PROSPERA PERSPECTIVES

# Beyond the 401(k): Building Tax-Free Retirement Income Without Limits

Why the same tax code that caps your retirement plan at $24,500 allows unlimited tax-free accumulation through a strategy most business owners have never considered.

| $24.5K | $0 | 37% |
|---|---|---|
| 2026 401(K) LIMIT | IRS CAP ON SEC. 7702 PLANS | TOP RATE — NOW PERMANENT |

**June 2026** | iProspera.com | 719.521.6050

> Your 401(k) was designed for a different era. For business owners earning well above its limits, there is a section of the tax code that offers something no qualified retirement plan can: tax-free growth, tax-free income, and zero government-imposed caps on how much you put in.

## The Ceiling Nobody Talks About

In 2026, the IRS allows you to contribute $24,500 to a 401(k). If you're over 50, you can add another $8,000 in catch-up contributions. With a Solo 401(k), employer contributions can push that total to roughly $72,000. These are generous numbers for most Americans. For a business owner generating $300,000 or $500,000 or more in annual income, they are a fraction of what you need to save.

There is a deeper problem. Every dollar inside a traditional 401(k) or IRA will be taxed as ordinary income the moment you withdraw it. And starting at age 73 — or 75 if you were born in 1960 or later — the IRS will force you to withdraw whether you need the money or not, through required minimum distributions. Those RMDs increase every year, pushing you into higher brackets, increasing the taxable portion of your Social Security, and potentially triggering Medicare premium surcharges.

For high-earning business owners, the retirement account designed to help you save often becomes the account that forces you to pay more in taxes than you expected.

## What Changed in 2026

Two major developments reshaped the landscape this year. First, the One Big Beautiful Bill Act — signed into law in July 2025 — permanently extended the Tax Cuts and Jobs Act rate structure. The 10, 12, 22, 24, 32, 35, and 37 percent brackets are no longer scheduled to sunset. For years, the conventional wisdom was to convert or withdraw aggressively before rates went up in 2026. That urgency is gone.

Second, SECURE 2.0 introduced a rule that directly affects high earners: starting this year, if you earned more than $145,000 in wages, any catch-up contributions to your 401(k) or 403(b) must be made on a Roth basis. You can still contribute — but those dollars no longer reduce your taxable income. For business owners and executives, this is a meaningful planning shift.

> **The new reality:** Tax rates are locked in, Roth-only catch-ups reduce the pre-tax advantage for high earners, and RMDs remain unavoidable. The question is no longer when will rates go up, but where else can you build tax-free retirement income without limits?

## The Section 7702 Advantage

Section 7702 of the Internal Revenue Code defines how the IRS treats life insurance contracts. It is not new legislation — it has been part of the tax code for decades. But the planning strategy built on it has evolved dramatically, and in 2026, it addresses every limitation that traditional retirement accounts impose.

Here is how it works. A properly structured permanent life insurance policy — typically an indexed universal life (IUL) contract — accumulates cash value inside the policy. That cash value grows on a tax-deferred basis, meaning you pay no annual tax on gains. When structured correctly under Section 7702 guidelines, you access the cash value in retirement through policy loans that the IRS does not treat as taxable income.

No 1099. No impact on your adjusted gross income. No effect on how much of your Social Security is taxed. No Medicare premium surcharges triggered. And critically — **no required minimum distributions, ever**.



## How It Compares

| Feature | Traditional 401(k) | Roth IRA | Section 7702 Plan |
|---|---|---|---|
| 2026 contribution limit | $24,500 | $7,500 | **No IRS cap** |
| Income restriction | None | Phases out at $168K (single) | **None** |
| Tax on growth | Deferred | Tax-free | **Tax-free** |
| Tax on distributions | Ordinary income | Tax-free | **Tax-free (loans)** |
| Required minimum distributions | Yes (age 73–75) | None | **None** |
| Early access penalty | 10% before 59½ | 10% on earnings before 59½ | **None** |
| Death benefit | Taxable to heirs | Tax-free to heirs | **Tax-free death benefit** |

**Key distinction:** A Section 7702 strategy is not an alternative to your 401(k). It is the next layer beyond it. You capture your employer match, maximize your qualified accounts, and then fund the Section 7702 plan with the income that exceeds those limits — the income that currently has no tax-advantaged destination.

## Why Business Owners Are the Ideal Fit

If you own a business, three characteristics of your financial life make this strategy especially powerful.

**Variable, often high income.** Your earnings may fluctuate year to year, but in strong years they far exceed the limits of qualified plans. A Section 7702 plan absorbs those surplus dollars into a tax-advantaged vehicle with flexible premium capacity — fund more in profitable years, less in leaner ones.

**Concentrated net worth.** Much of your wealth may be locked in business equity, real estate, or illiquid holdings. The cash value in a life insurance policy gives you a liquid, accessible asset that does not depend on selling a business or a building to generate retirement income.

**Complex tax picture.** Business owners deal with pass-through income, self-employment tax, QBI deductions, and the interplay of personal and corporate tax strategy. A Section 7702 plan produces retirement income that is invisible to the IRS — it does not raise your AGI, does not trigger phaseouts, and does not complicate your bracket management.

This is the kind of coordinated strategy that sits at the intersection of income planning, tax efficiency, risk management, and wealth transfer. At Prospera, we call it **the entrepreneur's family office** — a comprehensive planning framework built for people who are building something.

## What to Watch For

This strategy is powerful, but it is not simple. Two structural risks require professional guidance:

- **Modified Endowment Contract (MEC) status.** If a policy is funded too aggressively relative to its death benefit, it becomes an MEC under IRS rules. That changes the tax treatment of loans and withdrawals, eliminating the core advantage. Proper policy design avoids this — but it requires precise illustration and ongoing monitoring.
- **Policy performance assumptions.** Indexed crediting rates are not guaranteed. Illustrations that project aggressive returns can overstate future cash value. Insist on conservative assumptions and stress-test the policy under multiple scenarios before committing.

## Where to Start

- **Max out your qualified plans first.** Capture the 401(k) match, fund your Solo 401(k) or SEP-IRA, and consider Roth conversions during low-income years. The Section 7702 strategy is the next tier, not a replacement.
- **Quantify the surplus.** How much income do you earn above what qualified plans can shelter? This is the amount available for a Section 7702 strategy. For most business owners we work with, it is significant.
- **Model the policy with conservative assumptions.** Work with a professional who can illustrate the policy under multiple crediting scenarios and confirm it stays within Section 7702 and non-MEC limits.

- **Coordinate with your full advisory team.** This strategy connects insurance, tax, estate, and retirement planning. The best outcomes come from your financial professional, attorney, and CPA working together — exactly the model Prospera was built around.

## Ready to Build Beyond the 401(k)?

At Prospera, we help business owners and high-earning professionals design tax-free retirement income strategies that work alongside — and beyond — their existing plans.

Schedule a complimentary consultation.

**719.521.6050 • iProspera.com • ContactUs@iProspera.com**

The Entrepreneur's Family Office

---

Prospera Financial, LLC provides insurance-based products and financial strategies. This content is for educational purposes and does not constitute legal, tax, or investment advice. Consult your attorney and CPA for guidance specific to your situation. Life insurance policy guarantees are subject to the claims-paying ability of the issuing insurance company. Policy loans accrue interest and reduce the death benefit if not repaid.

### ABOUT THIS POST

**Meta Description:** Discover how Section 7702 life insurance strategies give business owners tax-free retirement income with no contribution limits, no RMDs, and no income restrictions — advantages no 401(k) or IRA can match.

**Content Pillars:**

Tax-Free Strategies | Personal Economy | Safe Money