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

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COHN FINANCIAL GROUP
A DIVISION OF GALLAGHER | M FINANCIAL GROUP MEMBER FIRM

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

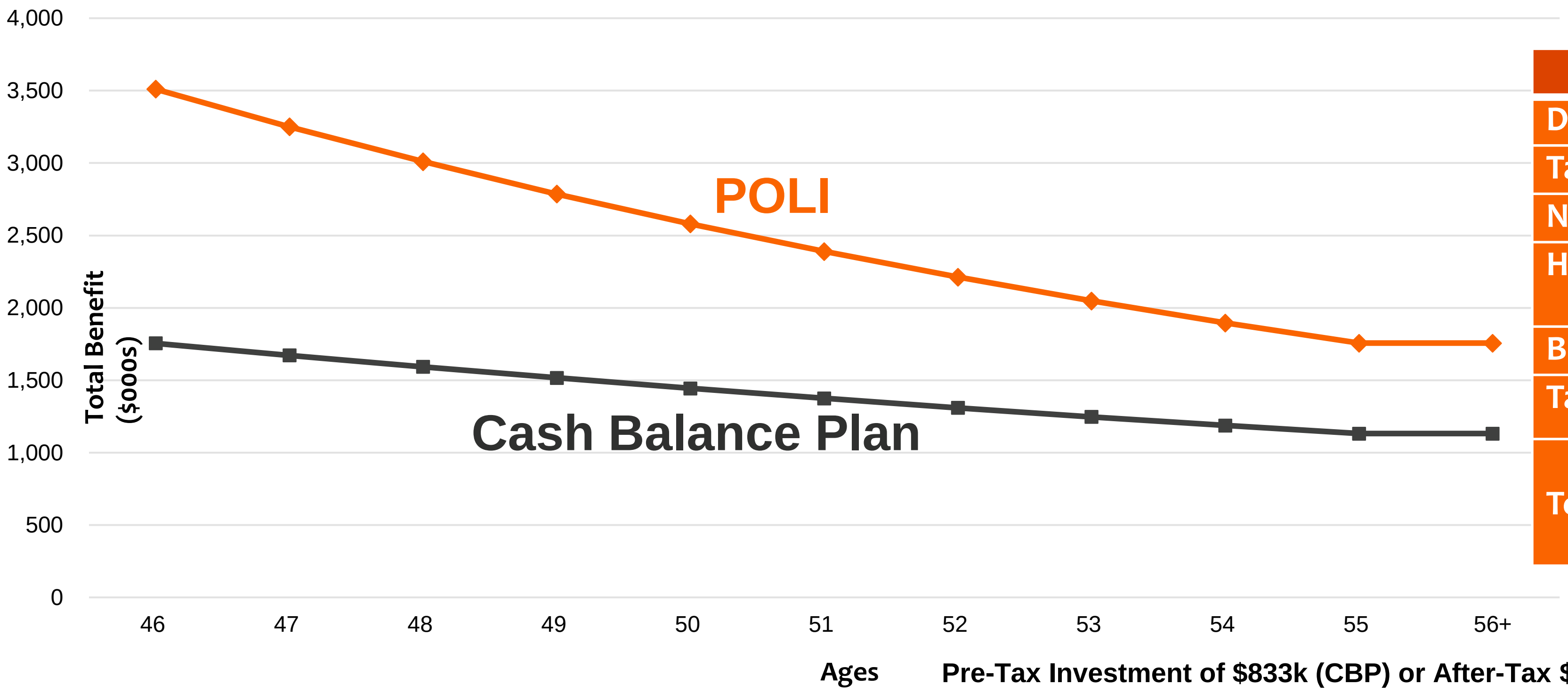
❖ What if you could provide solutions at no cost to the firm?

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

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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