COMBO PLANS: WHAT ADVISORS NEED TO KNOW

For the right employer, a “combo plan” can create a powerful opportunity to increase deductible contributions and accelerate retirement savings.

What is a Combo Plan? A combo plan generally combines a defined contribution plan and a defined benefit plan for the same employer or controlled group. A common combo design pairs a safe harbor 401(k) plan with a cash balance plan. The 401(k) plan allows salary deferrals and employer contributions, while the cash balance plan can support much larger actuarially determined contributions, often favoring older owners.

Example. A 55-year-old business owner with $360,000 of annual compensation sponsors a 401(k) plan and a cash balance plan. She receives employer contributions to the 401(k) plan of $21,600 and makes $24,500 of elective deferrals and $8,000 of catch-up contributions. Her total contributions to the 401(k) plan are $54,100. The cash balance plan might separately support a much larger actuarially determined contribution, for example, $180,000.

Compliance Framework: Combo plans require coordination under several Code provisions, including Section 404 (deduction limits, including coordination between DB and DC plans), Section 415 (defined benefit and defined contribution limits), Section 401(a)(4) (nondiscrimination) and Section 410(b) (coverage). In many cases, the plans are tested on a combined basis, rather than plan-by-plan, to demonstrate the overall arrangement does not discriminate in favor of highly compensated employees. The defined benefit component also introduces minimum funding and actuarial considerations that do not exist in a stand-alone 401(k) plan.

On-Going Administration Matters: These arrangements require annual attention to census and ownership data, controlled-group status, compensation definitions, eligibility, minimum participation under Section 401(a)(26), top-heavy considerations (including minimum contribution requirements), deduction timing, and required cash funding for the DB component. A combo plan that looks great in a proposal can become problematic quickly if assumptions change.

Where TPAs Can Help:

Combo plans can be some of the most valuable arrangements a client can implement, but they also bring risk. Poor designs can produce failed testing, unexpected minimum required contributions, missed funding targets, or structures that were never realistic given staff demographics. TPAs are often the professionals best positioned to help clients establish well-designed plans and ensure proper testing and administration.

If you have any questions or are looking for more information about Combo Plans, feel free to reach out to your trusted TBC TPA.

Upcoming deadlines.

May 15: Quarterly benefit statements for participant-directed individual account plans are generally furnished by this date for the quarter ended March 31, 2026.

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