

## MONEY MYTHS SERIES

# Should You Stop Contributing to Your 401(k)? The "Taxes Will Go Up" Pitch, Checked

*The skip-your-401(k) pitch usually ends in an IUL sale. The 2026 limits, what the employer match is worth, Roth vs. traditional, and California creditor rules.*

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: [ridleylawoffices.com/iul-vs-401k/](https://ridleylawoffices.com/iul-vs-401k/)

Part of our [money myths series](#), where we look at the money advice that spreads on Instagram, TikTok and YouTube and ask who gets paid when you follow it.

**The pitch:** "Taxes are going up. Your 401(k) is a tax time bomb. Stop contributing and put the money in a policy that grows tax-free instead."

**The verdict:** For most workers, skipping the 401(k) means turning down free money: the most common employer match is 50 cents on the dollar up to 6% of pay (Vanguard, 2026). If you're worried about future taxes, the fix is the Roth option already in 98% of plans, not the life insurance policy the person making the pitch is paid to sell.

**\$24,500**

2026 401(k) employee contribution limit,  
\$32,500 at age 50+ (IRS)

**50% of 6%**

most common employer match formula  
(Vanguard, 2026)

**4.7% of pay**

average employer match promised  
(Vanguard, 2026)

**98%**

of Vanguard plans offer a Roth option  
(2025)

**53%**

the future tax rate at which a 50% match  
stops beating skipping the 401(k) (Ridley  
Law example)

**Permanent**

today's seven federal rates, 10% to 37%,  
after the 2025 tax law (IRS)

Who gets paid when you follow this advice

- **The agent selling the replacement.** The "skip your 401(k)" video almost always ends in a pitch for indexed universal life (IUL) or another cash-value policy, and the agent is paid a commission on the premium. CNBC reported that agents are generally allowed to recommend the policy that pays them a higher commission over one that may be just as good.
- **The insurer.** It collects the premium, and the policy's cash account has to cover insurance costs that, CNBC reported, typically rise each year with age.
- **Not your employer, and not you.** The match you give up stays with your employer. The tax deduction you give up goes to the IRS today.

FINRA notes that indexed universal life is generally not considered a security. That means the SEC and FINRA's investment-sales rules usually don't reach the pitch. State insurance regulators do.

Who gets paid when you stop contributing to your 401(k)?

The person selling what you buy instead, usually an insurance agent paid on commission; your employer keeps the match you didn't claim.

The pitch rarely ends at "stop." It ends at "and put that money here." The "here" is usually a cash-value life policy, sold as a "tax-free retirement plan" or "LIRP." You can read the insurance side in our pages on [IUL as a retirement plan](#) and [infinite banking](#). This page is about what you give up on the 401(k) side.

A 401(k) lets you choose to put part of your pay into the plan instead of taking it as cash (26 U.S.C. § 401(k)(2)). Pretax contributions are excluded from income up to the yearly limit (§ 402(g)). Your employer's match goes in on top. When you stop contributing, the match usually stops too.

What is the 2026 401(k) contribution limit?

\$24,500 for employee contributions in 2026, plus an \$8,000 catch-up at age 50 or older and an \$11,250 catch-up at ages 60 to 63, per the IRS.

| 2026 limit (IRS)                                        | Amount                      |
|---------------------------------------------------------|-----------------------------|
| 401(k), 403(b), governmental 457, TSP employee deferral | \$24,500                    |
| Catch-up, age 50 and older                              | \$8,000 (total \$32,500)    |
| Catch-up, ages 60 to 63                                 | \$11,250 instead of \$8,000 |
| Total employee plus employer additions (§ 415(c))       | \$72,000                    |
| IRA contribution, plus catch-up at 50+                  | \$7,500, plus \$1,100       |
| Roth IRA phase-out, single                              | \$153,000 to \$168,000      |

| 2026 limit (IRS)                           | Amount                 |
|--------------------------------------------|------------------------|
| Roth IRA phase-out, married filing jointly | \$242,000 to \$252,000 |

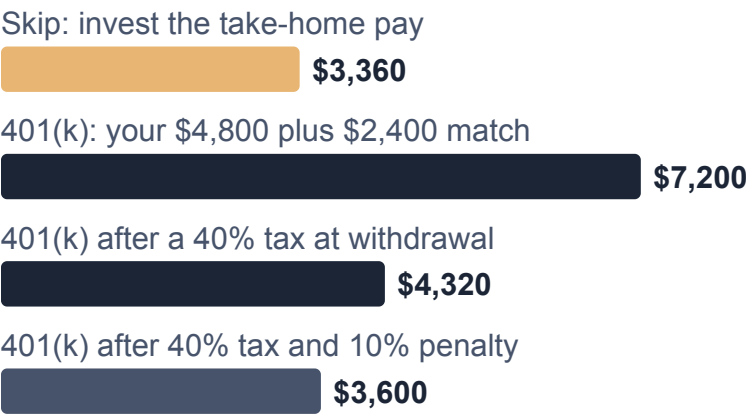
Under SECURE 2.0, a worker whose prior-year FICA wages topped \$150,000 must make catch-up contributions as Roth contributions (IRS Notice 2025-67). The IRS's final regulations generally apply starting in 2027, and plans must comply in good faith before then; the earlier transition period generally ended December 31, 2025. California follows the federal 401(k) rules, including the 60-to-63 catch-up, according to the Franchise Tax Board's Publication 1005.

## How much is the employer match worth?

A lot: the most common formula, 50 cents on each dollar you put in up to 6% of pay, is an instant 50% return before any investment growth (Vanguard, How America Saves 2026).

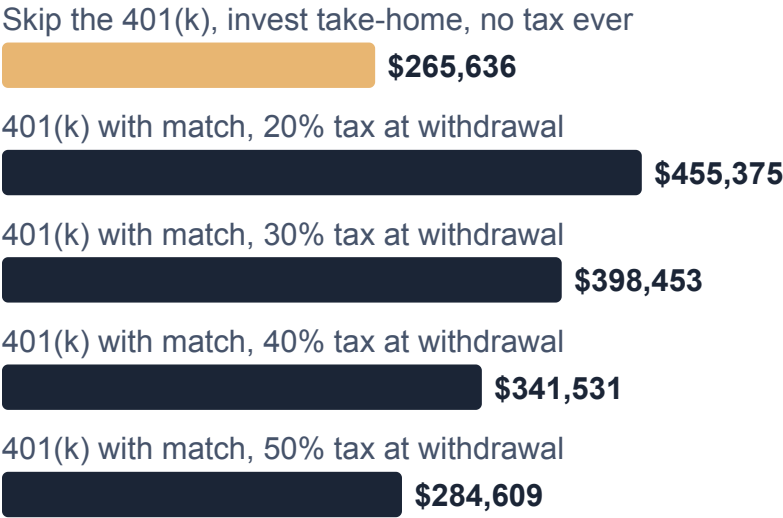
Vanguard's 2026 report, covering its plans in 2025, found 96% of plans make some employer contribution and Vanguard administered more than 100 different match formulas. The average promised match was 4.7% of pay, and the average worker had to contribute 6.4% of pay to get all of it.

Take a hypothetical single worker earning \$80,000 in 2026. After the \$16,100 standard deduction her taxable income is \$63,900, which puts her in the 22% federal bracket (over \$50,400). Add California income tax and we'll assume a 30% combined rate on her last dollars. She contributes 6%, or \$4,800, and her employer adds \$2,400. Because the \$4,800 comes out before tax, her take-home pay drops by only \$3,360.



| Year one (hypothetical)                 | Dollars |
|-----------------------------------------|---------|
| Skip: invest the take-home pay          | \$3,360 |
| 401(k): your \$4,800 plus \$2,400 match | \$7,200 |
| 401(k) after a 40% tax at withdrawal    | \$4,320 |
| 401(k) after 40% tax and 10% penalty    | \$3,600 |

Put the other way: \$3,360 is 46.7% of \$7,200, so she'd have to face a tax rate above 53.3% on every dollar she withdraws before skipping the 401(k) came out ahead. That figure ignores the investment growth, which both sides would earn, and it assumes the skip money is never taxed.



Hypothetical: \$80,000 salary, 6% contribution (\$4,800 a year), employer match of 50 cents per dollar on that 6% (\$2,400), 6% annual return, 30 years, 30% combined tax rate today. Skipping the 401(k) leaves \$3,360 a year of take-home pay to invest.

| Scenario (hypothetical)                        | After-tax value at year 30 |
|------------------------------------------------|----------------------------|
| Skip the 401(k), invest take-home, no tax ever | \$265,636                  |
| 401(k) with match, 20% tax at withdrawal       | \$455,375                  |
| 401(k) with match, 30% tax at withdrawal       | \$398,453                  |
| 401(k) with match, 40% tax at withdrawal       | \$341,531                  |
| 401(k) with match, 50% tax at withdrawal       | \$284,609                  |

## Will taxes really be higher when I retire?

No one knows, but the big scheduled increase the pitch relied on is gone: the 2025 tax law made the current seven federal rates, 10% to 37%, permanent (IRS, Rev. Proc. 2025-32).

For years the strongest version of this pitch pointed to a real date. The 2017 tax cuts were set to expire after 2025. The One, Big, Beautiful Bill Act, Public Law 119-21, signed July 4, 2025, made the rate tables permanent in section 70101. The IRS confirms that for 2026 the 10%, 12%, 22%, 24%, 32%, 35% and 37% rates remain in effect. Congress can always change taxes later, in either direction. That's a reason to hedge, not a reason to pass on a match.

Most retirees also have less taxable income than they did while working. In the Congressional Budget Office's household data for 2013, middle-income elderly households paid an average total federal tax rate of 4.7%, compared with 16.0% for middle-income households of working age without children, and an average individual income tax rate of 1.2% vs. 3.9%. Part of that gap is payroll tax, which retirees don't pay.

## Should I choose Roth or traditional 401(k) contributions?

If you expect higher taxes later, choose Roth contributions in the same 401(k): you pay tax now, keep the match, and qualified withdrawals are tax-free (26 U.S.C. § 402A(d)(1)).

Hedging against higher taxes doesn't require buying anything. Vanguard reports 98% of its plans offered a Roth feature at the end of 2025, but only 18% of participants used it. Many people split their contributions between the two to hedge. Either way the employer match still arrives.

|                                   | Traditional 401(k)                                                                        | Roth 401(k)                | Skip the 401(k), buy IUL                                                                                      |
|-----------------------------------|-------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------|
| Employer match                    | Yes                                                                                       | Yes                        | Lost                                                                                                          |
| Tax now                           | Deferred                                                                                  | Paid now                   | Paid now                                                                                                      |
| Tax on withdrawal                 | Ordinary income                                                                           | None if qualified (§ 402A) | Policy loans can be tax-free, but a lapse or surrender with a loan outstanding can bring income tax, per CNBC |
| Early access                      | 10% penalty before 59½, with exceptions such as leaving your job at 55 or later (§ 72(t)) | Same rules for earnings    | Loans; surrender charges and policy costs apply                                                               |
| Creditor protection in California | Fully exempt (Code Civ. Proc., § 704.115)                                                 | Fully exempt               | Cash value exempt only up to \$17,525 (Code Civ. Proc., § 704.100, as adjusted 2025)                          |
| Who's paid to sell it             | No salesperson                                                                            | No salesperson             | Commissioned agent                                                                                            |

## Is my 401(k) protected from creditors in California?

Yes: California exempts all amounts held by a private retirement plan such as a 401(k), with no dollar cap (Code Civ. Proc., § 704.115(b)).

IUL sellers often claim the policy is a safer place for your money. In California the opposite is usually true. A 401(k) is exempt without a cap, and federal law adds that pension plan benefits "may not be assigned or alienated" (29 U.S.C. § 1056(d)(1)). IRAs are exempt only to the extent necessary for your support in retirement (§ 704.115(e)). The cash value of a life insurance policy is exempt only up to a set amount, \$17,525 under the Judicial Council's current table (§ 704.100(b), effective April 1, 2025); married couples can combine their exemptions.

## What goes wrong with the IUL replacement?

Policies sold on optimistic illustrations can underperform and lapse; New York's insurance regulator warned in 2019 that many universal life buyers found their policies "had lapsed and had little to no value."

The New York Department of Financial Services said it had received a higher than average number of complaints about universal life policies, and that most don't provide long-term guarantees of premiums, cash value or benefits. Insurance regulators tightened the rules for IUL illustrations in 2023. The NAIC's revised Actuarial Guideline 49-A limits how much benefit from borrowing against the policy an illustration can show, and it bars illustrating a credited rate on borrowed money higher than the loan rate, for policies sold on or after May 1, 2023. The NAIC had already decided in 2019 that policies with bonuses and multipliers shouldn't be illustrated more favorably than plain ones.

The tax-free loan feature has a catch too. If a policy is funded too fast it becomes a modified endowment contract, and loans are then taxed as distributions, with a 10% additional tax before 59½ (26 U.S.C. §§ 7702A, 72(e), 72(v)). And CNBC reported that if a policy with an outstanding loan lapses or is surrendered, the owner can face income tax. CNBC also reported that several insurers have been sued by policyholders who faced higher payments or a lapse, and that Transamerica settled its lawsuit for \$195 million in 2018.

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## When does skipping the 401(k) make sense?

Rarely, and almost never all at once: the real exceptions are a plan with no match and high fees, debt at very high interest, or no emergency cushion.

If your employer offers no match and the plan's funds are expensive, an IRA may be the better first stop, within the \$7,500 limit for 2026. If you're carrying credit card debt at 25%, paying it down is a guaranteed return. If you have no emergency savings, build a small cushion first so you don't end up taking a penalized withdrawal. None of those exceptions point to a life insurance policy. And someone who already maxes out the 401(k), funds a Roth IRA and needs permanent life insurance for estate reasons is in a different conversation, one to have with a fee-only planner and an estate planning lawyer, not a reel.

The research also says people leave this money behind even when it's irrational. Choi, Laibson and Madrian found that between 20% and 60% of employees over 59½, who could withdraw their own contributions with no penalty, still didn't contribute enough to get the full match, giving up as much as 6% of pay a year. Telling them didn't change their behavior.

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## What should you do instead?

- 1 Contribute at least enough to get the full match**  
Find your plan's match formula in the summary plan description. At the common formula that's 6% of pay.
- 2 Worried about future taxes? Use the Roth option**  
Split new contributions between traditional and Roth, or go all Roth. You keep the match either way.

### 3 Ask any "advisor" how they're paid

If the answer is a commission on a policy, you're talking to a salesperson. A fee-only planner or a CPA can run your numbers without a product to sell.

### 4 Name your 401(k) beneficiaries

A 401(k) passes by its beneficiary form, not your will, and spouses have federal rights. See [your spouse's rights to your 401\(k\)](#) and our [beneficiary designation audit](#).

### 5 Self-employed? Use a solo plan

Business owners have their own versions. See [solo 401\(k\) vs. SEP IRA](#).

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## Frequently asked questions

### Should I stop contributing to my 401(k)?

Not if your employer matches. At the most common formula, 50% of the first 6% of pay, the match beats skipping the 401(k) unless your future tax rate tops about 53% in our worked example.

### Is a 401(k) a tax time bomb?

Traditional 401(k) withdrawals are taxed as income, and required distributions start at 73 (75 for people who turn 74 after 2032). It's a tax you can plan for, and Roth contributions let you spread the risk.

### Is IUL better than a 401(k)?

For most workers, no. You give up the match, the deduction and California's unlimited creditor exemption, and you take on insurance costs, illustration risk and a commissioned sale. IUL can fit someone who already maxes out retirement accounts and needs permanent coverage.

### What is the 401(k) limit for 2026?

\$24,500 for employee deferrals, \$32,500 at age 50 or older, and \$35,750 at ages 60 to 63 (\$24,500 plus the \$11,250 catch-up), per the IRS.

### Can I take money out of my 401(k) before 59½?

Usually with a 10% federal additional tax, plus California's 2.5% early-distribution tax. Exceptions exist, including leaving your job in or after the year you turn 55 (26 U.S.C. § 72(t)(2)(A)(v)).

### Did Congress raise tax rates for 2026?

No. The 2025 tax law made the 10% to 37% rates permanent, and the IRS's 2026 tables keep them.

This page is general information about the law. It isn't legal, tax or investment advice for your situation. The worked example is hypothetical; run your own numbers with a tax professional.

More in the [money myths](#) series: [IUL as a retirement plan](#), [infinite banking](#) and [gold IRA](#) pitches. For your heirs: [IRAs](#), [401\(k\)s](#) and [beneficiary assets](#).

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## Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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