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The Retirement-Savings Weapon Doctors and Lawyers Use to Build Wealth

Anne Tergesen

Doctors, lawyers and accountants have 401(k) plans. But many have another retirement-saving weapon.

It is called a cash balance plan, and it lets people save up to about $3.6 million on top of a 401(k)—while deferring taxes in much the same way.

It helped Victor and Kate Louise Mangona, both doctors, save a combined $2.6 million over the past decade, which they won't pay income tax on until they retire. Victor, 44, figures they could have close to $10 million by age 65.

The radiation oncologist convinced his practice, Texas Oncology, to start a cash balance plan in 2019, supplementing the 401(k) plan. Cash balance plans aren't subject to the restrictions on annual 401(k) contributions because they are technically pensions. In some of these plans, older higher-earners can put away as much as $380,000 a year, though younger and lower-paid people have lower limits.

Introduced by consultants to help large companies move away from traditional pensions, cash balance plans took off in recent years mainly with smaller businesses.

They help explain how affluent professionals are amassing multimillion-dollar retirement account balances, using the tax breaks the retirement system allows.

The government forgoes around $300 billion in tax revenue annually to encourage retirement savings, according to the Treasury Department, one of the biggest breaks on its books. Either contributions or withdrawals are income-tax free, and investment gains are shielded from annual taxation.

There were close to 23,000 employers with cash balance plans in 2020, the most recent data available, up from 1,477 in 2001, according to FuturePlan by Ascensus, a plan administrator. They collectively hold more than $1.2 trillion in assets, compared with $12.5 trillion in 401(k)-type plans.

Last year, Texas Oncology put $110,000 of Victor Mangona's pay into his cash balance account. Considered an employer contribution, it is exempt from payroll taxes and saved Mangona $2,500 in Medicare tax. Victor put another $23,000 into his 401(k) account and Texas Oncology contributed $46,000.

Critics say cash balance plans exacerbate inequality within the retirement system. Households with income in the top 20% hold more than 70% of the wealth in 401(k)-style plans, according to the Federal Reserve.

They create "a windfall for individuals at the very top of the income distribution," said Steven Rosenthal, a former senior fellow at the nonprofit Tax Policy Center.

Cash balance plan consultants say rank-and-file workers benefit too. To comply with Internal Revenue Service requirements, companies that use them typically make relatively generous contributions to lower-paid employees' accounts.

People who save the most in cash balance plans are typically business owners paid a share of the profits who want to save more than the 401(k) permits.

Many can't contribute the 15% of income advisers recommend in a 401(k), since that amount is above contribution limits.

"It's like comparing a sports car to a sedan," said John Lowell, a pension consultant to large companies, of the contribution limits in cash balance plans versus 401(k)s. "One is for everybody, the other is for the highfliers," said the partner at October Three Consulting.

Medical and law firms say cash balance plans help attract and retain employees. The offering has spread to real-estate developers, brokers and design firms, said Jerry Cicalese, head of retirement at employee-benefits consulting firm Sentinel Group. He recently spoke about one with a mechanic shop.

Adoption of cash balance plans grew in the 1990s as large firms including International Business Machines converted their traditional pensions, often to reduce the volatility of their pension expenses. Many have since frozen them, shifting new hires into 401(k)s.

In 1996, Congress gave cash balance plans a boost by eliminating a combined limit on the amount someone with both a pension and a 401(k)-type plan at the same employer could save, said Rosenthal.

After a 2006 law removed uncertainty about their legality, adoption at smaller firms surged, said Dan Kravitz, national practice leader for cash balance plans at FuturePlan by Ascensus.

Many business owners with cash balance plans also save up to the $70,000 annual 401(k) contribution limit. It consists of up to $23,500 from employees in 2025, plus up to $46,500 in employer matches and profit-sharing. (Limits are higher for those age 50 and older.)

Many smaller companies with cash balance plans pair them with 401(k)s to pass annual tests the IRS requires to ensure lower-paid employees benefit too. To pass, employers must generally contribute 5% to 7.5% of pay to the accounts of employees who earned below $155,000 in 2024.

Cash balance plans generally hire investment managers and many employers guarantee an annual return of about 3% to 5%.

People typically roll this money into IRAs. The number of IRAs with balances over $5 million more than tripled to 28,000 from 2011 to 2019, the latest government data shows.

Many say the plans fill a need for professionals who start saving late.

Robert Master, a retired cardiologist, realized in the mid-1990s that many older colleagues hadn't saved enough in their 401(k)s to maintain their lifestyles. The former chairman of his practice's pension committee said the drag came in part from the years physicians spend in school and training programs, compounded by student loans.

His practice, called Camino Medical Group in Mountain View, Calif., added a cash balance plan around 2000, he said. After retiring in 2018, Master, 74, rolled his $2 million cash balance account over to his 401(k), raising his total balance above $3 million.

When the practice merged with two others around 2008, it terminated its cash balance plan and started a new one for the combined practice. Many colleagues rolled their money over to 401(k) accounts or IRAs, where they could invest for higher returns, said Master.

Because many saved substantial amounts, "I was getting high-fives in the hall," he said.

Write to Anne Tergesen at anne.tergesen@wsj.com

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