

## 2026 Contribution and Benefit Limit Highlights Consider How to Maximize Contribution and Cash Balance Opportunities

As a trusted advisor, you are often the first to spot when a client's retirement plan is underperforming. For some clients, there is opportunity in making the full elective deferral under a 401(k) plan, using a safe harbor design to reduce testing limitations, filling the remaining defined contribution limit with non-elective contributions, and finally evaluating whether a cash balance plan can unlock much larger deductible contributions.

**The Core 2026 Limits Give You The Framework.** The elective deferral limit is \$24,500. The regular age 50+ catch-up is \$8,000. For participants who attain age 60, 61, 62, or 63 during 2026, the enhanced catch-up is \$11,250. The Section 415(c) annual additions limit for defined contribution plans is \$72,000, with catch-up contributions on top of that amount. The compensation cap used for many plan calculations is \$360,000, and the Section 415(b) annual benefit limit for defined benefit plans is \$290,000.

**A Safe Harbor Design is Often a Good Approach.**

A properly designed safe harbor 401(k) plan can satisfy the usual ADP testing requirements and, where applicable, the ACP testing requirements, which can make it far easier for owners and other highly compensated employees to defer up to the full 2026 limit without depending on rank-and-file deferral behavior. Once the safe harbor structure is in place, the employer can usually use profit-sharing contributions to bring total defined contribution funding up toward the Section 415(c) ceiling.

**Example.** Consider a 62-year-old owner with compensation of \$420,000. Only \$360,000 can generally be taken into account for most contribution calculations in 2026. The owner can defer \$24,500, add \$11,250 in enhanced catch-up, and receive employer safe harbor and nonelective contributions

until annual additions equal \$72,000, plus the catch-up. In practical terms, that means a 2026 defined contribution total of \$83,250, assuming the plan design and compensation structure support the full amount.

**Cash Balance Plans.** For clients who still want a larger current deduction after maximizing 401(k) contributions, the next question is usually whether a cash balance plan is a good fit. A cash balance plan expresses benefits with a hypothetical account to which pay credits and interest credits are added, but funding is governed by defined benefit rules rather than the fixed defined contribution limit. Employers can often contribute and deduct more each year under a defined benefit plan than under a defined contribution plan, subject to applicable deduction limits. That can make sponsoring 401(k) and cash balance plans attractive, especially for older owners, professional practices, and closely held businesses with strong, consistent cash flow.

Important deduction limits sometimes apply. It is important to model potential plan designs using the client's circumstances before implementing changes.



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