401K – Long Term Wealth

$60,000 per year, and your employer offers a common 401(k) match structure: 100% match on the first 3% of your salary, plus 50% match on the next 2%

- This effectively averages to a 4% match if you contribute at least 5% of your salary.

- You decide to contribute 5% of your salary, which is $3,000 annually ($60,000 × 0.05)

Employer Match Calculation:

First 3%: You contribute $1,800 ($60,000 × 0.03). The employer matches 100%, adding $1,800.

Next 2%: You contribute $1,200 ($60,000 × 0.02). The employer matches 50%, adding $600 ($1,200 × 0.50).

Total Employer Match: $1,800 + $600 = $2,400 annually.

- Total Contribution: Your $3,000 + employer's $2,400 = $5,400 saved in your 401(k) for the year.

Growth Example: Assuming a 7% annual return (Fidelity's 2025 estimate for stock-heavy 401(k)s), contributing $5,400 yearly for 30 years grows to $509,012. Without the match, your $3,000 alone grows to $281,672—the match adds $227,340 over time. If you skip contributing, you get $0 from the employer, missing out on free money.

If your company has a 4-year graded vesting schedule (25% per year), and you leave after 2 years, you'd keep 50% of the employer's contributions ($1,200/year). Immediate vesting, common in some plans, means it's all yours from day one.