

The benefits of increasing your 401(k) contributions before the year runs out

As 2026 draws to a close, your employer's 401(k) plan may offer an opportunity to reduce your current income taxes while building your retirement savings — or to boost your future tax-free retirement income. If you haven't been contributing, it may not be too late to start. And if you're already contributing, increasing the amount you contribute from each paycheck before year end could help you make the most of your 401(k).

401(k) refresher

If you're eligible for your employer's 401(k) plan, you can elect to contribute a specific dollar amount or percentage of your pay. These "elective deferrals" come out of each paycheck. Generally, they'll be pretax, so your wages or other compensation for federal income tax purposes will be reduced by the contribution amount. This will save you current income taxes, but the amounts will still be subject to Social Security and Medicare taxes.

Your 401(k) balance grows tax-deferred, meaning you'll pay no tax while your money remains in the account. This tax-deferred compounding can be powerful over time. But when you make withdrawals in the future, they'll be subject to income tax.

If your employer offers a Roth 401(k), instead of making pre-tax contributions, you can make Roth contributions. The amounts contributed will be included in your taxable

income so won't save current tax. But future qualified distributions (including earnings) will be tax-free.

Your employer may match some or all of your 401(k) contributions. Although matching isn't required, many employers offer some type of match.

You generally can select among various investment options that your employer has chosen to offer. It's important to periodically review your plan investments to determine whether each investment remains appropriate for your retirement planning goals and your risk tolerance. If you haven't reviewed your 401(k) investments recently, consider doing so before year end.

2026 contribution limits

Your total elective deferrals — for pre-tax and after-tax contributions on a combined basis — are subject to annual IRS limits. In 2026, the maximum amount permitted generally is $24,500.

But when you reach age 50, if your employer's plan allows, you can make additional "catch-up" contributions. In 2026, the catch-up contribution limit is $8,000, or $11,250 if you're age 60 through 63 at year end. So if you're 50 or older, the total that you can contribute to all 401(k) plans in 2026 is generally $32,500, or $35,750 if you're age 60 through 63.

Beginning in 2026, if your previous year's wages from the employer sponsoring the plan exceeded a certain amount, any catch-up contributions you make *must* be Roth contributions rather than pre-tax contributions. For 2026, the new rule applies if your 2025 compensation from the same employer exceeded $150,000. (This amount will be annually adjusted for inflation.) If your employer doesn't offer a Roth option, then you can't make catch-up contributions.

Total contributions to a 401(k) account, including elective deferrals and employer contributions (but not catch-up contributions), can't exceed $72,000 for 2026. (Contributions also can't exceed 100% of your compensation.)

Increasing contributions

Employee 401(k) contributions for 2026 generally must be made through payroll by December 31. If you haven't reached your contribution limit and might like to increase your contributions from your remaining paychecks, check with your employer soon. Payroll processing deadlines may limit how late you can make changes.

If your employer matches contributions, try to contribute at least enough to receive the maximum match. Otherwise, you'll lose out on free money!

So review how much you've contributed and whether you're on track to receive your full employer match. Also check your plan's matching formula. Some employers calculate matching contributions each pay period, while others provide a year-end adjustment. Depending on the formula, the timing of your contributions could affect the match you receive.

If you've already contributed enough to get the maximum match, increasing your pretax contributions may still be beneficial. Not only will it reduce your taxable income, but it also will reduce your adjusted gross income (AGI) and modified AGI (MAGI), which are triggers for many tax break phaseouts and certain additional taxes.

If you're less concerned about 2026 taxes and you want to maximize your tax-free income during retirement, consider increasing your Roth 401(k) contributions. This may be an especially good option if your income is too high for you to be eligible to make Roth IRA contributions.

Before increasing your 401(k) contributions, consider the rules and restrictions that apply to withdrawals. You won't have easy access to the funds after the contribution. And in the limited circumstances when you can take withdrawals before age 59½, they generally will be subject to a penalty in addition to any applicable income taxes.

Act before year end

With a handful of paychecks left in 2026, you may still have time to increase your 401(k) contributions and either cut your 2026 taxes or provide yourself with tax-free retirement income. Check with your employer about deadlines and available options. We can help you evaluate the tax implications and determine whether increasing your contributions makes sense for your situation.

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