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Wealth Management For Attorneys

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Law360, New York (October 29, 2015, 11:55 AM ET) -- Minimizing tax liabilities is one of the most critical aspects of wealth management, and it's an issue underlying any number of financial decisions, especially those relating to income and how (and when) it's earned. As the curtain begins to fall on 2015, it's especially important for attorneys associated with firms operating on a Dec. 31 year-end to finalize their tax planning strategies and to do so in the context of their overall financial objectives.

One of the biggest challenges is identifying and establishing a relationship with a financial adviser who understands the unique demands facing attorneys, especially those attorneys pursing an equity partnership or who have already attained that status.

Broker v. Registered Investment Adviser

In your own capacity as a fiduciary, you understand why it may be in your best interests to align yourself with an adviser who is committed to adhering to the standards the U.S. Securities and Exchange Commission imposes on RIAs. More specifically, RIAs are legally obligated to:

- Place clients' interests above their own interests and disclose any potential conflict of interest that may prevent them from doing so.
- Perform the due diligence required to provide clients "complete and accurate" advice.
- Adhere to a "best execution" standard.

Brokers, by comparison, generally are not fiduciaries and are held to less stringent standards, which require only that they reasonably believe the investment advice they offer is consistent with their client's best interests, financial objectives and unique circumstances.

Budgets/Cash Flow

It's important to have an accurate accounting of your financial situation because your balance sheet is the foundation for estimating your monthly cash flow and your accumulating investable assets. The balance sheet will also be a useful tool in developing your annual savings goals in the event your income is either "lumpy" or weighted toward year-end. If you don't have a balance sheet, create one or ask your CPA for assistance.

In addition to estimating your annual earnings, you must have a good reading on your firm capital obligations and how you are or will be funding those obligations, and on your profit sharing prospects.

There are many variations of profit sharing and equity compensation plans. Examples include lockstep, seniority or incentive-based, and objective or team-based. Each of these and other variants has its strengths and weaknesses. Understand your options and discuss the related financial implications with your investment adviser.

As an equity partner, you will be required to make estimated quarterly tax payments, and you also need to consider such other ongoing obligations as various insurance premiums and retirement plan contributions. And don't overlook your firm's "financial health and overall well being" and how it may or may not impact you.

Liquid Assets/Financial Objectives

While there may be exceptions, the majority of your portfolio should be dedicated to supporting long-term goals. These might run the gamut from paying off existing debt to purchasing a second home, but one of the best examples of a long-term objective is to maintain a certain standard of living when you retire.

When properly structured, your portfolio will give you access to cash and/or a line of credit and/or loan provisions while your capital remains invested. And interest paid on a loan to fund your capital contributions to your law firm qualifies as investment interest and can be deducted from your annual income when calculating net taxable income.

Experience/Ongoing Support

The answers to the following questions may lead to other relevant questions but the overarching objective is to have a frank, open dialogue with your prospective adviser or current adviser as and if appropriate.

- How long have they been providing financial advice?
- How many clients do they have?
- How many are attorneys/equity partners?
- What licenses do they hold?
- Are they well versed in the areas of life and disability insurance, retirement planning, and taxation?
- Do they maintain relationships with other advisers such as accountants, bankers and tax attorneys?
- What are the total assets under their direct management?
- Are they a "sole practitioner" or do they work with a team?
- In the event they work with a team, which team members and/or third parties own equity in the practice?
- How often will they meet with you to review your asset allocation and overall financial status?

Investment Strategy

In the event you're interviewing a prospective adviser, ask whether they would use an "off-the-shelf" asset allocation plan or a customized plan designed to reflect your unique financial profile and objectives.

On the other hand, if you're discussing this subject with your current adviser, make certain you have a clear understanding of the rationale they employed in structuring your asset allocation plan. These are the types of questions you should be asking:

- What specific investment vehicles does your portfolio comprise?
- Why do you own what you own?
- How are your investments performing against agreed upon industry benchmarks?

We're not advocating being a micromanager but it is your responsibility to maintain a clear understanding of the rationale behind the investment decisions being made on your behalf.

Retirement Plan

There are any numbers of questions/issues that merit exploring with regard to your retirement plan. Here's a sampling:

- Where are the assets invested?
- Is this plan coordinated with your investment portfolio's asset allocation plan?
- When/where are you planning to retire?
- Do you intend to continue working after you retire?
- Do you have a spouse or significant other who is also working and accumulating retirement savings?
- Have you and your adviser discussed all of the tax implications relevant to your situation?

Final Thoughts

Assuming you have someone you're currently relying on for financial advice, perhaps you're perfectly satisfied with the arrangement. On the other hand, you may have a question or two about certain aspects of that relationship and/or the investment strategy being employed on your behalf.

Do your due diligence and while you're doing so, make no apologies. You have every right to have the very highest expectations of your financial adviser, present or future, just as your clients have every right to have the very highest expectations of you.

—By Stuart Riemer, Treasury Partners

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