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Here's the Average 401k at Retirement. Are You on Track?

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By Selena Maranjian | More Articles | Save For Later
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In June, investment management specialist Vanguard issued some seemingly positive news about current 401k balances in Vanguard accounts: The average workplace retirement plan balance topped $100,000 for the first time at the end of 2013, having nearly doubled from where it stood at the end of 2008.

The news isn't quite as rosy as it looks, though, because you should aim to far exceed the average 401k balance by retirement.

A critical difference
The near-doubling in 401k balances is good news indeed. But that six-figure sum is the *average*. The *median* workplace retirement account balance at the same time was just $31,396 -- and the median is a more appropriate number to assess. As you surely know, the average is attained by adding all the accounts' values together and then dividing the sum by the number of accounts. Seems simple enough, but this figure can be distorted by a handful of extreme values.

The median number reflects what you would get if you ranked all the accounts by the size of their balance and then picked the one right in the middle. Imagine a series of five numbers: 50, 50, 50, 50, 300. Their average is 100, but their median is 50. If they represented 401k balances, which number would more accurately reflect the typical saver's situation? Given the average and median balances of $101,650 and $31,396, respectively, it's clear that some people have very big balances, while most do not. The "typical" saver has just $31,396.

Photo: TaxCredits.net via Flickr.

Not enough
So the situation is worse than it seems. And even if everyone had a 401k balance of $101,650, that wouldn't be ideal. Yes, young people would be in good shape, because they could grow that balance into $1 million or more over the course of decades. But someone in their 50s or 60s would be in poor shape. The average 401k at retirement, according to Fidelity and Vanguard, is well below $200,000, and the median 401k balance is likely lower still. That's just not enough for most folks.

Think about it this way: A widely accepted rule of thumb is that you can withdraw 4% of your retirement nest egg to live off of in your first year of retirement, and then adjust further withdrawals for inflation. That might sound good until you crunch the numbers. Four percent of $200,000 is a mere $8,000. Even if you add the average annual Social Security benefit for retirees of about $15,528, you're still below $25,000.

The good news
Despite the worrisome perspectives above, unless you're retiring today, there are probably some steps you can take to improve your financial condition. Here are some effective strategies to consider:

- Don't cash out that 401k! According to stats from Fidelity, about a third of 401k participants in plans managed by the financial services company cashed out in 2013 when moving to a new job. That can be lethal to retirement savings. Even if you're "only" cashing out, say, $20,000, that amount could grow to $135,000 in 20 years (assuming average stock-market returns), serving as a meaningful cushion in your golden years, rather than helping you pay for a newer car this year.

- Save and invest more. That old rule of thumb to sock away 10% of your earnings might be fine if you start at age 25, but for most folks, who are not close to reaching their retirement savings goals, it's smarter to aim for 15% or more.
- Invest more effectively. As you save more, don't just stuff those savings into a coffee can or a low-interest-rate account -- at least not if you have many years ahead of you before retiring. Make the most of those dollars and favor stocks over bonds. A simple and inexpensive broad-market index fund hard to beat -- even for most professional fund managers. Healthy and growing dividend-payers are also great for building long-term wealth with low risk. (You can access some high-yielding stock recommendations at the end of this article.)

Photo: TaxCredits.net via Flickr.

- Work longer. Few people want to work longer than they planned (and not everyone gets to choose when to stop working), but if you can swing a few extra years, you can boost your nest egg powerfully. Imagine, for example, that you've socked away $300,000 by the year you would retire. If you delay retiring for three more years and achieve average annual growth of 8%, that nest egg can approach $380,000 -- *and* you won't have to start drawing down your savings as soon.
- Be tax-smart. The Vanguard report also noted that the average 401k plan participant socked away $8,327 into his or her account in 2013. That's far below the maximum, which was $17,000 in 2013 and is $17,500 in 2014 (and those aged 50 and older could chip in an additional "catch-up" contribution of $5,500 in both years). Aggressively take advantage of tax-deferred accounts such as traditional IRAs and 401ks and tax-free retirement accounts such as Roth IRAs and Roth 401ks.
- Think outside the box. Be creative in your thinking about how to accumulate more money and/or spend less. You might, for example, turn a hobby such as woodworking into a side business. You might take in a boarder. You might carpool or bike to work. Relocating might seem extreme, but a dollar goes a lot further in certain parts of the country. A part-time job for a year or two could add thousands or tens of thousands to your nest egg.

The average 401k at retirement is insufficient to support most people in retirement, so don't let it be your benchmark. Aim higher, and with some strategizing, your financial future can be considerably improved.

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Comments from our Foolish Readers

On November 29, 2014, at 11:37 PM, **Tofurkeydog** wrote:

This all sounds well and good, if you still have a steady income AFTER retirement which is negligible for the vast majority of 401k participants. Unless one was either earning a large enough salary while still working or has a good steady pension coming in, this article is meaningless.

On November 29, 2014, at 11:42 PM, **cobranut** wrote:

I guess I'm in pretty good shape, then. At 50, my 401k balance is several times the average, I max out my 401k, including the 50+ catch-up, each year, and I've been maxing out my and my wife's Roth IRA's for many years as well.

This is in addition to other investments, some non-taxable, as well.

Also having rental property to provide additional income will help out in retirement.

I plan to cut back to 3-day weeks in about 5 or 6 years, allowing me to keep my employee insurance and benefits, and have more time to have fun while we're still young enough to enjoy it.

On November 30, 2014, at 12:25 AM, **ladybuvuhar** wrote:

You just have to prepare for retirement the right way so you aren't left with no income during your retirement. 401k is just one piece of the puzzle.

Here's the path to retire on your own terms, in 7 steps:

1) Pay off your debts as fast as you possibly can. If this means living in a crappy studio apartment and eating ramen everyday for a couple of years, do it. If you want to buy a car, get a reliable beater. Get insurance for $25/month from Insurance Panda. Forget about buying a house until your debts are paid off.

2) Once you are out of debt, stay out of debt. The only exception to this rule is a vehicle and a house. If you want to get a nicer car, buy used and be able to pay it off in a year or 2.

3) If you are going to stay in the same spot for at least 10 years, buy a house, preferably with at least a little bit of usable land. An acre is good, 5 acres is better. Take the amount you are pre-approved for and cut it in half - that's how much you should spend on a house. Come to the table

with at least 20% down and make a couple of extra mortgage payments every year. If you're going to be transferred or relocate every 5 years, forget about buying a house and rent instead.

4) Develop multiple revenue streams. Do contract work. Start a business on the side. Invest in a business as a silent partner. Raise chickens, breed dogs or grow apples. Build websites. Buy and sell antiques. Acquire rental property. Sell something that generates residual income. Learn to play the currency markets or trade stocks. Do whatever you can to generate income from multiple sources.

5) Grow these multiple revenue streams to the point that they generate enough consistent and reliable cash flow to replace your current income.

6) Make as much as you can. Save as much as you can. Give away as much as you can.

7) Retire!- the sooner, the better. Be sure you understand that "retirement" doesn't necessarily mean you stop working, it just means having the freedom to do what you want to do, when you want to do it.

Don't be foolish and fall into the trap of trying to measure your wealth by the value of your assets. Markets change. Valuations fluctuate. Instead, measure your wealth by the amount of cash flow your assets consistently generate.

On November 30, 2014, at 12:37 AM, **fredward** wrote:

So the average retiree has $200,000 at retirement doesn't that retiree still earn interest on that money as the article estimates 8%, wouldn't that be another $16,000/yr? Why isn't that interest included when estimating retirement income?

On November 30, 2014, at 12:57 AM, **cdd37** wrote:

This is all fine, I suppose, but it doesn't take into account money sitting in IRAs or money sitting in "regular" accounts. We've only got $235K in our 401Ks, but also another $250K or so in IRAs and $300K or so in regular taxable accounts. Add a reverse mortgage to that when retired and we're doing OK. The point, obviously, is that this article only addresses one of the many possible retirement assets one can have.

On November 30, 2014, at 7:26 AM, **MichaelinSF** wrote:

Yeah, this is all a pile of BS. The fact of the matter is that your 401K is subject to market fluctuations and also, management fees. No one tells you about that. You can have a lot of money saved in a 401K, but if the Market tanks your savings are evaporated. The truth of the matter is that the United States of America does NOTHING to protect nor to allow you to protect your assets in a 401K. It's a huge sham designed to bring wealth only to Assets Managers. The United States could care less about you welfare as a senior citizen and that's just the fact.

On November 30, 2014, at 8:04 AM, **greyhound44** wrote:

I think so, as I retired 31 Aug 2003 after having paid MAX SS portion of FICA for 35 + years: took (as a single person) MAX - reduced for age - SS retirement benefits at 62 - $US157,193.30 TAX FREE - as of 9 Dec 2014.

NO FICA since.

Saved my having to w/d more than a few $USDs form my US$2.4 MM IRAs, but I do have to take RMDs beginning in 2015 (which I do not want nor need).

retired expatriate (essentially non US taxpayer for 11.5 years)

On November 30, 2014, at 8:27 AM, **daviddunn747** wrote:

can anyone tell me how to protect my 401K from excessive fees from the management broker, I contacted the dept of labor and they have agreed the fees are excessive. They reported $14,000 YTD contributions from all employee's and fees of $7400. When we confronted the CO. owner they said they are leaving the account where it is. Help !!!! The broker is taking about 1/3 of our contribution, can not move money as a active employee. Employer contributes $0- not to mention the funds lost 3% last quarter.

On November 30, 2014, at 8:33 AM, **Readdd121** wrote:

Look...this can be a FUN life! It's not only about the future, but it's also about the future, so balance them. Don't eat dog food today to lie on the beach when you're too old to enjoy it but at the same time, if you're making $30K a year, don't lease that German car just yet...get out of debt is the best of the above advice IMHO...make every mistake just once and you're way ahead of the game...don't leverage your bets as that's the best way to "blow up"...always bet on yourself when the chips are down and when you get knocked on your duff, get up...cultivate your gut instincts and don't be afraid to follow them, they can take you in directions that your logic could never discern and that lead to rich lives...cheers!

On November 30, 2014, at 9:26 AM, **JDSBoomer** wrote:

This average and median amounts only take into account balances with your current employer at Vanguard, so may not be indicative of the real situation of people in their 50s and 60s who've had several jobs. I retired after 4 years with my last employer with a Vanguard balance at more than the "average" but rollover IRAs at other institutions from other employers were many times that. I know many people in that situation. The author may consider adding that caveat for that age group.

On November 30, 2014, at 10:06 AM, **GhostdogWarrior** wrote:

Great plan as long as we never have a correction ever again... lol You must work for the Fed.

On November 30, 2014, at 11:23 AM, **garysund** wrote:

The people in the best shape are those who at least own their home and they no longer have a mortgage. In most cases you have a roof over your head that is way less than you might be paying for rent.

The other thing a person would hope to have is a pension in addition to social security. Most people do not have this unfortunaly. That is when the 401k or IRA needs to kick in.

If most people don't own but rent, have no pension and just a few thousand saved then what do we have? When it comes to the baby boom generation we could have millions of homeless Americans trying to survive in our system. That will tax the hell out of our welfare system on every level. The government is not really prepared for this to happen. It will not be pretty. Part of the solution will have to be the children of these boomers will have to take them in. Like it or not we will return to the past era where the young will have to take care of the old until they die. Another issue is we are all living longer so the young will be old themselves taking care of their parents. It will all work out in the end but talk about poor planning.

On November 30, 2014, at 11:56 AM, **oe542** wrote:

The true Ponzi scheme in America is the 401k plan for the average worker making under 40k a year. After payroll taxes and expenses their nothing left to put aside.

These 401k plans were created and thought of by the wealthy business owners using recent examples to rid themselves of Pension Plans paid to workers above their salary. Those Plans further were untouched until retirement. Unlike the 401k borrowed tapped every rainy day!

Businesses sold workers a bill of goods that they would match contributions from their "INCOME" and put together slide presentation to create anarchy amongst the workforce.

What happen was those that stayed in the Pension Plan saw the younger worker get out and no longer contribute to the plan. Thus making the Plan unsustainable and blame then was placed on the retiree collecting a Pension for life.

America surely has placed themselves in a work till you die economy!

On November 30, 2014, at 11:58 AM, **jferristx** wrote:

If you are investing in something then walking away, assuming it will take care of itself, you are not investing. Complaining the market can crash is absolutely correct. But if you are an INVESTOR, you take that into account and spread your risk. It is not, as one commenter put it, the governments job to protect YOUR retirement. Reduce debt, balance risk/reward, have an emergency fund, and live within your means. It's not that hard. If you are complaining about your fees, do some dang homework! Move your account, contribute elsewhere, ask questions, educate yourself. I guess it is a lot easier to whine than actually work and make better choices.

On November 30, 2014, at 12:06 PM, **dellis915** wrote:

So here is the problem... I have two retirement accounts with fidelity one before tax, one after, my wife has a ROTH IRA at etrade and a traditional IRA at Wells Fargo, we have a joint account at etrade, and I have a ROTH IRA at etrade. Until recently we had an old joint account at Ameritrade with a balance of less than a dollar. I also have a stock account at UBS that is used for employee stock options and purchases.

The only way to know if we are prepared for retirement is by summing up all the accounts.

On November 30, 2014, at 2:37 PM, **sporttster** wrote:

At age 50 I've got $160k in 401, will have both a steelworkers pension and Social Security, the 'three legged stool'. By retirement I hope to have double the 401 as we'll be putting more and more in there with the kids getting older and leaving and bills paid off. So I'm thinking we should be ok.

On November 30, 2014, at 2:49 PM, **SLTom992** wrote:

Can anyone suggest what this means inasmuch as inflation and devaluation makes $100K almost worthless?

And yes I know it's better than nothing. But so is a cheap steak.

On November 30, 2014, at 3:17 PM, **MrCollector** wrote:

My wife and I are 54 with about 1.4 million in our 401K's. No pensions. I should feel good after reading this, but still do not think we have enough to retire.

On November 30, 2014, at 3:41 PM, **RealAmerican** wrote:

Move to work that you can enjoy, if working a distasteful job in younger years. Then, if healthy, why plan to retire until well up in years? Diversify, no matter what you might do to invest.

On December 01, 2014, at 8:20 AM, **Miker1951** wrote:

These figures are very skewed toward the fact they are foolishly assuming only holding one 401k account held by one company such as Vangard.i am 63 and retiring any day.

I have the following retirement accounts not counting my wife's

Fidelity 401k $32,000

American Funds SEP IRA $31,000

TRowe Price IRA $11,000

Prudential Flex IRA Annuity $116,000

Met Life Flex IRA Annuity $114,000

Jackson Flex IRA Annuity $268,000

TRowe Individual 401k $25,000

TRowe workplace 401K $296,000

Taxable accounts & savings $250,000

wife's total 401k/IRA $400k

My point is that they only look and one holing company and my personal accounts total 6 different companies that total almost $1M with my wife's $1.5.

We were both medium income earners but lived on one salary and saved 30% or more of our total income. The key is no debt and live below your means. People today want to go to the better dinning. New cars, buy all the latest iPhones get all these high monthly bills for satellite TV and phones.

All these excuses about I make under 40k etc. I was there too I still lived below my means no matter what I made. It's all about discipline and not spending and buying it all on credit. I buy on credit but always pay off at the billing cycle.

The bottom line don't believe these stories in full about the average Retirement for all workers. They only use a small piece of the pie.

On December 02, 2014, at 10:37 AM, **Mathman6577** wrote:

Fidelity has updated guidelines: http://www.benefitspro.com/2012/09/12/fidelity-issues-new-re...

On December 02, 2014, at 1:21 PM, **Linh27** wrote:

@ daviddunn747

If your employer contribute 0% and the management fees are 1/3 of your contribution then WHY DO YOU HAVE A 401k?

At 1/3 fee won't your contribution have to grow 50% just to break even?

You know you can open up your own IRA right?

On December 02, 2014, at 2:34 PM, **Brenny** wrote:

This is why I love the comments on articles. Sometimes they are more informative than the article itself.

For those of you that shared your current holdings, ty. It gave me a much better picture of what others have.

In my case I am similar to @Miker1951

I have multiple IRA accounts and a ROTH IRA. My wife also has multiples and a Roth IRA

We each have about 450K total in our IRAs and we are in our mid 40s.

We have two kids to put thru college tho and hopefully two weddings to get thru.

@ladybuvuhar, thank you for your opinion on buying vs. renting. I will be moving in a year and am of the opinion that I will sell and rent rather than sell and buy when I move.

On December 03, 2014, at 10:13 AM, **Mathman6577** wrote:

^^^ In addition to a 401k from my former employer (mainly invested in low-cost index funds and about 50% of my total assets) I also have a traditional IRA holding dividend stocks (1%), a credit union money market account (14%), and a taxable brokerage account holding dividend stocks and medium duration bond funds (35%). If I am like millions of other investors and the survey only looks at 401k balances it might miss a good chunk of the total pie.

On December 03, 2014, at 1:28 PM, **foolishlymeek** wrote:

Great comments!!

@DavidDunn747 - With those fees, I wouldn't contribute another cent into the 401(k). Also, can you take the money out as a loan (payment for a house, college expenses, other "hardship") but then put at least some of the money in a Roth IRA to offset taxes? (Definitely talk to a tax professional about tax consequences!)

I was a "state" employee at a university at the age of 18. Being "smart," I went to college. Now my colleagues from high school who are between 50 and 55 are retiring - with lifetime pensions paying 100% of their final salary and full health benefits. So, who was the "smart" one! :)

My biggest concerns are health related - the continuing increases in the cost of Medicare and Medicare Advantage programs with less coverage (partly thanks to Obamacare!). Also, whether I will be able to stay in my two-story home when the knees and hips give out! (Assisted living seems out of the stratosphere!)

However, on a positive side, the best advice I ever received was from a friend when I wanted to return to college at 30. I had about $10,000 in a retirement plan that I could cash in to help pay for college. (As a college student, that $10,000 looked extremely good!) However, this friend asked how long it took me to save that money - five years. He said not to think of it as $10,000 but as being able to retire five years earlier (with bad knees and hips! :)) if I kept the money in the fund. That $10,000 is now worth almost $100,000! Thank goodness for good advice from knowledgeable friends!

Best advice NOT related to money - a good retirement is having good health, loving friends and family, and enough money to do something you like, even if that "something" is working part time!

On December 03, 2014, at 2:01 PM, **KombatKarl** wrote:

$200k average at retirement? Wow. I'm 46 and have more than that. I know I'm not doing as well as some, but it looks like I'm doing ok.

So what if the market crashes? History says it always comes back better than before. My dad retired in '97, has gone through 2 recessions, and told me recently that he still has as much money today as he did when he retired. No doubt he's spent wisely, but the point is that market downturns doesn't mean you lose everything.