could.

There are countless stories of plan participants in their 20s with all or a large percentage of their account in their plan's money market or stable value option. Although these options are low risk, they historically don't perform as well as equities over the long term.

When you change jobs, don't ignore the 401(k) with your old employer, or its growth could suffer.

Don’t Neglect Old 401(k) Accounts

If you’ve changed jobs, you’ll need to decide what to do about 401(k) accounts with old employers. You’ve got several options: rolling the account over to an individual retirement account (IRA), leaving it in the old plan, or rolling it to a new employer’s plan.

How you transfer money from existing accounts to a new account has tax implications. Because the money contributed into a 401(k) is tax-deferred, withdrawing the money and not depositing it into a new tax-deferred retirement savings account within 60 days could trigger taxes due, plus a 10% early-withdrawal penalty if you are younger than 59½. Instead, use a direct rollover to avoid paying taxes or penalties on the withdrawal.

The most important thing is to keep tracking this money. As you move on in your career and have more employers, it can be difficult to remember where all your assets are. Whichever choice you make now, you may want to consolidate them with other retirement accounts, later on, to make your funds easier to manage.

How to Become a 401(k) Millionaire

Target-Date Funds Are Not a Magic Bullet

Target-date funds are typically mutual funds with a mixture of stocks, bonds, and other investments. They can be a turnkey option for retirement savers, as they base their aggressiveness on the target retirement date. Target-date funds are often offered as a default option by plan sponsors when employees don’t make an investment choice on their own.

Because target-date funds provide you with a diversified portfolio, they can be a good option for younger investors, who may not have other investments outside of their 401(k) plan. However, as you accumulate diversified investments outside of your 401(k), you may want to consider tailoring your 401(k) investments to fit into your overall investment situation.

One of the big selling points touted by target-date fund issuers is the glide path. If you are decades from retirement, the fund will contain more growth-oriented investments. As you get closer to retirement, the fund will glide to a more conservative mix of investments. Be sure to understand the glide path for any target-date fund you are considering before deciding if it is right for your retirement situation. And also, watch the fees: Some target-date funds cost more than other good retirement options, such as index funds and ETF funds.

The Value of Financial Advice

As you get older, the assets you manage are likely to become more complicated and may include your IRAs, annuities, a spouse's retirement plan, a pension, taxable investments, and other assets. Hiring a financial advisor to help you look at your current 401(k) plan in the context of these other investments can help you get the most out of your 401(k).

Many plans offer participants access to investment advice, sometimes for a fee, via their plan provider or online services. The quality of this advice varies, so do your homework ahead of time. Ask if the advice takes into account any outside investments and your overall situation.

The Bottom Line

Taking action early and continuously during your working life is key to maximizing the value of your 401(k) account and becoming a 401(k) millionaire. Contribute consistently, invest appropriately for your situation, don't ignore your old 401(k) accounts, and seek advice if needed.

Source: **How to Become a 401(k) Millionaire**