**Five habits of 401(k) millionaires**

**RETIREMENT & LONGEVITY**

*Although a million dollars may seem like a daunting figure, especially if you haven’t been diligent about saving, there’s good news: You don’t have to make $1 million to save $1 million.*

Many individuals who are saving for retirement aim to have at least $1 million in their retirement accounts when they exit the workforce. But retirement savings aren’t a one-size-fits-all matter. Instead, the amount you’ll need depends on a variety of factors, including your lifestyle, specific financial obligations, future plans and health needs.

According to data from Fidelity, the number of 401(k) plans with a balance of $1 million or more hit 406,000 in the first quarter of 2022, marking an 11% increase from the year prior. While the circumstances of these 401(k) participants may have varied on the margins, all were average workers who followed a handful of basic principles that enabled them to help successfully prepare for retirement. Below, we explore five of these principles, including how you can apply them to your financial plan.

**Start early**

A powerful tool when it comes to saving for retirement, compound interest refers to the interest you gain on a loan or deposit. And the best way to take advantage of compounding is by saving and investing early on. In fact, a recent study showed that the average 401(k) millionaire started saving early and remained invested for at least 30 years.

As you may have read in some of our other pieces, compounding in positive markets – even at a modest rate of return – can allow you to increase an initial investment over a period of time.

**Maximize your contributions**

In 2023, employees can contribute a maximum of $22,500 to their 401(k) accounts, not counting any potential employer match. Depending on your income, maxing out your contributions may be more challenging earlier in your career. However, studies have found that the average 401(k) millionaire contributed a minimum of 10% to 15% of their income year after year.

**Make the most of your employer’s match**

Many employers offer to match their employees’ 401(k) contributions up to a certain percent, and failing to meet this match is like leaving “free money” on the table. Even if you’re not in a position to max out your 401(k) contributions, you should consider contributing the minimum amount necessary to earn your employer’s match.

Not convinced? According to one study, 28% of contributions in the average account of 401(k) millionaires came from their employers. Each year, employer contributions increased the average 401(k) millionaire’s savings by almost $4,600.

**Choose the right asset allocation**

A 2000 study by economists Roger Ibbotson and Paul Kaplan found that asset allocation accounted for more than 90% of the variation in a portfolio’s return over time. If you’re a long-term investor, you know that asset allocation has been one of the most important determinants of your investment earnings over time.

Investing in growth-oriented investments can help significantly boost your retirement savings through the years. While this strategy may not be appropriate for everyone, research has shown that the average 401(k) millionaire invested roughly 75% of their portfolio in growth-oriented investments such as equity mutual funds.

**Avoid cashing out early**

As most 401(k) millionaires know, staying the course and maximizing your earnings are crucial in helping meet your long-term retirement goals. You should resist the urge to cash out early even if you change jobs. Instead, consider rolling your current 401(k) balance into your new employer’s 401(k) plan or another option. Early withdrawals come with tax consequences and other penalties. It’s also best to avoid abandoning your investment strategy in turbulent market conditions. Many investors who cashed out in a market downturn missed part or all of the subsequent recovery.

**NEXT STEPS:**

* **Assess your progress.** If you haven’t checked your 401(k) balance in a while, now is a good time to do so. Understanding where you are can help you determine a sound strategy to attempt to reach $1 million in savings by retirement.
* **Revisit your investment strategy.** Is your asset allocation consistent with your retirement savings goals? Your invest­ment mix should reflect your growth expectations and risk tolerance, as well as your time horizon until retirement.
* **Make necessary adjustments.**Depending on how far you are from your retirement goals, you may need to increase your monthly contribution rate or adjust your investment mix. Working together, you and your financial advisor can navigate these decisions and help you work toward the retirement you envision.

Sources: [cnbc.com](https://www.cnbc.com/2019/06/25/how-to-become-a-401k-millionaire.html); [fidelity.com](https://www.fidelity.com/viewpoints/tcm:526-124671-9451.comp); Ibbotson, Roger G. and Kaplan, Paul D., Does Asset Allocation Policy Explain 40, 90, 100 Percent Of Performance? Financial Analysts Journal, Jan/Feb 2000, Vol. 56, No. 1. Available at SSRN: <https://ssrn.com/abstract=279096>

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