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How Lawyers Can Plan for Financial Independence

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If you listen to some financial experts, planning for financial independence is a one-size-fits-all process. You put a portion of your income aside and invest it in diversified assets that you gradually reallocate to make more conservative as you age.

But financial planning isn't one-size-fits-all. In fact, it's one of the most individualized experiences in life, and that means strategies for it should be tailored to your particular goals and dreams. But despite the highly individualized planning required to help you meet your financial goals, there are certain fundamental elements that lawyers can utilize to ultimately achieve sustainable financial independence.

It can often help to break down this process into three major categories. In chronological order, they are: the contribution phase, accumulation phase, and distribution phase. Within each category, attention to details such as tax implications, plan limits and time horizons can have a significant impact on the successful completion of your financial goals.

When completing each phase of the planning process, keep in mind these key components for building sustainable financial independence:

Leverage Qualified Plan Contributions

The first place to start when considering retirement planning is what are commonly known as "qualified plans." Most are probably familiar with the term, if not also a corresponding IRS tax code, 401(k). 401(k) is the provision that governs employee salary deferrals in qualified employer-sponsored retirement plans. Contribution limits and participation requirements, as set forth in ERISA, determine who can and must be eligible to participate, as well as how much each participant can defer into the plan. Broadly speaking, a 401(k) and most other employer-sponsored retirement plans, are considered defined contribution plans. This simply means that employee and employer contributions are determined annually, and no benefit amount is promised in retirement.

Defined benefit plans, or pensions, are designed with a fixed retirement benefit in mind. Contributions are made in the same pre-tax fashion as most defined contributions are, but these plans cater to a more select group of individuals. Where 401(k) and other defined contribution plans limit their participants to contribution maximums of $18,500 for 2018 ($24,500 if over 50 years old), defined benefit contributions can offer significantly higher deferral amounts, which are generally provided by employers. And similar to defined contribution plans, contributions to defined benefit plans are tax-deductible, thereby reducing what would otherwise be a large tax liability. Defined benefit plans are age and income based so the participants' income has to warrant higher contributions, but in the right scenario, these plans offer an incredible benefit, both from a tax perspective today and when the benefit is received in retirement.

…And Nonqualified Plan Options

An often-overlooked component to a professional's financial plan is the use of nonqualified benefit plan options. A nonqualified benefit plan allows for the ability to build additional funds for future distribution in a way that can be individually tailored for both the employing firm and the individual. Once an executive has exhausted qualified plan limitations, a firm can implement any combination of nonqualified plan designs including Supplemental Executive Retirement Plans (SERP) and Elective Deferred Compensation Plans. Both allow for executives to accumulate funds in a tax-deferred manner that can be utilized at a pre-determined later date. In addition, unlike the qualified plan options, there are generally fewer restrictions imposed on both the employing firm and executive in regard to deferral amounts, benefit payments and participant eligibility.

Protecting your biggest asset

Financial planning isn't just about deferring as much money away as you can, it's also about making sure you guard against bad things that could happen and push you off course. As a lawyer, your greatest asset is your ability to earn income – not your home. Yet, many professionals who don't think twice about getting homeowners insurance, balk at ensuring they have proper disability income insurance. If something were to compromise your income your family could struggle to make ends meet or you could have a severely diminished retirement. According to the Social Security Administration, one in four people today will become disabled at some point in their career. That's why it's so important to protect as much of your income as possible with disability insurance.

Implementing a well rounded defensive strategy is critical to achieving sustainable financial independence and should address key issues such as estate planning, long term care needs and legacy planning.

The Bottom Line

Consider working with professional advisors that have the knowledge and resources to answer more than just the investment management aspect of your wealth. Retirement income distribution planning, estate planning, family gifting, charitable planning, and long-term care planning are all areas that should be integrated into your overall strategy. Together, they may pay major dividends in terms of financial security for you and your family for years to come.

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