How To View & Manage Your 401K To 7 Figures

Before I get into what I have been doing wrong with my own 401K, let me tell you what I have done right. The one thing I have consistently done is contributed to my 401K and in most years maxed it out. That said, there are several mistakes that I have made over the past 8 years:

(1) I have held way too much cash when I should have been fully invested.

(2) I withdrew $10,000 as part of the downpayment on the house we now live in, because it was allowed penalty-free (but not tax-free).

(3) I didn't take full advantage of the max contribution limits.

(4) I borrowed from my 401K not once but twice.

Since I started my 401K back in 2009 (graduated in December of 2008), through September of 2017, I should have at least $156,000 from contributions alone, had I maxed it out every year. It's amazing how faulty our memories can be because all this time I had somehow convinced myself that I had maxed my 401K out every year since 2009. But as you will see in the table below, that is not the case.

Calendar Year	Contribution Limit	Actual Contribution
2009	16,500	13,981
2010	16,500	15,864
2011	16,500	9,009
2012	17,000	6,643
2013	17,500	17,500
2014	18,000	16,324
2015	18,000	18,000
2016	18,000	18,000
2017	18,000	18,000
Total	**156,000**	**133,320**

In the table above, I went back and pulled the IRS contribution limits by year, as well as actual contributions from my old W-2’s for each of those years. You will notice that for 2017 I have assumed $18,000 even though the year is not over as I write this because I have it on autopilot.

The obvious fact from the table is that I came up short by $22,680 with respect to how much I could have contributed vs. what I actually contributed. But that is not even the worst of it. If you look back up to the 3 major mistakes I have made in managing my 401K, besides not taking advantage of the max contribution limit, I also remained in mostly cash, and withdrew $10,000 when we bought our current house.

Let’s go through a thought experiment for a moment and pretend that the market stays flat between now and December 31st. As of September 2017, my total 401K balance (including rollovers to my IRA), is $146,633. If you include the $4,000 that is still to be contributed in the remaining 4 months of 2017, and you add back the $10,000 I withdrew, the balance would be $160,633.

That would imply that my contributions of $133,320 grew to $160,633 (pretending I didn’t take out the $10,000). That is an increase of $27,313 or a total return of 20.4%. But what have I yet to share with you?

Calendar Year	Contribution Limit	Actual Contribution	Matches
2009	16,500	13,981	1,158
2010	16,500	15,864	1,287
2011	16,500	9,009	1,386
2012	17,000	6,643	2,000
2013	17,500	17,500	2,200
2014	18,000	16,324	1,350
2015	18,000	18,000	1,875
2016	18,000	18,000	2,802
2017	18,000	18,000	4,634
Total	**156,000**	**133,320**	**18,692**

What about any matches that I got from my employer?

I have always had a match but the amounts have varied over time and from one company to another. That said, I added another column to the table that has a rough estimate of the matches I have received on my contributions over the years:

By the end of 2017, I will have received $18,692 worth of employer matching contributions, which makes up a large majority of the $27,313 increase I called out in the beginning of this thought experiment. This leaves pathetic growth of $8,621 over 8 years. I'm embarrassed to even share this, but I have to call myself out, so you don't make the same mistakes that I have.

So, I have done a decent job in making regular contributions, but I have done a piss poor job of investing those funds. As a consequence, I have left a lot of money on the table. It wouldn't surprise me if you told me my account is $100K lower than it could have been, but let's not get sucked into the never-never land of would of, could of, and should of.

DON'T DO WHAT I DID!

My Awakening & The Path Forward

Recently, I realized that I had convinced myself that I was smarter than I actually am. This arrogance has cost the GYFG household a lot of money over the last 8 years in spite of success in other areas of our lives. I have not treated my retirement accounts with the respect they deserve.

My view has been short term. For some reason, I thought I could predict what the market was going to do, even though Warren Buffett, the greatest investor of all time, has admitted to lack such ability. And I am no Warren Buffett.

I have also ignored the time horizon of a retirement account. This account is set up for the long game, it's money that you shouldn't plan on touching until you are 65 years old, and as I write this I am only 30. With a 35-year investment horizon ahead, **why the hell have I been so conservative???**

With a company match, there is built-in downside protection in the short-term, and a **MASSIVE** boost to long-term performance. Based on my current match of 50% on 4% of my income, assuming an $18,000 max contribution, this translates to a

25.7% margin of safety before my contributions are ever at risk. The company I work for is currently considering sweetening the pot by increasing the match to 50% on 6% of my income, which increases the margin of safety to 39.8%.

This realization is highly motivating to turn that compounding machine ON so that it can do its magic over the next 35 years. Yes, there will be ups and downs along the way, but over enough time it should grow very nicely. When the market does eventually crash again, we know it will but don't know when, but when it does that is when the beauty of dollar cost averaging really kicks in. When markets decline, it's not the time to sell, if you have the capital that is the best time to buy at **HUGE** discounts.

I HAVE SEEN THE LIGHT!

Going forward, new contributions into my 401K will automatically be invested in low-cost S&P 500 fund (expense ratio of 0.035%) instead of a money market fund yielding a measly 1.3%. One of the other moves that I made this year to finally put idle money to work on an automated basis, is set up a self-directed IRA, that allowed me to transfer about $70K from a rolled over 401K from a previous employer, to invest on the PeerStreet platform providing hard money loans.

These moves take care of new contributions and $70,000 of the current $146,633 account balance. So, I still have $76,633 of idle cash sitting in a money market fund within my current 401K. I am struggling to make the decision to invest this lump sum, and for now, it remains in the money market fund.

My plan is to invest $6,386/month starting in October (starting on my birthday, the 11th) until the amount is fully invested. And with any significant decline of 5% or more from current levels I will use discretion to increase the investment amount.

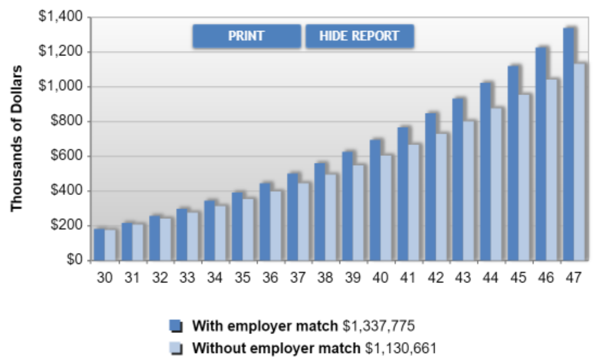
Math To a 7-Figure 401K

The plan is to work until I am 48 and then re-evaluate. I don't really ever see myself retiring, but a lot can happen between now and then, and I am not naive to the fact that we evolve and change as we age (hopefully mostly for the better). So, I took this over to Bank Rate and used their 401k calculator to see where the balance would be by the time I was 48:

Your 401(k) could be worth $1,337,775 after 18 years.

This was calculated with your current contribution of $18,000.00 per year and a current 401(k) balance of $146,664. Your current plan has you contributing 7.6% of your annual salary up to the IRS annual maximum of $18,000*.

401(k) Balance by Year



Your 401(k) total also includes an employer match of 50% of your contributions, up to 4% of your annual salary. Your current 401(k) plan has your employer contributing $4,760.00 per year. To receive your employer's maximum match of $4,760.00, you should contribute at least 4% of your annual salary to your 401(k). Without your employer's match, your ending 401(k) would be reduced to $1,130,661.

Results Summary	
Current 401(k) balance	$146,664
Years to invest	18
Annual rate of return	7%
Annual salary	$238,000
Expected annual salary increase	3%
Percent to contribute	7.6%
Your 401(k) contribution*	$18,000.00 per year
Your employer's 401(k) match	$4,760.00 per year This is a 50% employer matchup to a maximum of 4% of your annual salary.
Total you will contribute	$324,000.00
Total your employer will contribute	$114,796.27
Total at age 48 **Total without employer match**	**$1,337,775** **$1,130,661**

*Your total contribution for one year is based on your annual salary times the percent you contribute. However, your annual contribution is also subject to certain maximum total contributions per year. The annual maximum for 2017 is $18,000. Beginning at age 50 and higher, a "catch-up" provision allows you to contribute an additional $6,000 into your 401(k) account. It is also important to note that employer contributions do not affect an employee's maximum annual contribution limit.

401(k) Balance by Year

Age	Contributions	Employer Match	Balance Without Employer Match	Balance With Employer Match
			$146,664	$146,664
30	$18,000	$4,760	$175,606	$180,545
31	$18,000	$4,903	$206,574	$216,945
32	$18,000	$5,050	$239,709	$256,046
33	$18,000	$5,201	$275,165	$298,041
34	$18,000	$5,357	$313,101	$343,138
35	$18,000	$5,518	$353,694	$391,558
36	$18,000	$5,684	$397,128	$443,540
37	$18,000	$5,854	$443,602	$499,337
38	$18,000	$6,030	$493,330	$559,222
39	$18,000	$6,211	$546,539	$623,487
40	$18,000	$6,397	$603,472	$692,443
41	$18,000	$6,589	$664,390	$766,426
42	$18,000	$6,787	$729,573	$845,793
43	$18,000	$6,990	$799,319	$930,926
44	$18,000	$7,200	$873,946	$1,022,236
45	$18,000	$7,416	$953,798	$1,120,163
46	$18,000	$7,638	$1,039,239	$1,225,174
47	$18,000	$7,868	$1,130,661	$1,337,775

I don’t actually plan on pulling any money out of this account until we hit 59 1/2 and can avoid the 10% penalty for early withdrawal. Of course, we never know what life might throw our way. There is always [regulation 72T] that would be a workaround if you needed early access. However, our intention is not to touch the money until we are 59 1/2 or older, let’s just call it 60. If we use the same 7% growth assumption and let the $1,337,775 continue compounding until we are 60, it turns into $3,012,925, and if we let it compound uninterrupted until we are 65, it becomes $4,225,784.

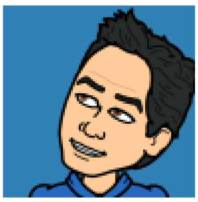
Obviously, this is predicated on two major assumptions:

> (1) I continue to max out my 401K with $18,000/year until I am 48 (then I cease contributions, I will probably continue to make contributions beyond this). If I keep contributing until age 65, the 401k balance, assuming the same assumption of 7%, could grow to $5,272,671.
>
> (2) That the market will return a compound annual growth rate of 7% in our investment horizon

All this said I feel confident that by the time I am 65 years old, my 401k account balance will end up somewhere in the range of $1.3M and $5.3M.

Okay, enough blabbing, now I have to go follow through and get this money put to work so that compounding can work its magic over the next several decades.

– Gen Y Finance Guy



Gen Y Finance Guy

Hey, I’m Dom - the man behind the cartoon. You’ll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I’m a 30-something former C-Suite

executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own financial stats. I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! Read More