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Unique Retirement Opportunity For Attorneys

In our practice as financial advisors who specialize in working with personal injury, family law attorneys, and their clients, we are often asked, "As an attorney, what is the best retirement option for me?" There is no one best option, but there are certain "best practices" that we have observed in our ten plus years of helping people achieve their financial goals. There are also unique opportunities available to attorneys which we will discuss herein.

Doing something is better than doing nothing!

Many people get that "deer-in-the-headlights" look when it comes to talking about their retirement strategy, typically because they do not have one. There are an infinite number of excuses for not contributing to your retirement savings (and we have heard them all!). The best advice we can give anyone regarding their retirement strategy is to have an idea of how much income you will need in retirement and start contributing *something*, right away, no matter what!

The simple habit of contributing on a regular basis is infinitely more important than the retirement or investment vehicles you use to implement your strategy. Once you decide to start contributing, make sure your contributions are made in the following order to ensure the maximum bang for your buck from a tax and cost perspective: employer qualified plans, e.g., 401(k), Defined Benefit, SEP, SIMPLE, etc.; Individual Retirement Accounts (IRAs); tax-deferred annuities; and, lastly, taxable investments.

Second in importance to making contributions is to start making those contributions early and this often means understanding how much you are going to need in retirement. For example, the monthly investment required to accumulate $200,000 (assuming an average annual rate of return of 7.00%) for someone with 35 years to retirement versus 10 years is $111 versus $1,156, respectively. A financial planning rule-of-thumb is to assume you will need 70% to 80% of your pre-retirement income. In retirement, some of your day-to-day living expenses, such as work-related clothing, will be less, while other expenses, such as medical costs and leisure-time travel, may be higher. Keep in mind that the income you'll want to replace is the income you'll be earning at the time you retire, not the amount you are earning now.

Ensure that your assets are properly allocated.

As we discussed above, the most important factors with respect to retirement savings are to contribute to your retirement on a regular basis and start as early as possible. Next in importance would be "prudent asset allocation" – a fancy investment term for not having all of your eggs in one basket, also known as diversification. Each individual's asset allocation for retirement is different depending on time to retirement, risk tolerance and personal preferences. General asset classes include cash, large, medium, small, and international company stocks, as well as fixed income (e.g. bonds), real estate, and hard assets such as gold and timber. As a rule-of-thumb, the longer one has to retirement the more stock-type investments their asset allocation would contain.

Once the appropriate asset allocation has been determined, it should not change unless: (1) there is a need to rebalance back to the original allocation after asset classes have appreciated or depreciated, although we do not recommend rebalancing more often than quarterly due to expense and profit considerations; (2) your risk tolerance has changed for some reason, such as health concerns or a change in your employment status; and/or (3) you are nearing retirement, in which case you will want to adjust your asset allocation every couple of years as you get closer to retirement, shifting away from less stable to more stable investments such as high dividend paying stocks and quality bonds.

Without the investments vehicles in which to implement your asset allocation, you're left with nothing more than a piece of paper with your asset allocation pie chart on it. So which investment vehicles do you select? Contrary to popular belief, this decision is not as important a factor in reaching your retirement goals as those we have mentioned thus far – regular contributions, starting early and asset allocation. Whether you are currently invested or interested in mutual funds, exchange traded funds, managed money, alternative investments, or active or passive investing, the investment vehicles you select should depend on the size of your portfolio, goals, risk tolerance and cost considerations. For example, if you want low cost and simple solutions, you may want to select index funds which represent the asset classes in your asset allocation and then review the allocation and performance on an annual basis, rebalancing as necessary as discussed above.

In addition to the standard retirement considerations discussed above, attorneys also have several unique retirement options available to them, as discussed below.

Structure your attorneys' fees using a Structured Settlement Annuity.

Attorneys who represent claimants who have been physically injured are familiar with the concept of using a Structured Settlement Annuity to provide tax-free, periodic benefits to their clients over time. These attorneys may also structure a portion or all of their fees, providing for tax-deferred benefits and a future stream of income specific to their individual and future income needs. This option is particularly useful for attorneys who are already taking full advantage of their employer-sponsored, qualified retirement plan, maxing out their IRA contributions, and/or have a desire to use future dollars for purposes other than retirement (e.g. education, firm overhead expenses). Additionally, Structured Settlement Annuities are not subject to the same age restrictions as traditional qualified retirement plans and annuities. However, as with any tax strategy, you should consult a qualified tax expert.

Convert the sale of your practice or highly-appreciated real estate into a tax-deferred pension plan.

We have a client who is a personal injury attorney for whom we provide Structured Settlement consulting as well as manage his personal retirement portfolio. This client is fairly typical of the attorneys with whom we work in that he has approximately one-third of his portfolio in traditional mutual funds and the other two-thirds in highly-appreciated real estate and his practice, which he someday plans to sell to his partners when he retires. Fortunately, there is a new type of financial instrument developed specifically for his situation – a Structured Sale Annuity.

A Structured Sale Annuity makes use of Internal Revenue Code §453, which addresses the installment sale of a business or personal property. An installment sale allows the seller to receive all or a portion of the proceeds from the sale of their business or personal property in installments versus in the year the sale is made, thus allowing the seller to realize the taxable gain in smaller amounts over a longer period of time rather than all at once. Future payments are guaranteed by an A+ life insurance company versus the business/property buyer.

In effect, a Structured Sale Annuity turns a highly-appreciated asset such as a business or investment property into an individually customized pension plan. Similar to other fixed annuity products, the payout is based on a fixed return guaranteed by a life insurer and may be structured as a combination of lifetime, guaranteed, inflation-adjusted, periodic, or lump-sum payments. However, unlike traditional annuities and IRAs, there are no age restrictions regarding when payments may begin (e.g. age 59 _ with most qualified retirement vehicles and annuities) nor are there rules about when distributions must be taken (e.g. age 70 _ with IRAs).

Due to the specialized nature of Structured Settlement and Structured Sale Annuities, these financial instruments may only be quoted and placed through an approved settlement consultant like White House Financial & Settlement Consulting, LLC.

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We hope that the topics discussed above provide some useful information pertaining to retirement savings in general and to attorneys specifically. Please feel free to contact us directly if you have any questions or specific files that we may assist you with.

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