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Cash Balance Plans for Practice Owners: How Much You Can Deduct in 2026

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Updated October 31, 2026 · Written for physicians, dentists and other owners in their 40s, 50s and 60s with steady profit above about $300,000

The short answer

A cash balance plan is a defined benefit pension that works like an account: the practice credits you a set amount each year plus interest, and the contribution is deductible. Because it funds toward a benefit of up to $290,000 a year at retirement (the 2026 limit), worth roughly $3.5 million as a lump sum at 62, an owner in their 50s can often contribute $200,000 to $300,000 or more a year, on top of about $46,000 to $57,000 in a 401(k). The trade-offs: staff usually need contributions of around 5% to 7.5% of their pay, the contribution is a yearly commitment for at least three to five years, and an actuary has to run the plan.

How a cash balance plan works

Each participant has a hypothetical account. Every year the plan adds a pay credit (a dollar amount or a percentage of pay set in the plan document) and an interest credit (a fixed rate, often around 4% to 5%, or a rate tied to Treasury yields). At retirement or when the plan ends, you take the balance as a lump sum and usually roll it to an IRA.

The limit isn't on contributions the way a 401(k) is. It's on the benefit: in 2026, up to $290,000 a year for life, or 100% of your average pay for your three highest consecutive years if that's less. The plan's actuary works backward from that target to the most you can put in this year. The closer you are to retirement, the larger the yearly amount, which is why these plans suit owners in their late 40s and up.

Two details that matter for planning. The $290,000 limit is cut by a tenth for each year under ten that you've been in the plan at retirement, so a plan started at 58 can't fund the full amount. And pay above $360,000 is ignored for 2026.

Rough 2026 contributions by age

From our calculator, for an owner with $360,000 of plan pay, no staff and a target retirement age of 62 (or five years out for owners near or past it). An actuary's numbers will differ with the plan's interest rate and design.

Age	Cash balance plan	401(k) alongside it	Total
40	$92,000	$46,100	$138,000
45	$137,000	$46,100	$183,000
50	$222,000	$54,100	$276,000
55	$304,000	$54,100	$358,000
60	$320,000	$57,350	$377,000

The 401(k) column is the $24,500 deferral, the catch-up for your age, and profit sharing of 6% of pay. When a 401(k) sits next to a defined benefit plan, profit sharing is usually held to 6% of pay so the combined deduction stays within the limits.

> For a married physician with $650,000 of taxable income, a $276,000 contribution at age 50 cuts federal tax by roughly $90,000 in the first year. It's deferral, not forgiveness: the money is taxed when you take it out in retirement, ideally at a lower rate.

What it costs: staff, administration and commitment

Staff contributions. The plan must pass nondiscrimination testing, so eligible employees usually get contributions of about 5% to 7.5% of their pay across the cash balance plan and the 401(k). A practice with younger, lower-paid staff keeps more of the total with the owners; a practice with many older employees keeps less.

Administration. An actuary has to design the plan, certify the contribution each year and sign Schedule SB on the Form 5500. Expect a few thousand dollars a year, more for larger practices.

Commitment. The contribution is required, though most designs allow a range. Plan to fund it for at least three to five years; ending a plan early without a business reason can put its tax status at risk.

Investment risk sits with the practice. If the investments earn less than the interest credit, the practice makes up the difference. If they earn much more, the surplus can be hard to use. Most plans invest conservatively for this reason.

Many small professional practices aren't covered by the PBGC, the federal pension insurer. Plans that cover only the owners, and plans of professional service employers such as medical and dental practices with 25 or fewer active participants, are exempt. That saves the PBGC premiums, but it's also why profit sharing in the 401(k) is held to 6% of pay.

Who it fits and who it doesn't

Fits: owners aged roughly 45 and up, with profit that's been steady above about $300,000 for several years, who already max a 401(k) and want to save far more.

Fits: practices where the owners' pay is much higher than staff pay, and partner groups that agree on how much each wants to put in.

Doesn't fit: income that swings a lot year to year, or cash you'll need soon for a buy-in, a build-out or a second location.

Doesn't fit: a practice you expect to sell or merge within three years, unless the plan is part of the exit planning.

Doesn't fit: a large staff relative to the owners, where the employee cost eats most of the tax savings.

If you're an S corp owner, the plan is based on your W-2 salary, not your distributions. A low salary chosen to save payroll tax can shrink the contribution you're allowed. Run the two decisions together.

Timing for 2026

A new plan can be adopted for 2026 as late as the due date of the practice's 2026 tax return, including extensions, and funded by then for the deduction. Don't leave it that late: the actuary needs census data and a design, and a January start gives you time to decide the contribution range. If you want to see your number first, run the calculator and bring the result to a planning conversation.

Frequently asked questions

How much can I contribute to a cash balance plan in 2026?

It depends mostly on age. The plan funds toward a benefit of up to $290,000 a year at retirement, so owners in their 40s often contribute $90,000 to $140,000 a year and owners in their 50s and early 60s $200,000 to $320,000, before the 401(k).

Can I have a cash balance plan and a 401(k)?

Yes, and most owners do. The 401(k) keeps your $24,500 deferral and catch-up. Profit sharing is usually held to 6% of pay when both plans are in place.

Do I have to give my employees contributions?

Usually yes. To pass nondiscrimination testing, eligible employees typically receive about 5% to 7.5% of pay. The plan design keeps most of the total contribution with the owners.

What happens to a cash balance plan when I sell my practice or retire?

The plan is terminated and each participant's balance is paid out, usually as a rollover to an IRA. Termination needs an actuary and filings, so build it into your exit timeline.

Is a cash balance plan worth it at $300,000 of income?

It can be, if the income is steady, you're over about 45 and you already max a 401(k). Below that, a 401(k) alone often covers what you can comfortably save.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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