HOW AM LAW 100 PARTNERS CAN MAKE PRACTICING LAW OPTIONAL

6 STEPS TO HELP YOU EXIT
THE PRACTICE ON YOUR TERMS

ONE Advisory Partners

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Chapter 1:

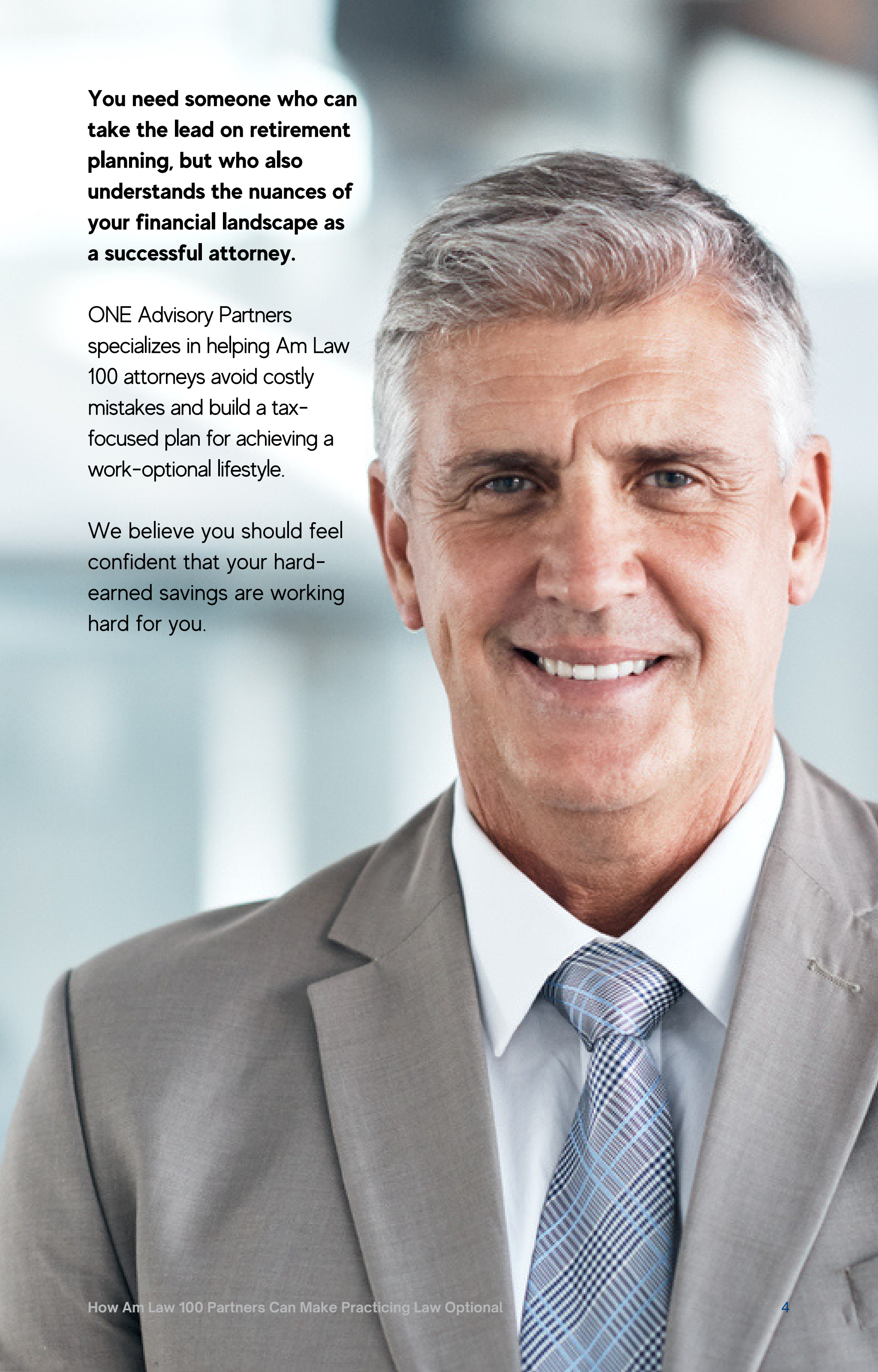
When the Fear of Mistakes Stops You in Your Tracks

As an Am Law 100 partner, you've built a successful career on being prepared, analyzing all of the facts, and mitigating risk. You are inherently driven to avoid mistakes, and that's why your clients choose you over the competition.

You've worked incredibly hard to build the lifestyle you enjoy today. Now, you've reached a net worth and age where making mistakes could be extremely costly. But without a pension plan or firm equity to rely on in retirement, you may be confused about how, exactly, to turn your high income into something that can sustain you in your post-work years.

You understand the importance of avoiding unnecessary investment risk or tax planning mistakes that could impede your ability to retire when you want. But even decisions that feel innocuous, like choosing a traditional or Roth 401(k), can impact your future tax liability and retirement income.

You know you must take a proactive approach in preparing for retirement, but you lack the time, desire, and expertise to do it all yourself.



You need someone who can take the lead on retirement planning, but who also understands the nuances of your financial landscape as a successful attorney.

ONE Advisory Partners specializes in helping Am Law 100 attorneys avoid costly mistakes and build a tax-focused plan for achieving a work-optional lifestyle.

We believe you should feel confident that your hard-earned savings are working hard for you.

Chapter 2:

Why We Encourage You to Take Action

Sometimes, in the face of a challenge, human nature takes over, and it's tempting to ignore an issue rather than address it head-on. As someone who is busy and averse to making mistakes, it's possible you may have avoided looking at the direction your finances are headed in. Getting a solid grasp on your wealth requires time, expertise, and a desire you may not have had.

Unfortunately, there are long-term effects to ignoring the elephant in the room. Neglecting to take control of your finances now could mean:

- You continue feeling stressed about your financial standings.
- You make (avoidable) mistakes that cost you additional years of work.
- You miss important finance and tax planning opportunities that you can no longer take advantage of.
- You waste valuable time trying to figure out the best next steps.
- You lose opportunities to devote more time to your practice or things that bring you joy.
- You worry about financial protection for your loved ones.

A common misconception we hear is that partners always have time on their side. "I'll make it up when I get closer to retirement," they say. But as your lifestyle increases, so does the amount of money you'll need to sustain your quality of life in retirement. If you want to continue enjoying this beautiful life you've built, you have to be able to fund it – ideally in a tax-efficient manner for both you and your family.

Read on to learn our six steps for turning your income today into long-term wealth for tomorrow.

Chapter 3:

Who We Are

Before we dive in, we want to take a moment to introduce who we are and why we're passionate about helping attorneys like you conquer the complexities of your financial life.

ONE Advisory Partners is a boutique Registered Investment Advisor (RIA) located in Overland Park, Kansas, managing over $160 million in client assets (as of 10/31/2022).

We have proudly helped Am Law 100 partners develop a systematic plan for controlling taxes, costs, and risk for nearly 20 years. In doing so, our goal is to help get you to a practice-optional lifestyle.

With a deep understanding of law firm compensation and retirement plan structures, we're able to help attorneys like you address your concerns for income in retirement while maintaining the lifestyle you enjoy today.

Chapter 4:

Your 6 Steps for a Practice-Optional Life

In the chapters that follow, you'll find six steps for tax-efficiently turning your income into wealth. The goal? To ensure you can exit your firm on your terms.

1. Project your desired practice-optional income needs
2. Determine the income your current strategy is likely to generate
3. Develop a plan to close any funding gap
4. Optimize to help achieve a practice-optional lifestyle
5. Review your risk management and estate plans
6. Review and monitor your practice-optional strategy on an ongoing basis

Let's get started.

Chapter 5:

Step #1—Project Your Desired Practice-Optional Income Needs

While it's not unusual for attorneys to enjoy a longer career than other professionals, you still deserve peace of mind in knowing that when you want to step away, you can do so with confidence.

But in order to do that, you need to know what, exactly, you're going to need in order to maintain your quality of life in retirement. As a high earner, it's possible that number is greater than you initially anticipated.

Understanding your future needs now is the first step in determining what needs to be done to achieve your ultimate goal (aka cross the practice-optional finish line).

To project your future income needs, start with these three tasks:

1. Analyze your various sources of non-work income
2. Review the tax characteristics of your income sources
3. Develop a sustainable, tax-efficient distribution plan

Analyze your various sources of non-work income

When you're no longer earning a salary, how will you continue supporting your lifestyle and financial obligations? You'll need to determine what type of non-work income will be used to replace your current salary.

Partners in Am Law 100 firms face a rather unique challenge when it comes to obtaining non-work income. While you may have helped your fellow partners establish a highly reputable and successful law firm, attorneys don't typically have marketable equity in the firm itself.

Unlike a business owner, you cannot rely on the sale of your firm to fund the majority of your retirement needs. And unlike a corporate executive, you can't cash in on stock options.

Instead, you're tasked with transitioning a portion of your salary into future tax-efficient income for retirement and relying on other sources to supplement your financial goals.

It's also quite possible your firm's retirement plan options are complex. Many Am Law 100 partners, for example, are required to contribute the maximum profit-sharing contribution as a part of their partnership agreement. In addition, they may have a cash balance pension plan that allows them to contribute even more to their retirement income than a 401(k) would.

While it's great to have options for future retirement income, they can be complicated. You want to provide ample income for your post-work years, but you need to consider all facets of your financial life in doing so.

As an attorney, it's likely your non-work income will pull from a variety of sources including:

- 401(k) or IRA withdrawals
- Cash balance pension plan payments
- Annuity payouts
- A spouse's pension (if applicable)
- Investments
- Social Security
- Income from alternative investments (such as rental properties)

Review the tax characteristics of your income sources

As you likely already know, the IRS does not view all retirement income equally.

Accounts like your 401(k) or traditional IRA are typically funded with pre-tax dollars. While this approach lowers your taxable income for the year the contributions are made, any withdrawals made in retirement are subject to federal income tax.

Any accounts funded with after-tax dollars, such as Roth 401(k) or IRA accounts, may provide you with tax-free growth and withdrawals in retirement. However, high earners are subject to income ceiling limits for certain types of contributions. For example, if you earn above the IRS's income threshold for the year, you are not eligible to directly contribute to a Roth IRA account.

Most Am Law 100 partners and their spouses will exceed this limit. If you're interested in creating tax-free income in retirement but aren't eligible to contribute to a Roth IRA account outright, there may still be options available to you such as a Roth 401(k), a backdoor Roth, or a well-timed tax-smart Roth conversion.

If you're going to receive income through an annuity payout or pension plan, review the plan details carefully to determine what the potential tax obligation may be. Depending on how the plan was funded, you may be responsible for full or partial tax liability on your payments.

For example, if you contributed after-tax dollars to your plan, your payments may only be partially taxed. It's also possible your annuity or pension plan will withhold a portion of the payments to cover the tax liability, though this may not always be enough to cover the full obligation.

You may find it beneficial to work with a tax professional to determine the most tax-efficient way to utilize your non-work income.

Develop a sustainable, tax-efficient distribution plan

Having the resources to achieve a practice-optional life stage is the first hurdle. The next challenge is determining how to preserve those resources while withdrawing from them in a tax-efficient way.

When you have several income sources with varying tax liabilities, it can take some strategic planning to find the right balance …

- "Should I hold off on using my after-tax savings until my later years in retirement, or is it more beneficial to draw those down first?"
- "How should I plan for the additional tax obligations of required minimum distributions (RMDs)?"
- "Will my other income sources make me liable for paying Medicare IRMAA (income-related monthly adjustment amount) surcharges?"

These are some common questions to ask yourself, and the answers will depend on your unique circumstances.

Taxes, especially taxes in retirement, are complex. We highly recommend working with a financial professional and accountant to develop a tax-efficient distribution strategy for your non-work income.

Chapter 6:

Step #2—Determine the Income Your Current Strategy Is Likely to Generate

Once you have a good idea of where your income will come in retirement and what sort of strategy may best fit your needs, your next step is to identify how much future income you'll be able to generate with your current savings and investing strategy.

In other words, it's helpful to have a thorough understanding of your current financial landscape before attempting to build a plan.

Because you're a partner at a distinguished law firm, you have the advantage of earning a sizable salary and may be, in fact, obligated by your partnership or shareholder agreement to defer a large portion of it to a retirement savings account. But now's the time to identify your and your spouse's current assets, liabilities, and obligations to better build a realistic and sustainable retirement savings plan.

In this step, you should:

1. Analyze your current assets and liabilities
2. Analyze your current income and expenses
3. Determine the long-term expected return of your current portfolio
4. Analyze the risk-efficiency of your current portfolio
5. Consider the impact of taxes on the foregoing

Analyze your current assets and liabilities

This step is fairly simple but important. List out all assets, as well as current debts or liabilities.

Examples of assets include:

- Primary home
- Rental properties
- Cash balance pension plan
- Bonds
- Annuities
- Savings and checking accounts
- Brokerage accounts
- Retirement savings accounts

Examples of liabilities include:

- Mortgage
- Personal loans
- Credit card debt
- Car loans
- Tax debt
- Student loan debt (likely that of a child or grandchild)

Analyze your current income and expenses

Again, this is a simple task but a crucial step in determining your current funding status.

Write down all current income sources, including what you and your spouse earn through active and passive income.

Then, determine your current recurring expenses such as debt repayments, utilities, and groceries.

Determine the long-term expected return of your current portfolio

Even if you don't foresee a finish line anytime soon, it's still important to know that when the time is right, you'll be able to walk away from the firm with enough savings to maintain your standard of living through retirement. Your portfolio will play an important role in your ability to do this.

Look at your current investment asset allocation and rate of contribution to determine what your long-term expected return is.

This projection may not be exact, since performance isn't guaranteed, but it can help give you a general idea of the direction your portfolio is headed.

When doing this step, you may find that making larger contributions to your retirement accounts now could greatly impact future income – thanks to the power of compounding interest. The more you're able to funnel into these investment accounts early on, the more ammunition you're giving your investments to compound and grow between now and retirement.

Analyze the risk efficiency of your current portfolio

Everyone's capacity to accept risk is different. But, in general, the closer you are to leaving your law practice behind, the more risk-averse you may become. But that may not be the correct course of action for you.

Risk is especially important to consider if you're entering a practice-optional lifestyle early, since you may not have access to certain retirement income just yet. For example, the earliest age you can claim Social Security retirement benefits is 62 – though taking them before your full retirement age will reduce your monthly benefits.

Consider how risk-efficient your current portfolio is. This refers to the level of expected risk your portfolio currently has in relation to its expected return. If your capacity for risk is low (as it may be when nearing retirement), your portfolio may need to be adjusted accordingly. The more in line with your capacity for risk and overall investing goals, the more risk efficient your portfolio will be.

Because this is something that's unique to every individual's circumstances, you may find it beneficial to determine your risk capacity with the help of a financial professional.

Consider the impact of taxes on the foregoing

The more you earn, the more important implementing tax savings strategies becomes.

That's why as part of our ongoing management process for attorneys, we specialize in helping Am Law 100 partners mitigate the impact taxes have on their current financial landscape and future retirement income.

When you're considering your current sources of income for retirement, you need to take into account how your future tax bracket and obligations will come into play. RMDs, for example, can pose a challenge for high-earners who don't yet need to withdraw from their accounts but are required to do so by the IRS. These are the types of considerations a tax-focused financial professional can help you prepare for as you near retirement.

Chapter 7:

Step #3—Develop a Plan to Close Any Funding Gap

We like to consider steps #1 and #2 as your starting point and finish line. As you worked through them, you should have gotten a better idea of your current financial standings and what you'll need to live comfortably in retirement.

This next step is designed to help bridge the gap between the two by determining the specific tasks you need to move from one place to the other.

These tasks include:

1. Figure out how much additional savings you'll need
2. Pick a desired time frame
3. Develop a tax-optimal contribution strategy

Figure out how much additional savings you'll need

Chances are, there's some discrepancy between your starting point (where you financially stand today) and your finish line (how much you need to leave work behind). Determine what that "savings gap" is, as this will help guide your ongoing savings and investing strategies.

Pick a desired time frame

When, exactly, do you plan on leaving your position as partner for good? For many attorneys, this is a tough question to answer. You're passionate about what you do, and maybe you don't see yourself doing anything else for the foreseeable future.

But, should something happen to your position at the firm, you want to know that you could seamlessly transition to a work-optional lifestyle without feeling financially strained.

If you're not sure when the right time to retire is, you may find it useful to start with your savings gap and work backward.

For example, if your savings gap is around $2,000,000 – how long would it take you to make up the difference? If you determine that you can do this in about ten years, perhaps that becomes your desired time frame. Filling the savings gap will be something of a balancing act, and you may find it worthwhile to work with a financial professional who can help sort through your many savings strategies and opportunities.

When choosing your time frame, consider other factors as well such as health insurance, cash balance pension plan payments, Social Security benefits, your spouse's expected retirement date, and your post-work objectives. These are all factors that may impact your timeline.

Develop a tax-optimal contribution strategy

There's more than one way to save for retirement, and each strategy comes with its own tax considerations.

While we've already discussed the tax consequences of withdrawing from different accounts in your post-work years, it's also worth considering how you'll contribute to these accounts in a tax-efficient manner.

If you anticipate that you'll be in a higher tax bracket now than in retirement, you may find it worthwhile to contribute pre-tax dollars to your 401(k) or IRA. If you wish to create tax-free withdrawals in retirement, you'll need to focus on savings strategies that are funded with after-tax dollars.

Again, the right strategy will depend deeply on your unique circumstances and anticipated tax liabilities. Some partners may already be required in their partnership agreement to contribute to firm-sponsored retirement savings accounts.

We recommend working with a financial professional and accountant to develop a contribution strategy that balances your tax obligations today with your income needs in retirement.

Chapter 8:

Step #4—Optimize to Help Achieve a Practice-Optional Lifestyle

Aside from no longer relying on a paycheck for income, there are additional considerations and changes you'll need to make as you think about your life post-work. Specifically, you'll want to consider the ways in which you can optimize the cornerstones of your financial life to best reflect your needs in retirement.

You'll need to optimize three areas including:

1. Your financial plan
2. Your investment portfolio
3. Your tax strategy

Your financial plan

Your financial plan should reflect your objectives today and needs in retirement. Because attorneys tend to accumulate a level of complexity in their financial lives, establishing a plan is crucial.

When working with a financial advisor, you'll have the ability to develop a financial plan that's focused on helping you achieve your goals and simplify your financial life.

You want to know you're doing everything you can to meet your needs today, create income in retirement, and care for your family in the future. Building a tailored financial plan is the tool you can use to establish critical, tax-focused strategies and achieve greater peace of mind.

Your investment portfolio

Once you have a financial plan in place, the next step is to make sure your portfolio is tailored to meet those objectives. If retirement is right around the corner, this may mean adjusting your portfolio to account for a lower risk tolerance.

Your tax strategy

We can't stress enough the importance of considering tax efficiency when saving for and transitioning to a practice-optional life stage.

By maximizing the tax efficiency of your savings and investing strategies, you're retaining more of your income at a time when it matters most. Tools like tax loss harvesting and tax location strategy are just two common strategies you can discuss with a financial professional to help reduce tax liability.

Chapter 9:

Step #5—Review Your Risk Management and Estate Plans

Once you have a solid understanding of where you're starting from, where you'd like to go, and how to get there, the next step is to consider the risks you may encounter along the way. In other words, your plan is not complete if you fail to safeguard it.

How do you do this? By:

1. Mitigating risk through insurance
2. Establishing an estate plan

Mitigating risk through insurance

If something happened to you tomorrow, would you and your family be financially OK?

A common challenge for partners is managing insurance policies in a cost-effective way while finding the most appropriate solution for replacing potential lost income.

Instead of ignoring potential risks and hoping for the best, there are measures you can put in place to protect yourself and your family from large financial hits – namely having the right insurance coverage.

While you may have some coverage through your employer, many Am Law 100 partners have the option to buy-up through their group insurance provider. Doing so would increase the amount of disability or life insurance coverage already offered through the firm.

It's not wise to assume that what's already included in your benefits package is all you need – especially if you're the sole income earner or have dependents relying on your income.

How much insurance coverage you need will depend on a few factors, such as your income and career stage. Those who are still decades away from retirement, for example, would need to replace a significant amount of future income in the event of death, disability, or incapacitation. But as your career progresses, your insurance needs will likely change. You have fewer years of future income to replace, and your other income sources (namely your savings and investments) are growing.

Regularly reviewing your policies is an important part of making sure you're not overinsured or underinsured at any given time.

Common policies to consider include:

- Life insurance (term or whole)
- Disability insurance (long- and short-term)
- Health insurance
- Long-term care insurance

Establishing an estate plan

A thorough estate plan is one of the most meaningful gifts you can leave your loved ones.

When considering the estate planning process, or if you're revisiting your plan for the first time in a while, we highly recommend working with both a financial professional and estate attorney. This is especially wise if you have a sizable or fairly complex estate, which is often the case for Am Law 100 partners.

As you get started, identify your objectives by asking the following questions:

- What, exactly, are my final wishes?
- Who do I want to take care of financially after my passing?
- In the event of incapacitation, who should be in charge of my estate?
- Are there any charitable organizations I'd like to leave assets to?

From there, you, your estate planning attorney and a financial professional can get to work updating or drafting important estate planning documents including:

- Revocable trusts
- Your will
- Healthcare directive
- Powers of attorney (both health and financial)

Depending on how up-to-date your current documents are, you may need to set aside time to make other changes like updating beneficiaries on all policies and accounts, as well as titling assets appropriately (including your homes and cars).

Estate planning is a marathon, not a sprint – and you should plan on revisiting it regularly. But by being thorough and thoughtful in your preparation, you can help your loved ones tremendously when the time comes to fulfill your final wishes.

Chapter 10:

Step #6—Review and Monitor Your Practice-Optional Strategy on an Ongoing Basis

It may be unclear when you'll decide to leave your practice for good. While these six steps are an effective way to prepare for a sound retirement, you can't take a "set it and forget it" approach to retirement readiness.

As your own life circumstances change or greater economic events occur, your financial plan and savings strategies should be evaluated and adjusted accordingly.

Reviewing your practice-optional strategy is an ongoing process that's designed to help you determine when you want to bill your last hour.

Chapter 11:

Get a Systematic Plan and Gain Back Your Time

These six steps can help you start creating your practice-optional lifestyle. But like many Am Law 100 partners, you may lack the resources or time to manage this process all on your own. You understand the immense value in delegating wealth management to an experienced and knowledgeable financial guide. That's where our team at ONE Advisory Partners can help.

You are already an expert at law. It's what you've spent decades doing, and you've built an admirable career doing so. There's no reason why you should have to spend your precious free time becoming a financial expert too.

By passing along the financial burden to us, you no longer have to be an expert in all your tax and financial issues. We provide attorneys with tax-sensitive planning to minimize mistakes, mitigate risk, and turn income into wealth for retirement so you can exit the practice on your terms.

As your trusted financial guide, our goal is to help you:

- Stop worrying about making expensive mistakes
- Feel confident with a solid plan to achieve your objectives
- Free up more time to spend with the people and things you love

Take the first step!

Are you ready to stop worrying about financial mistakes that may cause you additional years of work? Take the first step to exiting the practice on your terms by scheduling an introductory consultation.

Schedule an introductory call today:
www.oneadvisorypartners.com/am-law-wealth-strategies

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