The Practice Owner's Playbook

Advanced Retirement & Tax Reduction Strategies

As a medical professional and practice owner, your financial journey is unique. Years of education and training mean you begin your peak earning years later than most, creating a compressed timeframe to build substantial wealth for retirement. While a standard 401(k) is a valuable tool, it is often insufficient for physicians seeking to maximize savings and significantly reduce their high tax burden. This guide explores two powerful, IRS-qualified retirement plans designed specifically for high-income, self-employed professionals: the Solo 401(k) and the Cash Balance Plan.

The Solo 401(k): Supercharging Your Self-Employment Income

For physicians with income from a private practice, consulting work, or any other self-employment (1099) activity, the Solo 401(k) is an essential first step beyond a standard employer plan.

A Solo 401(k) allows you to contribute as both the "employee" and the "employer," dramatically increasing your savings potential. For 2025, the contribution limits are:

- **As the Employee:** You can contribute up to $23,500 (or $31,000 if you are age 50 or older).
- **As the Employer:** You can contribute up to 25% of your compensation, with the total combined contributions not to exceed $70,000 for 2025.

This structure allows a self-employed physician to potentially save more than double what they could in a standard 401(k), with all contributions being tax-deductible.

The Cash Balance Plan: The Ultimate Tool for Tax Reduction

For established practice owners seeking to save over $100,000 per year and achieve the largest possible tax deductions, the Cash Balance Plan is the most powerful tool available. It is a type of IRS-qualified defined benefit plan, which functions like a private pension. Unlike a 401(k), a Cash Balance Plan is not limited by a simple annual contribution cap. Instead, an actuary calculates the large annual contribution required to fund a predetermined lump-sum benefit at retirement (currently around $3.5 million). This allows for massive, age-dependent contributions:

- **Age 40:** Potential annual contribution of ~$128,000.
- **Age 50:** Potential annual contribution of ~$204,000.
- **Age 60:** Potential annual contribution of ~$328,000.

These contributions are fully tax-deductible to the practice, which can result in annual tax savings of $50,000 to $150,000 or more for a high-income physician. While more complex and with higher administrative costs, the tax advantages are unparalleled.

Putting It All Together: A Cohesive Strategy

The true power of these plans lies in their ability to be combined. A physician can maintain their standard 401(k) at their primary employer, establish a Solo 401(k) for their practice or 1099 income, and layer a Cash Balance Plan on top of both. This multi-plan strategy allows for a level of tax-deferred savings that is simply unattainable with standard retirement accounts alone, providing a clear path to accelerated wealth accumulation and financial independence.

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