Retirement Plan Comparison Guide

401(k) vs. Cash Balance Plan vs. Defined Benefit Plan

Helping Business Owners Build More Wealth Through Smarter Retirement Planning

OAKWOOD SUMMIT

Choosing the Right Retirement Plan Can Have a Significant Financial Impact

Many business owners stay with the same retirement plan year after year — often without realizing that a better-fit option may exist as income grows and business needs evolve. What worked at $200K in revenue may leave significant wealth on the table at $500K.

This guide is educational. Every business should consult qualified financial, tax, and legal professionals before implementing or changing a retirement plan.

Traditional 401(k)

The most widely used employer-sponsored retirement plan

A 401(k) allows employees — including owner-employees — to defer a portion of their salary into a tax-advantaged account. Employers may also make matching or profit-sharing contributions.

Best Suited For

- Businesses with W-2 employees who want to participate
- Owners seeking a straightforward, low-cost plan
- Companies in early-to-mid growth stages

2024 Contribution Highlights

- Employee deferral: up to $24,500 ($32,500 if age 50+)
- Total limit with profit sharing: up to $72,000

✅ Advantages

- Simple setup and administration
- Widely understood by employees
- Flexible employer contributions
- Roth option available

⚠️ Limitations

- Lower contribution ceiling for high earners
- May not maximize tax deferral at $300K+ income
- Limited catch-up potential near retirement

Cash Balance Plan

A hybrid defined benefit plan with a savings-account feel

A Cash Balance Plan is a type of defined benefit plan that expresses each participant's benefit as a hypothetical account balance. The employer contributes a set percentage of pay each year, plus a guaranteed interest credit — regardless of investment performance.

Who Typically Benefits

- High-income professionals: physicians, attorneys, consultants
- Owners age 45+ wanting to accelerate retirement savings
- Businesses with stable, predictable cash flow

Potential Contribution Levels

Combined with a 401(k), annual contributions can range from **$100,000 to $300,000+** depending on age and compensation — dramatically exceeding 401(k)-only limits.

✅ Advantages

- Substantially higher tax deductions
- Portable — can be rolled into an IRA
- Predictable, employer-controlled funding
- Can be layered on top of a 401(k)

⚠️ Planning Considerations

- Requires actuarial administration
- Annual funding commitment required
- Best suited for consistent revenue businesses

Defined Benefit Plan

The most powerful wealth-accumulation tool for high earners

A traditional Defined Benefit (DB) Plan promises a specific monthly retirement benefit based on a formula — typically using years of service and final average compensation. The employer funds the plan to meet that obligation, guided by an actuary.

Who It May Benefit

- Owners with high, stable income and fewer employees
- Those 50+ with a 10–15 year runway to retirement
- Businesses prioritizing maximum tax deductions

Funding & Retirement Goals

Annual contributions can exceed **$200,000–$300,000**, depending on the targeted retirement benefit and years remaining. The plan is designed around your specific retirement income objective.

✅ Advantages

- Highest possible tax-deferred contributions
- Guaranteed retirement income benefit
- Significant reduction in current taxable income
- PBGC protection for certain plans

⚠️ Planning Considerations

- Mandatory annual funding requirements
- Higher administrative and actuarial costs
- Less flexible than 401(k) or cash balance

Side-by-Side Comparison

How the three primary plans stack up across key planning dimensions

	Traditional 401(k)	Cash Balance Plan	Defined Benefit Plan
Best For	Growing businesses, all income levels	High earners, ages 45+	High earners, pre-retirement
Contribution Potential	Up to $72,000/year	$100K–$300K+ (with 401k)	$200K–$300K+/year
Employer Flexibility	High — discretionary	Moderate	Low — required annually
Admin Complexity	Low to moderate	Moderate — actuary needed	High — actuary required
Tax Planning Impact	Moderate	High	Very High
Funding Commitment	Flexible	Annual minimum required	Mandatory — actuarially set

Contribution limits are subject to IRS regulations and may change annually. All figures are general illustrations — individual results will vary.

Which Plan Might Fit Your Business?

No two businesses are alike. Here are four common owner profiles — and the plan types that often align with their situation.

Owner A — Growing Company

Moderate income, small team, needs flexibility. A **401(k) with profit sharing** provides simplicity and employee participation without large funding commitments.

Owner B — High-Income Practice

Physician, attorney, or consultant earning $400K+. A **Cash Balance + 401(k) combo** can dramatically increase deductions and accelerate savings.

Owner C — Established Family Business

Stable revenue, loyal employees, long time horizon. A **Defined Benefit or Cash Balance Plan** rewards tenure while reducing taxable income at peak earning years.

Owner D — Near Retirement

10 years or fewer to exit. A **Defined Benefit Plan** maximizes wealth accumulation in the final high-income years, creating a substantial tax-advantaged reserve.

Each situation requires individualized analysis. These profiles are illustrative, not prescriptive.

Questions Every Business Owner Should Ask

Use this checklist to evaluate whether your current plan is still working for you

- [ ] Has my retirement plan been formally reviewed in the past two years?
- [ ] Am I maximizing available contribution opportunities given my income?
- [ ] Has my business income grown significantly since I set up my current plan?
- [ ] Could a different strategy reduce my current tax liability meaningfully?
- [ ] Am I on track to replace 70–80% of my pre-retirement income?
- [ ] Does my current plan allow my business to remain competitive for employees?
- [ ] Is my retirement planning coordinated with my broader tax strategy?
- [ ] Have I considered how my plan interacts with my business succession goals?

If you answered "no" or "unsure" to two or more of these questions, a professional review may uncover meaningful opportunities.

Why Coordination Matters

Your retirement plan should not exist in isolation — it's one piece of an integrated wealth strategy

The most tax-efficient and wealth-building retirement strategies are those designed in concert with every dimension of your financial life. Decisions in one area directly affect outcomes in another.

- **Tax Planning:** Maximize deductions and minimize current-year liability
- **Business Structure:** Entity type affects contribution limits and tax treatment
- **Cash Flow:** Funding commitments must align with business liquidity
- **Investments:** Plan assets should reflect your overall risk profile and timeline
- **Succession Planning:** Exit strategy shapes how and when retirement assets are accessed

Is Your Current Retirement Plan Still the Right Fit?

Schedule a **Business Owner Tax Savings Assessment** — a focused review designed to help you understand whether your current plan aligns with where your business and goals stand today.

✓ Current Plan Review

Assess contribution levels and missed opportunities

✓ Tax Planning Opportunities

Identify strategies to reduce current-year liability

✓ Business Structure

Ensure your entity supports your retirement goals

✓ Long-Term Goals

Align your plan with your retirement income target

✓ Wealth Coordination

Integrate retirement planning across your full financial picture

> The right retirement plan isn't simply the one that allows the largest contribution — it's the one that fits your business, your goals, and your long-term financial strategy.

Schedule Your Business Owner Tax Savings Assessment

Oakwood Summit — Helping Business Owners Keep More, Grow More, and Plan with Confidence.