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

Mike Cohn, CLU, ChFC
Area President

Ann Marie Liotta, CPA
U.S. Wealth Strategist
Partner Talk:
Enhancing Financial Efficiency in Law Firms through Maximizing Partner Satisfaction

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Mike Cohn, CLU, ChFC
Cohn Financial Group
Mike_Cohn@cfgllc.com
602.743.9866

Ann Marie Liotta, CPA, AEP
Cohn Financial Group
AnnMarie_Liotta@cfgllc.com
732.232.5869
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

<table>
<thead>
<tr>
<th>Ages</th>
<th>Pre-Tax Investment of $833k (CBP) or After-Tax $500k POLI</th>
<th>Benefits Begin at Age 65 (or after 10 Years)</th>
<th>5-year funding, 20 years of benefits</th>
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<tr>
<th>POLI</th>
<th>CBP</th>
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<tbody>
<tr>
<td>Dollars in</td>
<td>$833k</td>
</tr>
<tr>
<td>Tax cost (40%)</td>
<td>($333k)</td>
</tr>
<tr>
<td>Net to invest</td>
<td>$500k</td>
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<tr>
<td>How funded</td>
<td>$100k/yr for 5 yrs</td>
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<tr>
<td>Benefits paid</td>
<td>$150k per yr</td>
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<tr>
<td>Tax at 40%</td>
<td>N/A</td>
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<tr>
<td>Total over 20 yrs</td>
<td>$3m</td>
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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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