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Retirement Plan Newsletter | Q4 2026: When Does a Cash Balance Plan Make Sense Alongside a 401(k)?

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For many business owners, a 401(k) plan is the cornerstone of their retirement program. But as a business becomes more profitable, owners may find that the 401(k) contribution limits do not allow them to save as much as they would like. That is where a cash balance plan may come into the conversation.

A cash balance plan is a type of defined benefit pension plan that can be added alongside an existing 401(k). In the right situation, it may allow business owners and other key employees to make significantly larger retirement contributions while also creating additional tax deductions for the business.

WHEN MIGHT IT MAKE SENSE?

Cash balance plans are often most attractive for businesses that share a few common characteristics:

- **The owners are already maximizing their 401(k).** If owners are consistently reaching the contribution limits in their 401(k), a cash balance plan may provide an additional way to save for retirement.
- **The business has strong and predictable cash flow.** Unlike some employer contributions to a 401(k), cash balance plans generally involve an ongoing funding commitment. Businesses should be comfortable making contributions over multiple years.
- **The owners are older than many of the employees.** Because of the way defined benefit plans are structured, older owners may be able to receive larger annual contributions than younger employees. This can make cash balance plans particularly attractive for professional practices and closely held businesses.
- **The business is looking for larger tax deductions.** Employer contributions to qualified retirement plans are generally tax deductible, subject to applicable rules and limits. For a highly profitable business, adding a cash balance plan can potentially create a meaningful deduction while helping owners accelerate retirement savings.

A cash balance plan usually does not replace a 401(k). Instead, the two plans are designed to work together. A company may have a 401(k) plan that allows employees to defer salary, an employer match or profit-sharing contribution, and a

separate cash balance plan funded by the employer.

When properly designed, the combination can provide substantial retirement benefits for owners while continuing to provide meaningful benefits to employees.

Cash balance plans can be powerful, but they also bring additional complexity. They require annual actuarial calculations, ongoing funding, and careful coordination with the company's 401(k) plan. Investment strategy is also important because the employer bears more of the investment and funding risk than it would in a traditional 401(k). For these reasons, cash balance plans are typically designed with input from a financial advisor, TPA, actuary, and tax professional.

The bottom line is that a cash balance plan may be worth exploring when a business is consistently profitable, owners want to save more than the 401(k) allows, and the company is comfortable making ongoing retirement plan contributions. The best starting point is often a plan design illustration. This can show the potential contributions for owners and employees and help determine if the economics make sense before the company moves forward.

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