

How Does Your 401(k) Stack Up? - Transcript

Tom Mullooly: In episode 176, we try and tackle the question, how does your 401k stack up? So stick around. Welcome to the Mullooly Asset show. I'm your host, Tom Mullooly, and this is episode number 176. Thanks for tuning in. An article from January 20th, 2020 in Investopedia discusses the average 401k balance by age. This was pretty interesting, but the first thing that I'll say in regards to this is comparing yourself to others, unhealthy. Don't do it. It leads to bad decisions. A few other things I want to mention. Over the last few years, the economy has been good, so more people are putting money into these plans. That's good. Also recently, the market's been good, so the balances have been growing. That's also good. So let's dive into the numbers.

Now, this is by age group. So for 20 year olds, this is anyone from 20 to 29, the average balance was 11,800. Personally, when I started reading the article and I saw that people in their 20s had any balances in 401k. That's amazing because at this age you're paying student loans. You're trying to save money for a house, so good for those people, these young folks that are putting money away into a retirement account. If you're in your 30s that means anywhere from 30 to age 39 the average balance in a 401k today is \$42,400. By the time you're in your 40s again, 40 to 49 the average balance is \$102,700. In your 50s that grows to 174,100. In your 60s the average balance, these are people from age 60 to 69 the average balance, 195,900, almost 200 grand.

Now, here's the interesting part. Do you remember back in school in the third grade when they talked about mean, median, and mode? The average can be really misleading because you get someone with \$1 million in their account and it pulls up the average, so the median, which is the middle, it's the middle of the set. For the 50s, the median was about \$61,000 and for people in their 60s, median was \$62,000, not that much more different. So understanding the median and the average, you got to know what you're looking at. There's a huge, huge difference.

So let's look at that last set. Suppose you're 67, 68, 69 and you've got about 195,000 the average, we'll just round this up to \$200,000. If you have a 3% withdrawal rate per year, you're going to be withdrawing about \$6,000. That's 500 bucks a month. And remember, if it's coming out of a retirement plan, like a 401k, that's pretax, that's what it is. Your social security and your retirement account at work hopefully isn't the only assets that you pull into retirement. So with all of that being said, I don't want people feeling discouraged or upset or angry about where they're at with their retirement account savings. The fact that you're putting money into a retirement account, you are way ahead of the last generation. There is nothing wrong with saving outside your 401k account at work. That's actually something that we like to stress.

Do you need to be saving through a retirement savings account at work at all through a company plan? You may possibly be in a tax bracket where capital gains work out to be zero for you. It could wind up being lower than actually taking this income from your retirement plan as ordinary income. So the main message is when you see articles like this, it's interesting, but don't beat yourself up if you find your own personal account numbers behind the average or even behind the median, don't get hung up on average balances or those other kind of articles where they say you're going to need \$1 million to retire. That's a bunch of hogwash. They don't know your situation. Really, you know your situation best if you find that you're unsure of where

you're at in terms of preparation for retirement, that's exactly why you should be talking with a financial planner or an investment advisor who's a fiduciary.

Thanks for tuning into episode 176, we'll see you on the next one.