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Average 401(k) balance soars

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Fidelity Investments' latest report on 401(k)s has both good news and bad news about our preparedness for retirement.

The good: The average 401(k) balance managed by Fidelity reached a record $89,300 in the fourth quarter of 2013. That's a 15.5% increase from a year ago and almost double the low of $46,200 set in 2009. The number is higher for pre-retirees 55 and older: $165,200.

The bad: More than a third (35%) of 401(k) participants cashed out accounts when they left their jobs in 2013. That number is even higher among younger participants ages 20 to 39.

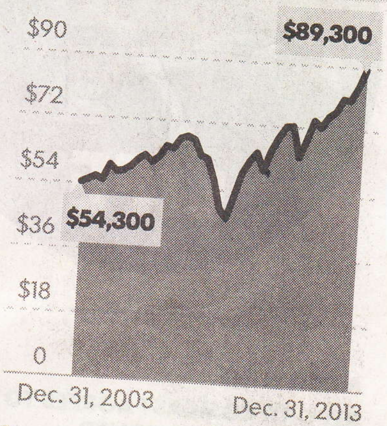
The increase in retirement account balances is "great news," says Jeanne Thompson, vice president at Fidelity Investments. "No one will complain when account balances go up," she says. But most of that increase — 78% — was due to last year's strong stock market. Just 22% was due to contributions. In normal years, those numbers are closer to 50-50, she says.

She says Fidelity is very concerned about the number of people who cash out their 401(k)s when they change jobs.

"What's concerning there is many people, when they cash out, I don't think they fully realize the long-term impact," Thompson says. "In the short term, they will get cash, but in the long term, they are missing out on what that money could grow to."

401(K) GROWTH

Average balance by quarter in the past 10 years, in thousands, for Fidelity-managed 401(k) accounts:



Source Fidelity

KRIS KINKADE, USA TODAY

"Individuals who cash out of their 401(k) plans are committing the equivalent of investment suicide," says W. Kirk Taylor, chief investment strategist for 1st Portfolio Wealth Advisors in Vienna, Va. "The combination of penalties, taxes and lost opportunity costs generally have disastrous implications to an investor's long-term retirement plan."

Thompson said the average cash-out is $16,000. For a 30-year-old, that could mean the loss of $461 in monthly retirement-income (assuming they retire at 67 and live into their 90s).

"What you're really losing is a lot more than $16,000, long-term," Thompson says. "When you are younger, it's hard to conceive of that. Five hundred dollars a month can pay for a lot."

The other shock for people withdrawing that $16,000: After $3,200 in federal and state taxes and another $1,600 in early-withdrawal penalties, it leaves only about $11,200.