# Cash Balance Plans: Generating Opportunities with Business Owners

Cash balance plans are gaining traction as a powerful strategy for advisors seeking to deepen relationships with business owners while driving meaningful asset growth. These plans have significantly higher contribution limits than many other retirement plans, which offers business owners a way to accelerate tax-advantaged savings. For advisors, incorporating these plans may help differentiate their practice and unlock new opportunities within an underserved segment of business owners. We've identified frequently asked questions and provide straightforward answers on topics such as general understanding, key business characteristics to look for, how funding requirements differ from 401ks,  common objections, and the process to establish cash balance plans.

## Q:

**What are the benefits of incorporating cash balance plans into an advisor's practice?**

Cash balance plans are increasingly popular with many organizations. Offering cash balance plans helps differentiate advisory practices by providing a service focused on the high-net-worth market and rapidly drives AUM growth. Below is a table from the Retirement Learning Center that demonstrates the growth potential within cash balance plans.

**Rapid AUM Growth of Cash Balance**
Annual Valuation

| Segment | Micro | Small | Mid |
|---|---|---|---|
| Plan Size | 1–10 participants | 11–50 participants | 50–99 participants |
| Annual Contribution | $100K – $400K | $200K – $1.5M | $1M – $7M |
| 5-Year Growth* | $500K – $2.3M | $1.1M – $8.6M | $5M – $40M |

*Assumes 3%–7% compounded annually

# Cash Balance Plan Overview

## Q:

**What is a cash balance plan?**

A cash balance plan is a type of defined benefit plan that provides business owners and partners the opportunity to have significantly larger contributions and deductions than 401(k) plans. That said, in our experience, cash balance plans are frequently used in conjunction with a 401(k) plan.

Cash balance plans are employer funded; no employee contributions are permitted. In addition, plan assets are pooled and invested by an investment professional. No participant self-direction is permitted.

## Q:

**Why would an organization consider a cash balance plan?**

Organizations that have a top heavy compensation structure or employees that are looking to contribute more to their retirement savings than what the standard 401k contribution limits permit should consider a cash balance plan. We also tend to see cash balance plans as a means for helping owners catch up from lagging retirement contributions.

## Q:

**Which organizations are good candidates for a cash balance plan?**

Typically, organizations maximizing their 401(k) plans that seek additional retirement accumulations are good candidates to consider a cash balance plan.

Other indicators of potential cash balance suitability include:

- Organizations with high stable revenue
- Stable workforce
- Older owners and/or key employees
- Owners/partners seeking additional retirement accumulations and deductions.

Traditionally law firms, medical practices and other professional organizations have maintained cash balance plans.

## Q:

**Do cash balance plans work for all organizations?**

No. Cash balance plans are not suitable for some organizations. The following factors could indicate a cash balance plan may not be suitable:

- Inconsistent revenue
- Significant employee turnover
- Owners very cost conscience

## Q:

**How many employees does an organization need to have a cash balance plan?**

No specific number of employees are necessary for a plan sponsor to offer a cash balance plan. In fact, many one person (owner-only) businesses maintain cash balance plans.

## Q:

**How much can be contributed to a cash balance plan?**

The maximum contribution is based on the age of the individual. The following illustrates potential contributions based on age:

### Max Contribution Limits for 2026

| | 401k Plan | | Cash Balance Plan | | |
|---|---|---|---|---|---|
| Age | Elective Deferrals | Profit Sharing | Maximum Credit | Combined Plan Total | % Increase by Contributing to Cash Balance and 401(k) |
| 35 | $24,500 | $47,500 | $97,000 | $169,000 | 135% |
| 40 | $24,500 | $47,500 | $124,000 | $196,000 | 172% |
| 45 | $24,500 | $47,500 | $159,000 | $231,000 | 221% |
| 50 | $32,500 | $47,500 | $204,000 | $284,000 | 255% |
| 55 | $32,500 | $47,500 | $262,000 | $342,000 | 328% |
| 60 | $35,750 | $47,500 | $336,000 | $419,250 | 404% |
| 65 | $32,500 | $47,500 | $349,000 | $429,000 | 436% |

Staff benefits generally need to be 5-7.5% of pay.

## Q:

**Who makes the contributions to a cash balance plan?**

The plan sponsor makes all contributions to the cash balance plan. No employee contributions are allowed.

# Cash Balance and 401(k) Plans

## Q:

**Can an organization add a cash balance plan if they already sponsor a 401(k)?**

Yes. In fact, combining cash balance and 401(k) plans is often the most efficient approach to maximining contributions and tax efficiency.

Note that it is not a requirement to have a 401(k) if establishing a cash balance plan.

## Q:

**If a business owner is already maximizing their 401(k) does a cash balance plan make sense?**

Yes, it actually is a good indicator that a cash balance would be a valuable offering for the business. Cash balance plans provide an avenue for business owners to have additional deductions and retirement contributions.

## Q:

**Does a cash balance plan impact an organization's 401(k) plan?**

A cash balance plan has little impact on the 401(k) plan but requires some compliance testing. Generally, certain compliance tests are performed by combining both plans for testing purposes.

# Investments

## Q:

**Who directs the investments in a cash balance plan?**

Cash balance assets are pooled in a single trust and managed by the plan sponsor and asset management professionals.

## Q:

**What are the considerations in cash balance investing?**

A cash balance investment strategy requires coordination with the actuary and plan sponsor in determining the contributions and rates of return.

Once these decisions have been made, an investment strategy is created to consistently produce this rate of return.

---

For more details on the investment considerations for cash balance plans, you can reference our Investment Considerations for Cash Balance Plans FAQ.

---

# Distributions Out of a Cash Balance Plan

## Q:

**When can individuals take a distribution from a cash balance plan?**

A distribution is typically available when the participant attains retirement age, terminates employment, becomes disable or dies.

## Q:

**What type of distributions can be taken from a cash balance plan?**

Lump sum rollovers are most common. Other distribution options are a lump sum payment or elect to annuitize with lifetime payments.

## Q:

**Can cash balance distributions be rolled over to an IRA or 401(k)?**

Yes, cash balance distributions may be rolled over to 401(k) plans and IRAs.

## Reporting and Compliance

## Q:

**What are the cash balance reporting requirements?**

Cash balance plans file an annual Form 5500 and applicable schedules. Participants receive annual notices outlining benefits and the funding status of the plan.

## Q:

**What are the cash balance compliance testing requirements?**

Cash balance plans must satisfy IRS compliance tests. The actuary performs these tests to ensure compliance with the IRS rules.

**Q:**

**When (or how often) does compliance testing occur?**

Required annually, after the plan's year end.

**Q:**

**Does an organization need to satisfy IRS minimum coverage requirements when offering a cash balance plan to employees?**

Yes, this is known as the 50/40 Rule. At least 50 participants must benefit, or 40% of an organization's eligible workforce must participate, whichever is lower.

As an example, if an organization has 10 employees, the cash balance plan needs to fund at least 4 participants (the 40% rule applies).

As another example, if an organization has 200 employees, the cash balance plan needs to fund at least 50 participants. This is the lesser of 50 or 40% of 200 = 80.

# Cash Balance Plan Establishment

**Q:**

**When can a cash balance plan be established?**

Cash balance plans may be established during the year and up to the plan sponsor's tax return due date

**Q:**

**How long does it take to establish a cash balance plan?**

Generally, cash balance plans can be established within 90 days

**Q:**

**Who's involved in plan setup?**

Initially the plan sponsor and advisor determine the desired contribution and deduction amounts.

The recordkeeper or TPA prepares an illustration and the contribution goals are finalized.

Lastly, the recordkeeper or TPA prepares the plan document and the plan sponsor executes the plan.

**Q:**

**What is the cash balance set-up process?**

The cash balance set-up process includes the following steps: (can we have this as arrows or maybe as a steps like an infographic

- Prepare an illustration and review with plan sponsor
- Determine with the plan sponsor, actuary and CPA the plan contribution amounts
- Create and execute plan documents
- Develop the overall investment strategy
- Distribute employee communications pieces including employee booklets and notices
- Make contributions and administer the plan

## Q:

**How are cash balance assets held?**

Cash balance assets are held by the broker-dealer or the recordkeeper. Let's explore each option:

- Cash balance assets can be held in a brokerage at the broker-dealer and the investment results are communicated to the actuary/third-party administrator (TPA) so that they can perform the actuarial and compliance functions.
- Cash balance assets can be held by the recordkeeper who might also handle the actuarial and compliance functions. This model simplifies data transmittal because the recordkeeper performs the actuarial and compliance functions and holds the assets.

## Q:

**What are the cost ranges for cash balance set-up and administration?**

In general, set-up costs range from $2,500 to $4,000. Ongoing administrative costs range from $2,500 to $7,500 per year?

## Q:

**Who pays the fees for cash balance plans?**

The answer depends on the type of fee. Start up fees – known as settlor fees – are paid by the plan sponsor. Ongoing administrative fees can be paid from plan assets or by the plan sponsor.

## Q:

**Who pays the fees in a cash balance plan?**

Cash balance fees are paid from plan assets.

However, because cash balance plans are defined benefit plans the fees don't impact the participants.

In defined benefit plans, participants are promised a certain benefit and if adequate assets are not available to make benefit payments the plan sponsor must make additional contributions.

Thus, the plan sponsor effectively pays all fees through additional contributions to the plan.

# Common Objection Perspectives Versus Reality

## Q:

**Cash balance plans are expensive**

They may be expensive depending on business structure but significant additional deductions and contributions may make it worthwhile in the long run.

## Q:

**Cash balance plans are too much work**

Cash balance plans are oftentimes less work for a plan sponsor than 401(k) plans. Cash balance plans have fewer transactions and less compliance testing. Because there are no employee contributions and no participant self-direction, cash balance plans have fewer transactions and are much less work for the plan sponsor.  The actuarial work is complex but the actuarial tasks are performed by the actuary and are not the obligations of the plan sponsor.

**Q:**

**Cash balance plans are hard to terminate**

The cash balance termination process is straightforward and similar to a 401(k) termination. That said, plan sponsors are encouraged to maintain the cash balance plan for at least five years to avoid IRS challenges.

# Next Steps

**Q:**

**What does an ideal cash balance plan prospect look like?**

An ideal cash balance candidate typically has one or more of the following characteristics: :

- Owners/partners are maximizing their 401(k) and seek additional retirement accumulations and deductions.
- Any business owner with increasing tax liabilities
- One person (owner only) business with consistent earnings and seeking additional deductions and retirement accumulations

**Q:**

**How can advisors build a cash balance business?**

Many advisors have cash balance opportunities within their book of business.

We can support you in finding these opportunities and creating an efficient and profitable cash balance book.

**Q:**

**What information should an advisor gather to help qualify a prospect?**

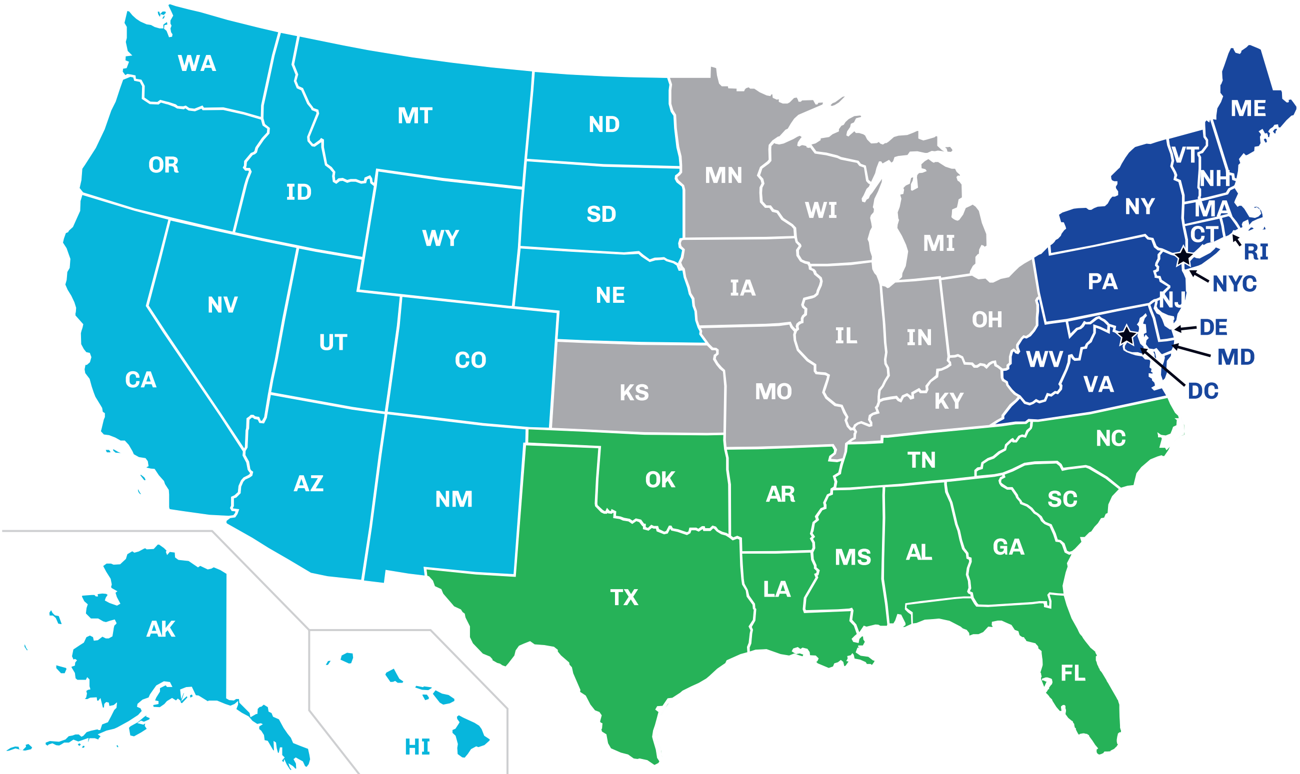
Preparing the below information would help provide the actuary helpful details needed to prepare an illustration includes:

- Employee census data
- Business structure and ownership
- Compensation
- Owner objectives
- Other retirement plans in place
- First Eagle Plan Suitability Survey

## Q:

**Who should an advisor contact to get started?**

Please reach out to your respective senior retirement consultant or you can call our sales desk at 800-747-2008.




| Region | Representative | Title | Email | Phone |
|---|---|---|---|---|
| ● West | Matt Hunter | Director | matt.hunter@firsteagle.com | 925-785-1157 |
| ● Southeast | Brian Dannemann | Director | brian.dannemann@firsteagle.com | 704-201-7213 |
| ● East | Matthew Gaither | Director | matthew.gaither@firsteagle.com | 781-690-0591 |
| ● Midwest | David Bedrick | Director | david.bedrick@firsteagle.com | 847-421-2239 |

### Disclosures

All investments involve the risk of loss of principal.

A Cash Balance Plan (CBP) is a type of defined benefit retirement plan that defines the benefit in terms of an account balance, similar to a defined contribution plan, but with the employer bearing the investment risk and providing a guaranteed benefit.

Defined Benefit (DB) plans is a retirement plan where the employer promises a specific monthly benefit at retirement, based on factors like salary and years of service, rather than contributions to an individual account.

A Defined Contribution (DC) plan is a type of retirement plan in which the employer, employee or both make contributions on a regular basis. Distribution Phase is the stage where the accumulated funds are managed and withdrawn in ways that provide the biggest benefits and advantages to the retiree.

A Third-Party Administrator (TPA) is an independent organization that manages operational and administrative tasks for employer-sponsored benefit plans, insurance companies, or self-insured firms.

The opinions expressed are not necessarily those of the firm. **These materials are provided for informational purposes only.** These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation to buy, hold or sell or the solicitation or an offer to buy or sell any fund or security. The information is not to be construed as specific tax, legal, or investment advice. You are strongly encouraged to consult with your independent financial professional, lawyer, accountant or other advisors as to investment, legal, tax and related matters.

FEF Distributors, LLC ("FEFD") (SIPC), a limited purpose broker-dealer, distributes certain First Eagle products. FEFD does not provide services to any investor but rather provides services to its First Eagle affiliates. As such, when FEFD presents a fund, strategy or other product to a prospective investor, FEFD and its representatives do not determine whether an investment in the fund, strategy or other product is in the best interests of, or is otherwise beneficial or suitable for, the investor. No statement by FEFD should be construed as a recommendation. Investors should exercise their own judgment and/or consult with a financial professional to determine whether it is advisable for the investor to invest in any First Eagle fund, strategy or product.

First Eagle Investments is the brand name for First Eagle Investment Management, LLC and its subsidiary investment advisers.



**For Financial Professional Use Only. Not for Public Distribution.**

F-TL-NPD-CBPGEN-D-LT