



A GUIDE FOR BUSINESS OWNERS & PRACTICE PARTNERS

# Cash Balance Plans

*The second pension almost no one  
tells high earners about.*

If you own a profitable practice or business and the 401(k) limit feels almost insulting against your income, there is a way to move six figures off your taxable income in a single year. This is a clear, unhyped explanation of how it works, how much can go in for 2026, and how an independent fiduciary helps you do it well.

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— WHAT IT ACTUALLY IS

# A pension that thinks it's a 401(k).

Qualified retirement plans come in two families — and a cash balance plan is a clever hybrid of both.

**Defined contribution** plans are the 401(k) you already know: the contribution is capped, and the ending balance is whatever it grows to. **Defined benefit** plans are the old-fashioned pension: a future benefit is promised, and the contribution is whatever it takes to fund it.

A **cash balance plan** is a defined benefit plan wearing a 401(k)'s clothes. Legally it's a pension — which is exactly why the contribution limits are so much larger. But each participant has an individual *hypothetical account* with a stated balance.

That balance grows two ways each year: a **pay credit** (the employer contribution) and an **interest crediting rate**, or ICR — a fixed growth rate written into the plan, often around 5%. It reads like a 401(k) statement but funds like a pension.

The combination is the whole point. Pair a cash balance plan with a 401(k) and profit-sharing plan — the standard “combo” design — and a high-earning owner can shelter far more than either plan allows on its own.

## \$IT+

Assets now held in cash balance plans nationwide — one of the fastest-growing corners of the retirement-plan world.

## 3–4×

How much more an owner in their mid-40s or older can typically contribute versus a standalone 401(k) — the multiple varies widely by age and income.

## 100%

Of employer contributions are deductible to the business in the year made, then grow tax-deferred.

Industry totals are approximate, drawn from public Form 5500 / U.S. Department of Labor data (cash balance assets surpassed \$1 trillion over roughly two decades of growth); figures change year to year.

— HOW MUCH CAN GO IN

## The limits, when the 401(k) stops being enough.

A cash balance plan is sized so that, by your target retirement age, your hypothetical account can reach the actuarial equivalent of the largest pension the IRS allows — a lifetime benefit of **\$290,000 a year** for 2026, or roughly **\$3.5 million** as a lump sum (an actuarial estimate that varies with interest rates at distribution; the \$290,000 annual figure is fixed by statute for 2026). Older owners have fewer years to get there, so they may contribute the most.

### ILLUSTRATIVE MAXIMUM ANNUAL CONTRIBUTIONS BY AGE — 2026

OWNER'S AGE	401(K) + PROFIT SHARING <sup>1</sup>	CASH BALANCE <sup>2</sup>	COMBINED, PRE-TAX
30-34	\$72,000	<b>\$80,000</b>	\$152,000
35-39	\$72,000	<b>\$105,000</b>	\$177,000
40-44	\$72,000	<b>\$135,000</b>	\$207,000
45-49	\$72,000	<b>\$175,000</b>	\$247,000
50-54	\$80,000	<b>\$225,000</b>	\$305,000
55-59	\$80,000	<b>\$285,000</b>	\$365,000
60-63	\$83,250	<b>\$345,000</b>	\$428,250
64-67	\$80,000	<b>\$385,000</b>	\$465,000

1. 2026 defined-contribution maximum: \$72,000 in total additions (IRC §415(c)), plus the age-50 catch-up of \$8,000 or the special age 60-63 catch-up of \$11,250. Assumes compensation at or above the \$360,000 limit.

2. Cash balance figures are *illustrative approximate maximums* for a sole or lead owner. Actual amounts are actuarially determined and depend on your age, compensation history, years to retirement, plan design, and the contributions required for any employees. Your numbers will differ.

*A 55-year-old maxing a 401(k) shelters \$80,000. A 55-year-old with a well-designed cash balance plan can shelter roughly \$365,000 in the same year — an illustrative maximum for the scenario in the table above; your amount depends on your age, income, and plan design.*

— WHY OWNERS USE IT

## Six reasons it's worth the paperwork.

### 01 A large, current-year deduction.

Every dollar of employer contribution is deductible to the business this year and compounds tax-deferred until you draw on it — one of the largest current-year business deductions available; weigh it with your CPA against your full tax picture.

### 03 Diversification off the business.

For most owners the business *is* the net worth. This is a disciplined, tax-advantaged way to move money into a diversified portfolio you actually own.

### 05 A talent & retention tool.

The same plan that funds your retirement delivers a real, visible benefit to the employees you most want to keep.

### 02 Catch-up, at scale.

If you spent two decades reinvesting in the business instead of your own retirement, this is how you make up for lost time: three to four times any other plan's annual limit.

### 04 Creditor protection, with limits.

As an ERISA-qualified plan, assets in the plan are generally protected from most creditors under federal law. Key exceptions apply (divorce/QDROs, IRS tax claims, criminal restitution), and protection shifts to state law once funds are distributed or rolled to an IRA. Ask your attorney.

### 06 “Number on a page” clarity.

Unlike a traditional pension whose liability swings with interest rates, a cash balance account grows at a stated rate everyone can see.

— A WORKED EXAMPLE

## What it looks like for a practice owner.

A purely hypothetical scenario built to illustrate common plan-design features — not based on any actual client or actual results. Picture the founding partner of a small professional practice, age 55, about \$850,000 of practice income, three valued employees. The goal — cut this year’s tax bill, accelerate retirement, and reward long-tenured staff efficiently.

### HYPOTHETICAL COMBINED CASH BALANCE + 401(K)/PROFIT-SHARING DESIGN

PARTICIPANT	COMPENSATION	401(K) + PS	CASH BALANCE	TOTAL
Owner, age 55	\$360,000	\$80,000	<b>\$285,000</b>	\$365,000
Associate, 38	\$115,000	\$8,625	—	\$8,625
Sr. paralegal, 46	\$78,000	\$5,850	—	\$5,850
Administrator, 29	\$52,000	\$3,900	—	\$3,900
Totals	—	<b>\$98,375</b>	<b>\$285,000</b>	<b>\$383,375</b>

Of the \$383,375 contributed across the whole plan, roughly **\$365,000 — about 95 cents of every dollar — lands in the owner’s own account.** At an assumed 40% combined federal-and-Utah marginal rate, the owner’s share defers on the order of **\$145,000** of tax — money that now compounds for the owner instead of leaving as a check to the IRS. These figures are hypothetical and specific to this scenario; your limit, plan cost, and tax result depend on your own facts, entity type, marginal rate, and yearly IRS limits — do not treat them as an estimate of your own savings. The employee contributions are a genuine benefit to the people who run the practice, and they’re what lets the owner’s large allocation pass IRS nondiscrimination testing.

Hypothetical illustration for education only — not a real client, and not a projection of results for any specific business. Employee allocations shown at a 7.5% profit-sharing “gateway” common to combined plans; actual allocations depend on census and testing. Tax figure is illustrative; your rate and result will differ.

## Two specialists, one plan.

A cash balance plan needs two different kinds of expertise. An actuary and third-party administrator (TPA) build and run the plan. An investment fiduciary decides whether you should have one at all — then manages the money inside it. I'm the second, and I bring in the right first.

### HARVEST LANE — YOUR ADVISOR

#### Strategy & investments

- ◆ Decide whether a cash balance plan actually fits your income, business, and broader plan — before anyone sells you one
- ◆ Coordinate the actuary and TPA, and pressure-test the design against your goals
- ◆ Build and manage the plan's investment portfolio to track the crediting rate and keep funding stable
- ◆ Integrate the plan with your personal portfolio, tax picture, and eventual IRA rollover
- ◆ Stay a fiduciary the whole way — fee-only, no product, no commission

### THE TPA & ACTUARY

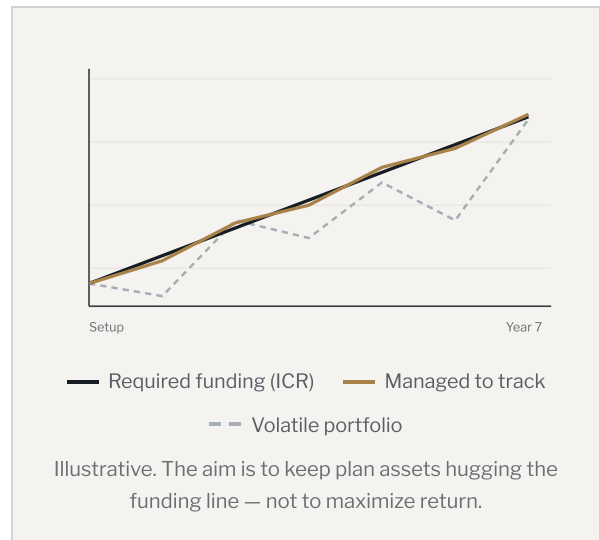
#### Design & administration

- ◆ Draft the plan document and certify the actuarial funding each year
- ◆ Run nondiscrimination testing and set each participant's contribution range
- ◆ Prepare government filings, including the annual Form 5500
- ◆ Amend or freeze the plan as your business and demographics change

### The investing job is the quiet one that matters.

A cash balance plan promises to grow at its crediting rate — say 5% — whether the market cooperates or not. Earn more, and the surplus reduces next year's required contribution. Earn less, and you make up the shortfall out of pocket. A wild, all-equity portfolio doesn't "win" here; it just makes your required contribution unpredictable and can force cash in at the worst time.

So the goal isn't to beat the market inside the plan. It's to **track the crediting rate with as little drama as possible** — exactly the discipline an independent fiduciary is built for.



— IS IT A FIT?

## Be honest about the trade.

A cash balance plan is a commitment, not a one-year tax trick. The IRS expects it to run at least five years, contributions are largely required, and administration costs more than a 401(k). For the right owner the math is overwhelming; for the wrong one it's a headache. The line is usually clear.

### OFTEN A STRONG FIT

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- ✓ Already maxing a 401(k) and wanting to save well beyond \$80,000 a year
- ✓ \$250,000+ of stable practice or pass-through income
- ✓ Professional practices — attorneys, physicians, dentists, CPAs, consultants
- ✓ An owner older than most of the staff
- ✓ Solo owners with no employees (an excellent, simple case)
- ✓ Willing to commit for at least five years (IRS “permanency”)

### PROBABLY NOT YET

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- Lumpy or unpredictable income you can't count on
- Wanting a one-time deduction with no intent to keep funding
- A young owner with an older, higher-paid workforce
- A business that couldn't absorb the contribution in a lean year
- No appetite for the added administration and actuarial cost

## The honest answers.

### Do I have to contribute the same amount every year?

Largely yes — that's the trade for the bigger deduction. The actuary sets an annual range (required minimum, recommended, and maximum). If your income drops, tell your advisor and TPA early; the plan can often be amended or frozen, but you can't skip a year on a whim. A formula that steps down after a set number of years can build in flexibility from the start.

### How long must I keep it open?

No hard number, but the IRS "permanency" expectation is generally read as at least five years. A sale or genuine downturn are recognized exceptions. As a rule, the longer it runs, the more you get out of it.

### Do I have to cover every employee?

No. The plan must give a meaningful benefit to the lesser of 40% of eligible employees or 50 people, and is paired with a 401(k)/profit-sharing plan to pass testing — so the large majority of the dollars can still flow to the owner.

### When and how do I get the money?

At retirement most owners roll the balance into an IRA, where it keeps growing tax-deferred until they draw on it. Access before retirement is generally limited, usually to age 62 and up.

### What's the deadline to set one up?

The plan document can generally be adopted up to your business's tax-filing deadline (including extensions) for the prior year. But for a defined benefit / cash balance plan, the first year's required contribution must usually be deposited by 8½ months after the plan year ends (about September 15 for a calendar-year plan) — earlier than the October extended deadline. Design and year-one funding take weeks, so start well before your filing date, ideally during the plan year itself.

# Worth twenty minutes to find out.

If you're writing large checks to the IRS and wondering whether there's a better way, let's run your actual numbers. If a cash balance plan isn't right for you, I'll tell you that too.

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