



Should you make after-tax, non-Roth 401(k) contributions?

If you participate in a company 401(k) plan, you already know that you can make pre-tax contributions up to the annual elective deferral limit to a traditional, tax-deferred account. If your 401(k) plan offers a Roth option, you can use part or all of your limit to make after-tax contributions to a Roth account instead. But you may have a third option, if your 401(k) plan allows it: Make after-tax contributions to a traditional account.

Traditional vs. Roth deferrals

For 2026, 401(k) elective deferral contributions are generally limited to \$24,500. If you'll be 50 or older at year end, you can make additional elective deferral contributions, called "catch-up" contributions. The 2026 catch-up contribution limit is either \$8,000 or \$11,250, depending on your age. However, if your 2025 salary exceeded \$150,000, any catch-up contributions must be made to a Roth 401(k) account.

When you make pre-tax elective deferrals to a traditional 401(k), the contributions aren't included in your taxable income for the year, but they're still subject to Social Security and Medicare taxes (collectively called FICA tax). The account funds can grow on a tax-deferred basis, and you'll owe income taxes on distributions — both those attributable to contributions and those attributable to growth.

When you make after-tax Roth 401(k) elective deferrals, the contributions don't reduce your taxable income. So, they're subject to both income tax and FICA tax. The payoff is that earnings in your Roth 401(k) account are allowed to accumulate income-tax-free and you can take income-tax-free qualified withdrawals from the account once you

meet the requirements. (Generally, qualified distributions are those after age 59½ if the account has been open at least five years.)

How after-tax contributions are different

If your 401(k) plan allows non-Roth after-tax contributions, they're treated as part of your taxable wages. Therefore, these contributions are subject to income tax and FICA tax. You may owe state and local income taxes, too. Because they don't go into a Roth account, they aren't eligible for all the tax benefits Roth accounts offer.

So, you might be thinking, "why would I want to make after-tax contributions?" The answer is to get more money into your 401(k) account, where it can accumulate income and gains without being taxed until you start taking withdrawals. These contributions aren't subject to the annual elective deferral limit. So you can make them after you've maxed out that limit, including catch-up contributions, if applicable.

However, there's still a limit on total additions that can be made each year to your 401(k). Including your elective deferrals (except for any catch-up contributions), your after-tax contributions and any employer contributions, 2026 contributions can't exceed the lesser of: 1) \$72,000 or 2) 100% of your compensation.

Also, after-tax contributions create tax basis in your account, which means that the after-tax amount contributed can eventually be withdrawn tax-free. (But withdrawals attributable to growth on that amount will be taxable, a significant difference from qualified Roth distributions.)

After-tax contributions in action

To illustrate how these contributions work, here's an example: Let's say your employer sponsors a 401(k) plan with a 50% company match, your 2026 salary is \$150,000 and you're under age 50. The plan allows employees to make after-tax contributions. You max out your elective deferral limit by contributing \$24,500 to your traditional 401(k) account. Your employer makes a matching contribution of \$12,250. That means you're allowed to make up to \$35,250 in after-tax contributions (\$72,000 – \$24,500 – \$12,250) this year. You decide to make \$10,000 of after-tax contributions.

- Your \$24,500 of elective deferral contributions aren't included in your taxable wages for federal income tax purposes but they *are* subject to FICA tax withholding.
- Your employer's \$12,250 matching contribution is exempt from federal income tax and FICA tax.
- Your \$10,000 after-tax contribution is included in your taxable income and is subject to federal income tax and FICA tax. But it creates \$10,000 of tax basis in your 401(k) account, which can be withdrawn tax-free.

Be aware that 401(k) plans are subject to complicated nondiscrimination rules intended to prevent plans from operating in favor of highly compensated employees as opposed to rank-and-file workers. In most cases, nondiscrimination rules won't impact the ability of an employee to make after-tax contributions, but there may be exceptions.

Beyond elective deferrals

If you've been maxing out your elective deferrals, after-tax 401(k) contributions can be a tax-efficient way to add to your retirement nest egg. We can review your situation and help you determine whether you might benefit.

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