

Retirement Planning Cheatsheet for Therapists



Whether you're flying solo or heading up a team of therapists, you have a number of options in terms of retirement plans.

For more details, including up-to-date contribution limits, check out [How to Choose a Retirement Plan for Your Therapy Practice.](#)

3 Types of Retirement Plans for Therapists

Defined benefit plan — traditional pension

- Employee receives a set payout during retirement, usually a percentage of salary
- Expensive to administer and manage
- Increasingly uncommon, and not suitable for most therapy practices

Defined contribution plan — 401(k)

- Employee and employer make matching contributions deducted from paycheck
- Income is taxed either when it's contributed to the account or when it's withdrawn, depending on the type of 401(k)
- Most types of 401(k) are best for S corps / LLCs that have at least one employee on payroll

Individual retirement account — IRA

- Individual (not necessarily employee) contributes stocks, bonds, EFTs, or other financial products to account
- Contributions are taxed either when they're put in the account or when they're withdrawn, depending on the type of IRA
- Usually the simplest option for sole proprietors

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401(k) Options for Therapists

Traditional 401(k)

- Income is not taxed at the time it's deferred
- After employee turns 59 ½ or retires, funds may be withdrawn without incurring an early withdrawal penalty
- Funds taxed at time of withdrawal

Roth 401(k)

- Deferred income taxed at the time it's put in the 401(k)
- After age 59 ½ or retirement, when funds are withdrawn, they are not taxed

Profit sharing 401(k)

- Employee defers a portion of their income to the account
- Employer may make contributions based on the profits of the company

Safe harbor 401(k)

- Employer must make a minimum 3% contribution to all participants' plans
- Allows employer to forego annual nondiscrimination testing, so it costs less to administer

Automatic enrollment 401(k)

- Every eligible employee is automatically enrolled for a 401(k)
- Set amount deferred from income each year
- Employees may opt out

Solo 401(k)

- Ideal for solo therapists running their own practices
- Costs less to set up than other types of 401(k)
- No annual nondiscrimination testing
- Business owner must be only person at company who meets eligibility requirements

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IRA Options for Therapists

Traditional IRA

- All contributions are tax deductible
- Funds are taxed when they're withdrawn

Roth IRA

- Contributions are taxed when they're added to the account
- Funds are not taxed with they're withdrawn

SEP (Simplified Employee Pension) IRA

- Taxed the same way as a traditional IRA
- Employers make contributions to employees' accounts based on a percentage value of their salary
- Employees may not make their own contributions
- Employers who contribute to their own SEP IRAs must contribute an equivalent percentage all employers' SEP IRAs

SIMPLE (Savings Incentive Match Plan for Employees) IRA

- Similar to a SEP IRA
- Employees may make contributions, which employers match

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