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A New Year’s Financial Checklist Every Attorney Should Follow

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Several years ago, I met with an attorney with a large Atlanta law firm who was nearing retirement. He lived a nice lifestyle that included multiple homes and funds to cover a private education for his children and a country club membership.

But because of his long hours at the office, he didn’t develop a financial plan and spent whatever amount of money he brought home. Planning his financial future was never a priority, so when he was ready to retire, he had not saved any money outside of the required retirement plans at his firm. As a result, he didn’t have enough money to continue funding his lifestyle. It was a huge reality check to learn that he would have to keep working or his lifestyle would have to change.

I work with several attorneys in metro Atlanta and other parts of the country to help them develop a plan to manage their wealth. As we approach the New Year, annual bonuses will be distributed soon, so now is the time to develop a plan to meet your financial goals for 2019 and beyond. A financial strategy that is easy to manage is so important to help busy attorneys pay taxes, save for retirement and other goals, and have the cash flow needed for living expenses. Here are five fundamental steps any attorney should consider right now:

1. Know Your Tax Situation

Let your Certified Public Accountant know the amount of your final earnings distribution/bonus and your 2019 budgeted income. With knowledge of your tax situation, your CPA can estimate the amount needed to be paid in for 2018 and lay out a plan for making quarterly estimated tax payments for 2019.

One recommended strategy for managing your tax payments is to set up a separate money market account to hold your tax funds so that they are not comingled with cash used for daily spending needs.

2. Automate Monthly Finances

It’s important to have a strategy in place for your monthly budgeted income so that you can set aside funds for savings goals, pay quarterly estimated taxes and have enough cash left for monthly expenses.

Set up a plan to automatically transfer money into your tax and investment accounts automatically each month, then spend the rest. This is an effective strategy to keep busy attorneys on track.

3. Don’t Waste Your Earnings Distribution – Have a Plan!

It’s important to have a specific financial plan on how to spend your earnings distribution or bonus. And it’s best to have a plan in place before you receive it (and the distribution gets spent). For equity partners, there is no “sale” of equity at retirement, so the earnings distribution should be considered a partial return of equity each year. Consider allocating the funds to three main categories:

- Taxes (see #1) – Plan to set aside funds to pay the 2018 taxes due (as determined by your CPA) and begin to set aside the necessary funds for 2019 estimates if needed.
- Investments - Review your financial plan and pay yourself first before spending any annual bonus. Determine how much of the year-end distribution should be invested toward financial goals such as retirement and college education for children and grandchildren. Saving early and often is the best way to reach your financial goals due to the time value of money.
- Large Expenses in 2019 – Try to plan ahead for larger ticket items that you are expecting to pay for in 2019. These expenses include private school tuition, family vacations and home renovations.
- Surplus – If there is anything left, spend it and enjoy the fruits of your labor!

4. A Smart and Legal Loophole - Fund a Roth IRA Every Year Using the “Backdoor” Funding strategy

Roth Individual Retirement Accounts can provide tax-free earnings each year as well as tax-free distributions (as long as they are qualified) – both provide significant benefits for people in higher tax brackets. High income earners are not eligible to contribute directly to a Roth IRA. But people that don’t contribute any pre-tax money into a traditional IRA can use a “back door” strategy to fund a Roth IRA.

In 2019, high income earners can make non-deductible IRA contributions up to $6,000 (or $7,000 if age 50 or over). Since the contributions are made “after-tax”, they can be converted to the Roth IRA the following day without any tax impact.

But be careful: if you already have a large, pre-tax IRA in place as this can impact the tax benefit of the “back door” strategy.

Here’s how it works:

Step 1: An attorney earning $500,000 annually makes a $6,000 contribution to her traditional IRA (assuming it has a zero value). For high-income earners, these contributions are typically non-deductible on federal income taxes. In 2019, IRA contributions will be fully deductible when Modified Adjusted Gross Income is less than $64,000 for singles and $103,000 for married couples. If incomes are above these levels, taxpayers may receive a partial deduction or no deduction at all.

Step 2: Convert it to your Roth IRA! The conversion is tax-free because the contributions to the traditional IRA were not deductible. As a result, all earnings on the $6,000 contribution going forward are tax free. Retirement withdrawals are also tax-free, and Roth IRAs are not subject to the Required Minimum Distribution rules.

5. We’re In the 10th Year of a Bull Market – Review Your Investment Asset Allocation

Now 10 years into the longest bull market in history, we are beginning to see the return of volatility to the equity markets. Make sure your assets are allocated appropriately with your goals and that your investments are not overly aggressive for your risk tolerance. Review the asset allocation of each investment account and of your investments as a whole and rebalance your accounts as needed.

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