

THE 22ND ANNUAL LAW FIRM

COO & CFO
Forum

Partner Talk #1 - Shared Assets: Enhancing Financial Efficiency in Law Firms through Maximizing Partner Satisfaction



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Partner Talk: **Enhancing Financial Efficiency in Law Firms** **through Maximizing Partner Satisfaction**

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Partner satisfaction is often intertwined with generational issues, such as ...

- Partners who are considering retirement
- Younger attorneys who see their time at a law firm as a short-term stay
- Recruiting high-caliber candidates and associates who want to grow and develop their careers
- Competing for laterals of different ages

Partner satisfaction and well-being often go hand-in-hand

Opportunities to enhance partner well-being

- ❖ **FINANCIAL SECURITY**
 - **Retirement Planning:**
 - ERISA plans (cash balance, 401(k), etc.) only fund 50% or less of what is needed at retirement
 - **Long-Term Care (LTC):**
 - LTC is needed by 63% of those over 65; 37% are younger
 - The probability of needing LTC is 68% for those over 65
- ❖ **WELLNESS PROGRAMS**
 - **Lifestyle Management:**
 - Encouraged by the firm can reduce partner life insurance costs
 - **Cancer Detection:**
 - The earlier that cancer can be found, the higher the chance of better outcomes

- ❖ **What if you could provide solutions at no cost to the firm?**

No costs to the firm

1. Retirement and Investment Planning: Partnership Owned Life Insurance (POLI) in a Special Purpose Entity

- Tax-free retirement benefits – like a “Super Roth”
- Not subject to ERISA
- Investment options include collared S&P 500 returns
- No downside risk, guaranteed 0% floor

2. Long-term care (LTC) plans

- LTC living benefits can be included in life insurance plans
- Washington state has implemented an LTC employee-mandated payroll tax to reduce Medicaid spending. 15 states are considering.

3. Wellness programs

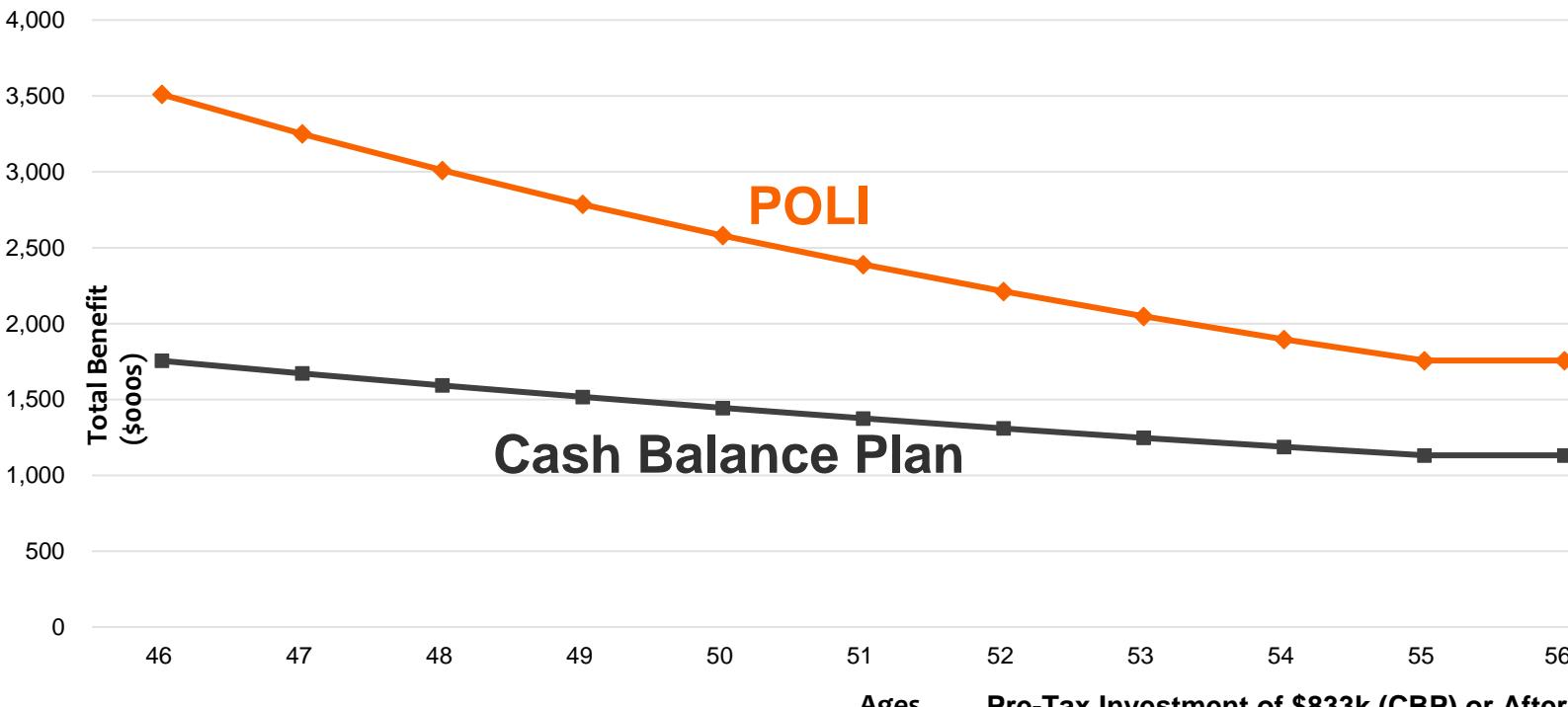
- Exercise, diet, regular exams can reduce firm or POLI costs by 15%-20% annually

4. Cancer screening

- GRAIL early detection screening offers a multi-cancer early detection test at no cost to eligible partners in your firm

POLI: Supplements Cash Balance Plans For Partners Who Want to Do More

POLI can generate 30%- 40% greater benefits on an after-tax basis



	POLI	CBP
Dollars in	\$833k	\$833k
Tax cost (40%)	(\$333k)	N/A
Net to invest	\$500k	\$833k
How funded	\$100k/yr for 5 yrs	\$167k/yr for 5 yrs
Benefits paid	\$150k per yr	\$154k per yr
Tax at 40%	N/A	(\$65k / year)
Total over 20 yrs	\$3m	\$1.84m

Ages

Pre-Tax Investment of \$833k (CBP) or After-Tax \$500k POLI
Benefits Begin at Age 65 (or after 10 Years)
5-year funding, 20 years of benefits

Firm funded

1. Reimbursement plans can address unfunded benefits

- Provide financial relief to active partners
- Increases distributable income to active partners without reducing benefits to retirees

2. Retention plans – recruit and retain key partners:

- Forgivable loans
 - Can vest over time and generate significant retirement benefits
 - Can be financed on a non-recourse basis so the firm has no costs (add-on to POLI)
- Private placement annuities that vest in the future
 - Example: \$2m investment by firm creates \$500k annual benefit for life beginning age 60
 - 35-year benefit = \$17.5m in benefits for \$2m cost
 - Forfeited if partner leaves before age 60; firm recovers all costs



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