

A smiling male physician with a white beard and hair, wearing a white lab coat over a blue button-down shirt, is seated at a desk. He is looking down at some papers in his hands. A laptop is visible on the desk to his left. The background is a bright, out-of-focus office setting with a window and a yellow circular light fixture.

# How Cash Balance Plans Address Physician Retirement Needs

For high-income medical professionals facing substantial tax burdens and limited time to build retirement savings, cash balance plans offer a powerful yet underutilized solution. This document explores how medical practices can implement these defined benefit plans to dramatically increase retirement contributions beyond traditional 401(k) limits, potentially saving hundreds of thousands in taxes while accelerating retirement readiness for physicians and practice owners. We'll examine the structure, benefits, implementation requirements, and real-world applications of cash balance plans specifically tailored for medical organizations.

# What Is a Cash Balance Plan?

A cash balance plan represents a sophisticated hybrid retirement solution that combines elements of both defined benefit and defined contribution plans. Unlike a traditional 401(k) where contributions come primarily from employee deferrals, a cash balance plan is funded by the employer who credits each participant's account with two distinct components annually:

- A pay credit - typically a percentage of compensation or a flat dollar amount
- An interest credit - based on a guaranteed rate or tied to market indices

The plan maintains hypothetical individual accounts for each participant, creating the appearance of a defined contribution plan, while legally functioning as a defined benefit plan. This distinction is crucial as it subjects the plan to different regulatory frameworks and contribution limits than 401(k) plans.

What makes cash balance plans particularly attractive is their classification as qualified plans under IRS rules, providing the same tax-advantaged status as other qualified retirement plans while permitting significantly higher contribution levels. This framework allows medical organizations to design retirement benefits that align with the specific needs of high-income physicians and practice owners.



While a 401(k) places investment decisions and risks on employees, cash balance plans guarantee participants a specific benefit at retirement, with the employer bearing investment risk. Account balances grow predictably through annual credits, with all growth occurring tax-deferred until withdrawal, typically at retirement. At that point, participants can take their benefits as a lump sum (often rolled to an IRA) or as a lifetime annuity payment.

# Why Cash Balance Plans Appeal to High-Income Medical Professionals

The retirement challenges facing physicians are unique. Many enter their highest-earning years later in their careers after completing extended training and paying down substantial educational debt. This compressed earning timeline, combined with high tax burdens, creates an urgent need for accelerated retirement savings strategies.



## Higher Contribution Limits

Cash balance plans permit contributions far exceeding traditional retirement plans—often \$150,000-\$300,000 annually depending on age and income, compared to the \$22,500 employee contribution limit for 401(k)s in 2023.



## Age-Based Advantages

Contribution limits increase with age, allowing physicians in their 50s and 60s to make substantially larger contributions than younger professionals—perfect for late-career catch-up savings.



## Tax Reduction Strategy

Contributions reduce taxable income at federal and often state levels, potentially saving high-income physicians tens of thousands in annual taxes while building retirement wealth.

For specialist physicians earning \$500,000+ annually, traditional retirement plans barely make a dent in either tax liability or retirement needs. A well-designed cash balance plan allows these high earners to shelter significant portions of their income from immediate taxation while rapidly building retirement security.

Additionally, cash balance plans offer predictable, guaranteed growth regardless of market performance, providing peace of mind to busy medical professionals who may lack the time or inclination to actively manage investment portfolios. This combination of tax efficiency, high contribution limits, and reduced investment complexity makes cash balance plans exceptionally well-suited to the financial profile of established medical professionals.

# Key Benefits for Medical Practices and Physician-Owners

Beyond individual retirement advantages, cash balance plans offer substantial strategic benefits for medical practices as business entities and for physician-owners who often face the dual challenge of personal retirement planning and practice management.

## Significant Tax Advantages

All cash balance plan contributions are fully tax-deductible to the practice, providing immediate tax relief. For a high-earning medical group, redirecting \$500,000 in partner compensation to plan contributions could save \$185,000+ in combined federal and state taxes annually.

## Flexible Allocation Designs

Plans can be designed to allocate benefits disproportionately to owners and key physicians while still satisfying non-discrimination testing. This allows practices to direct 80-90% of total plan contributions to owners while maintaining compliance.

## Enhanced Recruiting and Retention

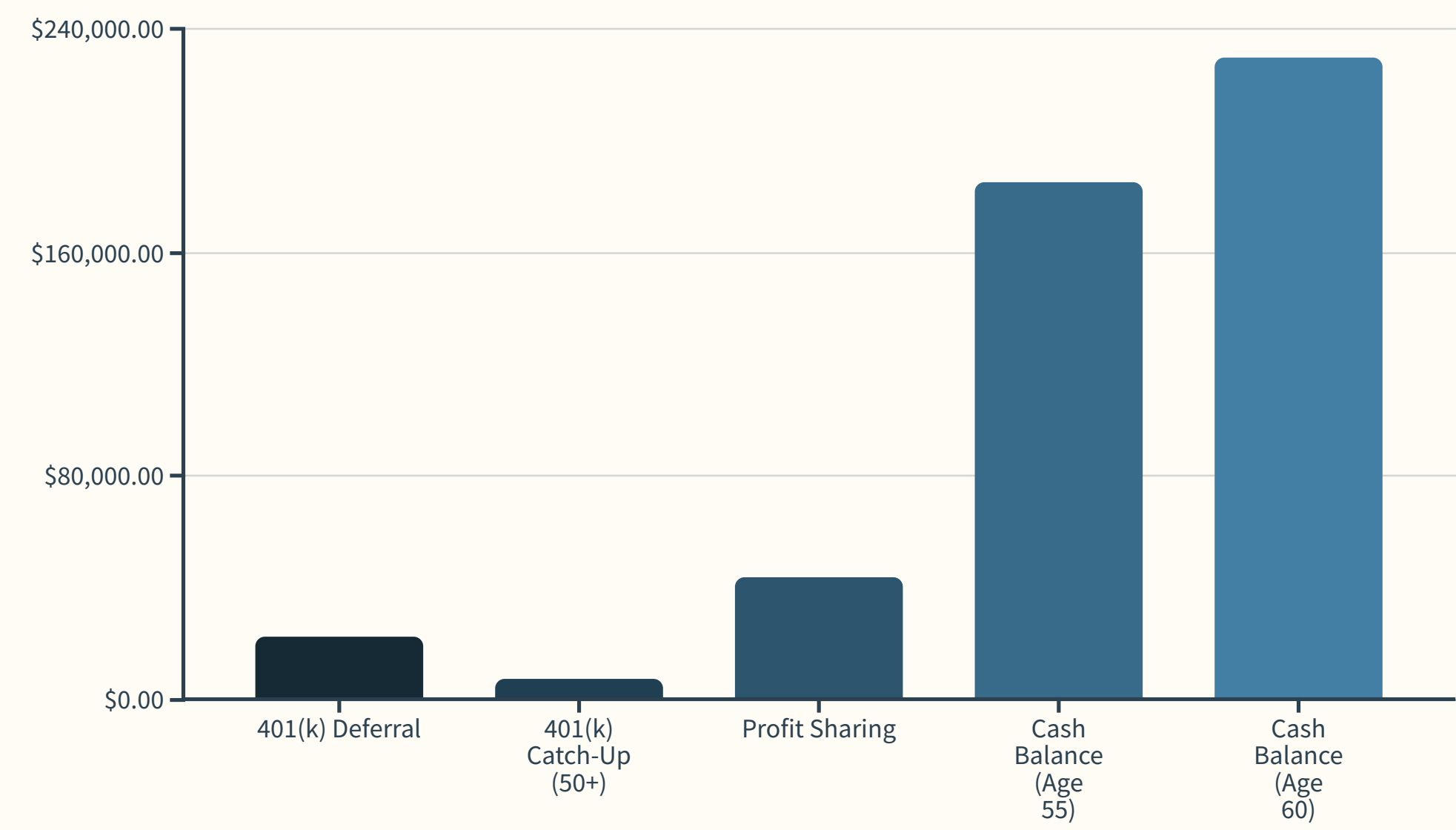
In competitive markets for specialized physicians, offering a robust retirement package including a cash balance plan can differentiate a practice when recruiting top talent or retaining valuable providers considering offers from hospitals or larger groups.

Medical practices structured as partnerships, S-corporations, or professional corporations can all implement cash balance plans, though the specific design will vary based on entity structure. Multi-specialty groups often benefit from cross-testing provisions that allow for targeted allocations based on physician demographics and compensation levels.

Importantly, cash balance plans offer significant flexibility in adjusting contribution levels as practice profitability changes. While consistent funding is ideal, plans can be designed with mechanisms to reduce contributions during leaner years without triggering penalties—a valuable feature for medical practices navigating changing reimbursement landscapes.

# Stacking and Integration with Other Retirement Plans

One of the most powerful strategies available to medical organizations is the ability to "stack" retirement plans, creating a coordinated retirement system that maximizes tax advantages and contribution potential. Cash balance plans don't require an either/or decision—they can work alongside existing qualified plans.



A comprehensive approach typically involves layering three distinct components:

1. **401(k) Plan with Employee Deferrals:** Allows physicians and staff to contribute up to \$22,500 (\$30,000 if over 50) through salary deferrals in 2023.
2. **Profit-Sharing Component:** Permits the practice to make additional employer contributions up to a combined limit of \$66,000 per participant (including deferrals).
3. **Cash Balance Plan:** Adds a third layer with age-based contribution limits that can exceed \$300,000 for physicians nearing retirement.

This strategic stacking creates cumulative contribution potential that far exceeds what any single plan could offer. For a physician practice owner in their late 50s, the total annual tax-advantaged retirement contribution could approach \$350,000—dramatically accelerating retirement readiness while creating substantial current-year tax deductions.

When implementing a stacked approach, medical practices must carefully coordinate the plans with consistent eligibility requirements and thoughtful integration of contribution formulas to satisfy non-discrimination testing across the entire retirement program.

# Implementation Requirements and Plan Design

Implementing a cash balance plan requires significantly more specialized expertise than establishing a standard 401(k). Medical organizations should understand the following key requirements:



## Initial Design and Setup

1

Requires an enrolled actuary to create plan document, determine contribution formulas, and establish funding schedules based on practice demographics and goals.

2

## Annual Administration

Ongoing actuarial certifications, complex non-discrimination testing, and preparation of Form 5500 filings with Schedule B actuarial information.

3

## PBQC Insurance

Most plans require Pension Benefit Guaranty Corporation coverage with annual premium payments (though professional service organizations with fewer than 25 employees may qualify for exemption).

4

## Investment Management

Plan assets must be professionally managed to meet the interest crediting rate while controlling risk, typically through conservative fixed-income strategies.

Plan design flexibility allows customization for various practice structures. Solo practitioners can implement owner-only plans with minimal complexity, while larger groups might use new comparability or cross-testing provisions to favor senior physicians while providing meaningful benefits to staff.

Key design considerations include:

- Pay credit formulas (flat dollar, percentage of compensation, or age/service weighted)
- Interest crediting rates (typically 4-5% or based on conservative indices)
- Vesting schedules for non-owner participants
- Integration with existing retirement plans

While implementation costs are higher than 401(k) plans—typically \$2,500-\$5,000 for setup and \$2,000-\$4,000 annually for administration—these expenses are generally tax-deductible and insignificant relative to the potential tax savings and retirement benefits for high-income physicians. A practice contemplating a cash balance plan should engage both a specialized retirement plan administrator with actuarial capabilities and a tax advisor familiar with physician compensation structures.



# Real-World Example: Impact for a High-Income Physician

To illustrate the transformative potential of cash balance plans, consider this case study of Dr. Chen, a 52-year-old anesthesiologist who owns a small specialty practice structured as an S-corporation:

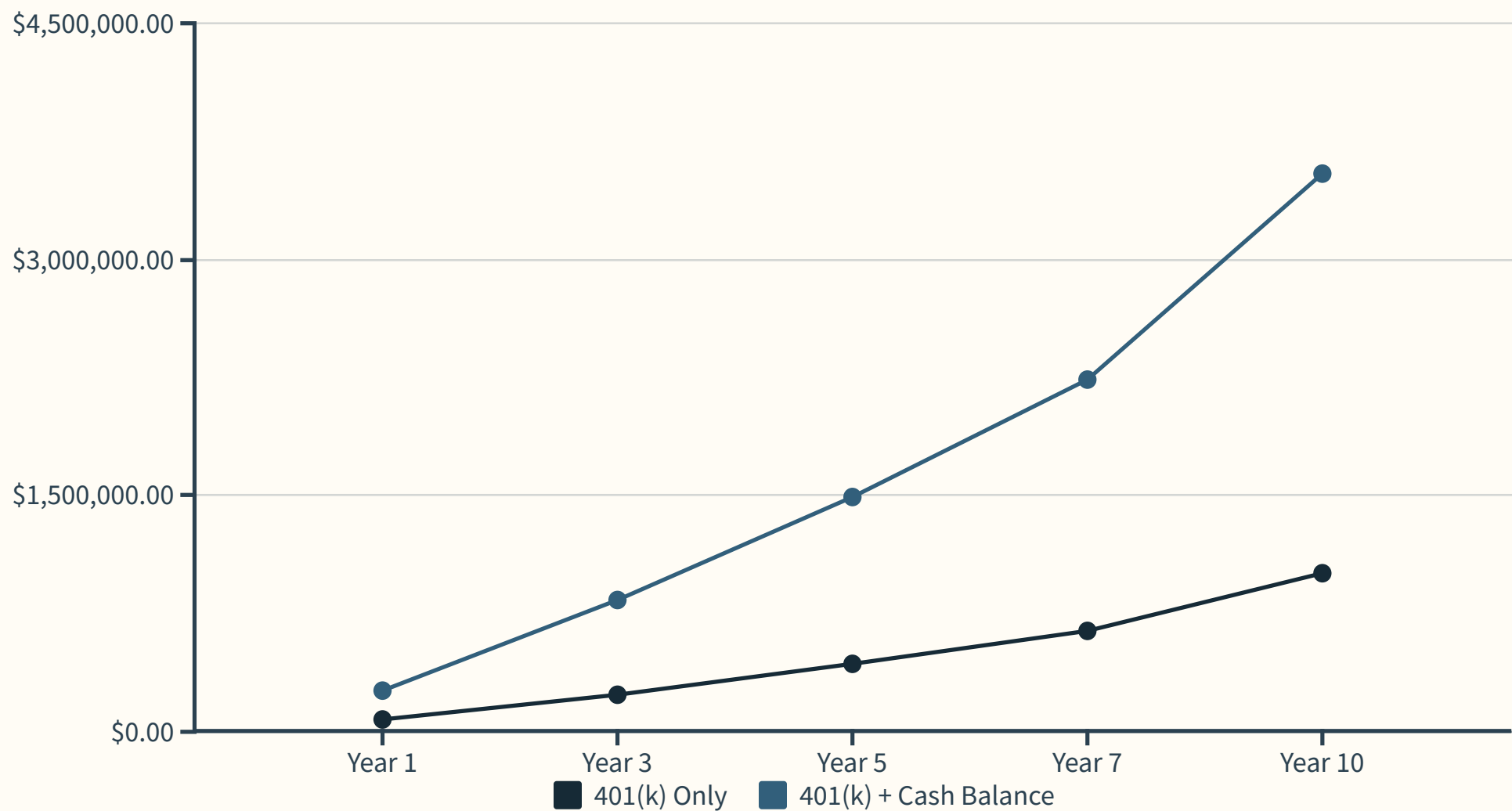
## Current Situation

Dr. Chen pays herself \$220,000 in W-2 wages and takes \$380,000 in S-corp distributions annually. Her practice has no employees. She currently maxes out her Solo 401(k) with \$22,500 in deferrals plus \$7,500 catch-up contribution, and adds \$43,500 in profit sharing for a total of \$73,500 in annual retirement savings.

## With Cash Balance Plan

By implementing a cash balance plan, Dr. Chen can contribute an additional \$185,000 annually based on her age and income level. This increases her total annual retirement savings to \$258,500, while reducing her taxable income by the same amount. At a combined federal and state marginal tax rate of 45%, this creates immediate tax savings of \$83,250 annually.

The long-term impact is equally impressive. Assuming Dr. Chen maintains this contribution level for 10 years until retirement at 62, with an average annual return of 6%, her retirement assets would grow as follows:



This example demonstrates how a cash balance plan can help Dr. Chen accumulate an additional \$2.5 million in retirement assets over a decade while simultaneously reducing her tax burden by over \$800,000 during the same period. For physicians who have focused on building their practices and delayed retirement savings, this accelerated approach can be transformative in achieving retirement security.

# Conclusion: A Strategic Retirement Tool for Medical Organizations

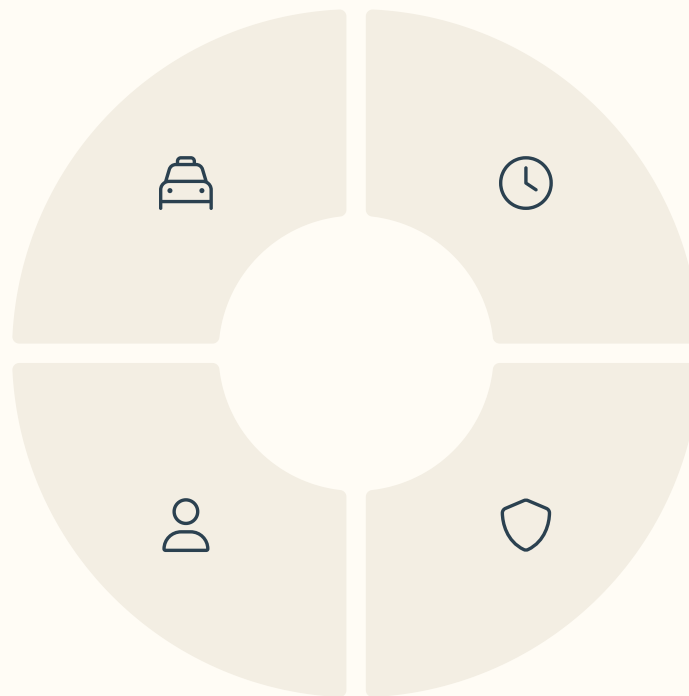
Cash balance plans represent one of the most powerful yet underutilized retirement and tax planning strategies available to medical practices and high-income physicians. In an environment of increasing practice costs, downward pressure on reimbursements, and rising tax rates, these plans offer a rare opportunity to simultaneously address multiple financial challenges facing medical professionals.

## Tax Efficiency

Provides immediate and substantial tax deductions for practice owners, potentially reducing effective tax rates by 10-15 percentage points for high-income physicians while building retirement wealth.

## Practice Stability

Can serve as a golden handcuff for key physicians and help attract top talent in competitive specialties, contributing to practice stability and long-term success.



## Accelerated Savings

Enables late-career physicians to rapidly accumulate retirement assets, compensating for years spent in training or debt repayment when retirement saving was minimal.

## Asset Protection

Assets in qualified retirement plans typically receive strong protection from creditors under ERISA and state laws—an important consideration for physicians with malpractice concerns.

However, successful implementation requires specialized expertise. Medical organizations should partner with advisors who have specific experience designing cash balance plans for physician practices and can navigate the complex interplay between retirement planning, practice compensation structures, and healthcare business realities.

When properly designed and administered, cash balance plans represent a rare win-win opportunity in today's challenging healthcare environment—allowing medical practices to simultaneously strengthen their financial position, enhance their competitive standing, and secure the retirement futures of the physicians who lead them. For practices that haven't explored this option, a feasibility analysis represents a logical next step to determine if a cash balance plan aligns with their specific situation and goals.



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The difference between a good retirement plan and a great one isn't just investment selection, it's strategic tax management that compounds wealth exponentially over time.

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