



Things to Know About Your Finances

FINANCIAL PLANNING BRIEF FOR **BIGLAW ASSOCIATES**

Concert Financial Planning is uniquely positioned to understand the specific financial challenges and opportunities that BigLaw Associates face during this phase of your career, and how to prepare for the next. This brief explores those challenges and opportunities and provides actionable recommendations to be carefully considered.

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More information on the author and Concert Financial Planning can be found on page 12 of this brief and at www.ConcertPlanning.com.



1 / What is unique about your financial situation?

Generally speaking, many professionals start their career in a relatively similar position: your greatest financial asset is the value of your future earnings. As a BigLaw Associate, however, there are some unique characteristics about your financial circumstances that will greatly influence your financial path forward.

YOU HAVE MORE STUDENT DEBT THAN MANY OF YOUR PEERS

As a result of your extensive education, you will likely begin your career with more student debt than the average professional entering the workforce. In addition, your high income may prevent you from qualifying for some of the student loan forgiveness programs available to others.

YOU EARN AND MAY RETIRE WITH SIGNIFICANTLY MORE ASSETS THAN MOST AMERICANS

On average, you will earn an income that is significantly higher than that of your peers that do not have your level of educational and professional achievement. The income disparity only increases over time and has major implications for spending, savings, taxes, and avoiding the people and financial products that will separate you from your wealth.

YOUR WEALTH MAY NOT GROW IN A STRAIGHT LINE

You may face a temporary or permanent dip in your income within the first ten years of practicing as you transition from an Associate into the next phase of your career: partnership, senior counsel, in-house, or something completely different.

Keeping these and other important factors in mind, this “brief” is meant to be a guide – pointing out both the opportunities to take advantage of and pitfalls to avoid.

2 / Optimize Savings

There are countless ways to use the sizable income you'll enjoy as a BigLaw Associate. Prioritizing how to save should be at the top of your list. While each person's situation may be different, you can get a basic understanding of the different types of accounts to use to help determine your own "Savings Waterfall".

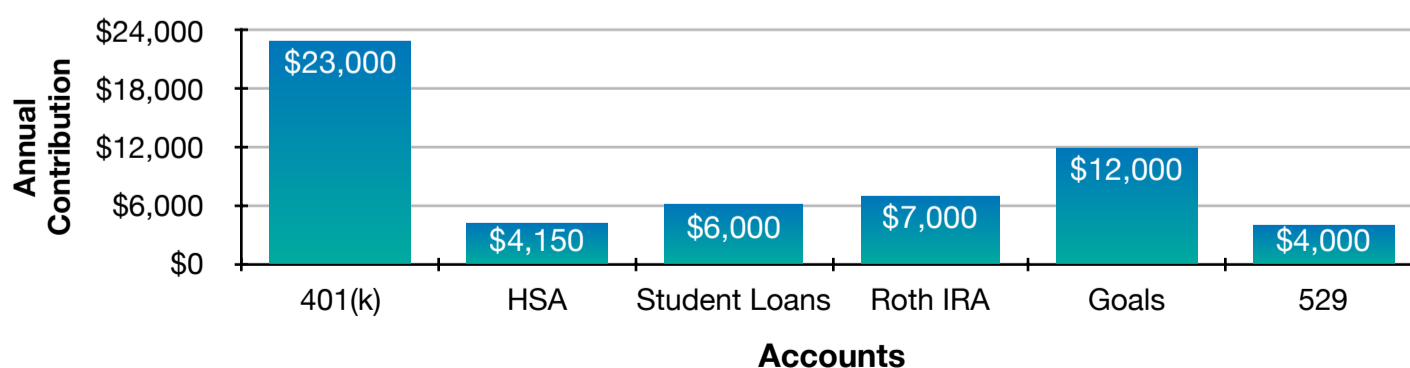
ACCESSIBLE SAVINGS: EMERGENCY FUND AND TAXABLE INVESTMENT ACCOUNT

- **Emergency Fund** - It is wise to keep enough cash or liquid assets on hand to cover your living expenses for 4 - 7 months. Some people choose to keep more cash on hand based on their specific risks, but it's important to remember that inflation is a major risk to cash.
- **Taxable Investment Account** - Taxable investment accounts, a/k/a brokerage accounts, are accounts for which the interest, dividends, and any capital gains are taxable in the year the interest or dividends are earned or the capital gain is captured. Taxable savings are generally more readily accessible than tax-advantaged savings, discussed below. All things being equal, a taxable investment account may be used for shorter-term goals and/or after savings into tax-advantaged accounts have been maxed out for the year.

TAX-ADVANTAGED SAVINGS: 401(k), HSA, IRA, & 529

- **Traditional and Roth 401(k)** - These are offered by an employer and allow you to choose when you want to pay taxes on your savings. You may contribute to both types of accounts, but you cannot exceed the annual contribution limit in combined contributions.
- **Health Savings Account** - HSA's are among the most tax-advantaged investment accounts. Qualified contributions are tax-deductible, grow tax-deferred, and qualified distributions are tax-free. This is known as the "triple tax advantage" and is very rare.
- **Traditional and Roth IRA** - You will probably have the enviable problem of making too much money to (i) take the tax deduction for contributing to a Traditional IRA or (ii) contribute to a Roth IRA directly. However, there is a strategy that allows you to contribute to a Traditional IRA and convert to Roth. Beware of the Pro Rata Rule!
- **529 College Savings Plan** - If you need to plan for future college costs, a 529 can be a good option. Contributions grow tax-deferred and qualified distributions are tax-free. There are potential penalties for non-qualified use, so it is important to determine whether a 529 account is appropriate for your goals.

Hypothetical Savings Waterfall

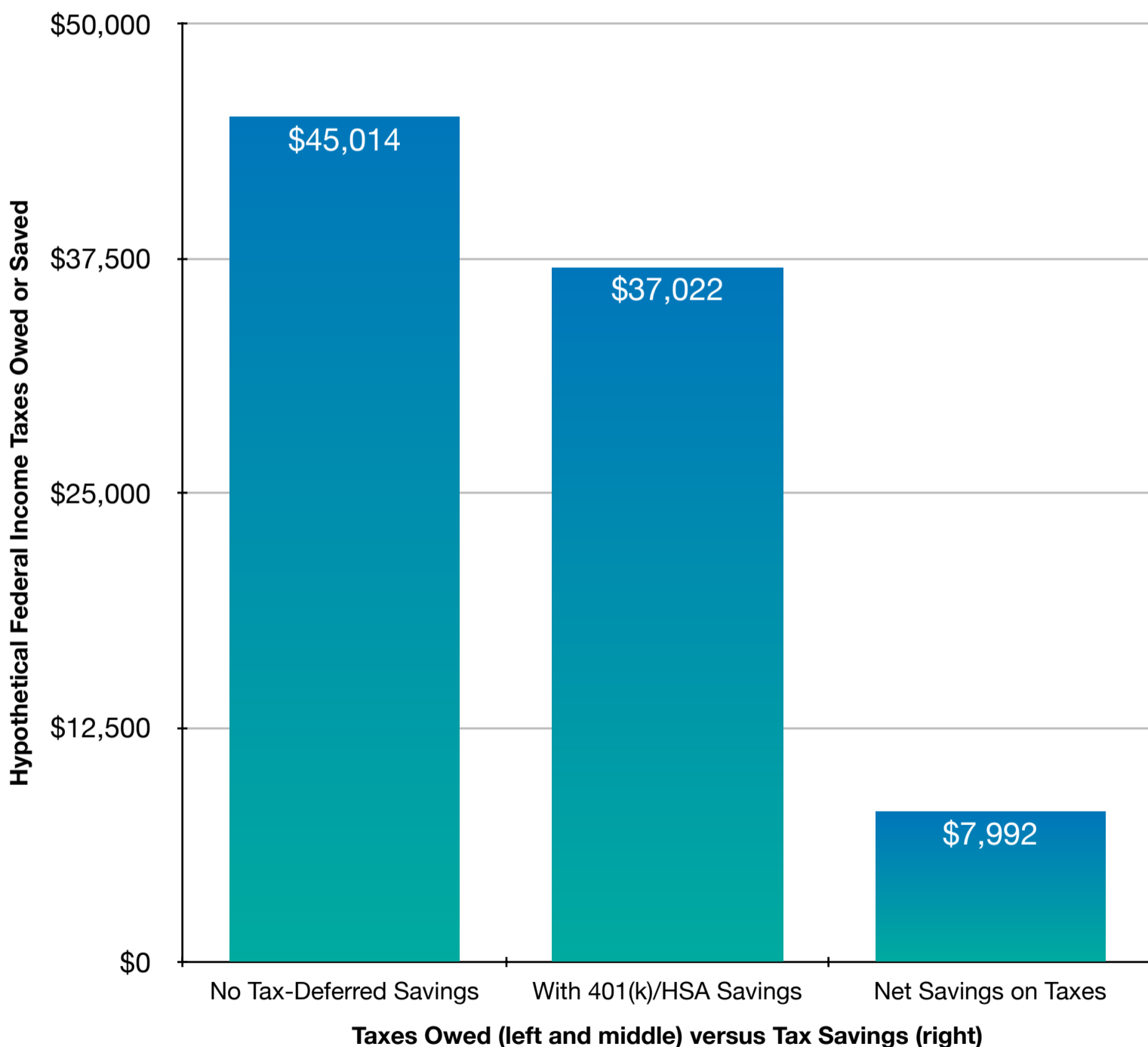


401(k), HSA, and IRA Limits as of 2024; Excess Payments on Student Loans; Goals and 529 Savings Vary

3 / Reduce Taxes

There are many legitimate ways to manage your tax bill each year so you keep more of your earnings. As your income increases, the need to mitigate your tax burden increases as well. Consider a single filer earning \$225,000 gross income in calendar year 2024. That person may expect to pay about \$45,000 of their income in federal income taxes (not including FICA and/or NIIT taxes), in a simplified case. However, by maximizing contributions to just a couple of tax-advantaged accounts, total tax may decline to roughly \$37,000. This is a potential savings of about 18%, or \$8,000, that can be put to work more efficiently for paying down debt, investing, or saving for goals.

Optimize Savings to Reduce Taxes



Based on a Single Filer Making \$225k Gross Income and Taking the Standard Deduction. No Other Material Circumstances Considered. Assumes maximum contribution to 401(k) and HSA for 2024.

3 / Reduce Taxes (cont.)

Asset Location / Tax Location

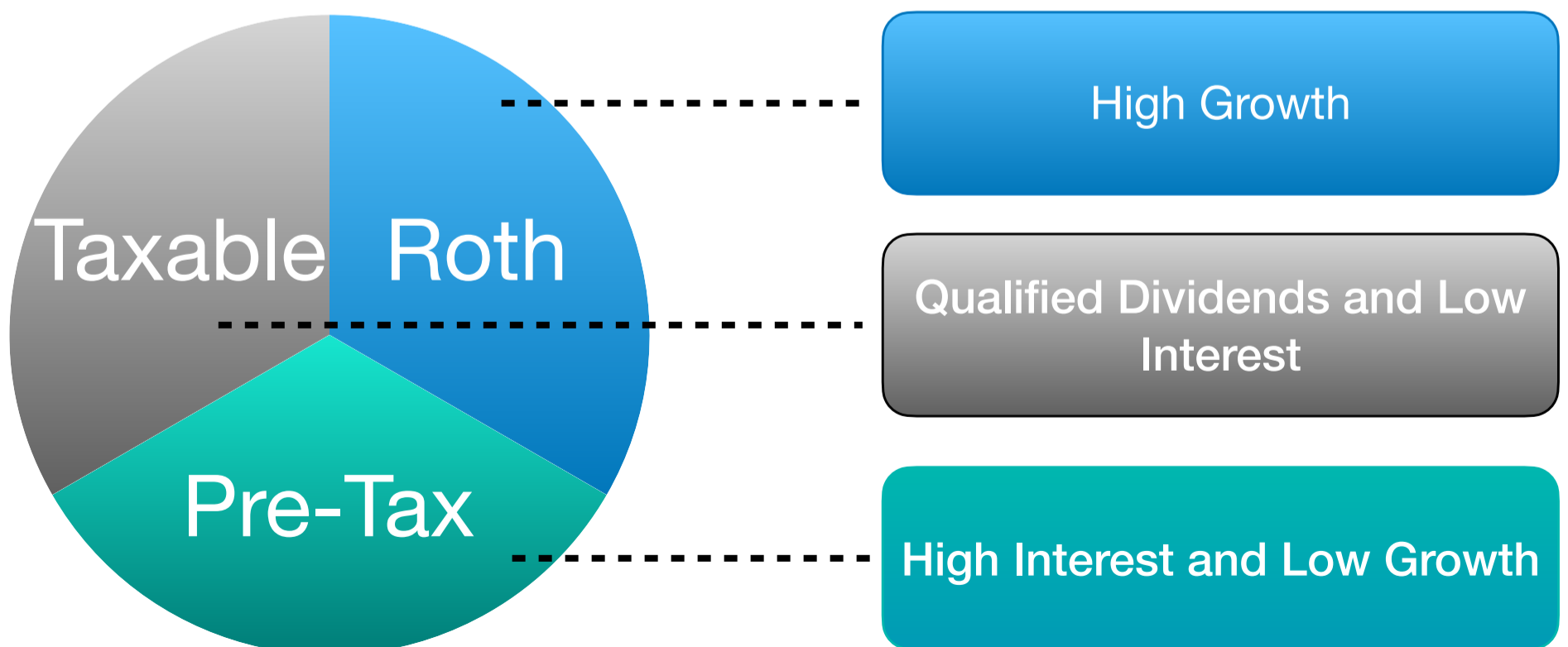
Utilize the varying tax characteristics of your investment accounts to manage how your investments add to your taxable income each year. In general, there are three types of investment accounts:

- **Taxable / Brokerage** - Any capital gains, dividends, and/or interest is taxable to you in the year they occur.
- **Traditional / Pre-Tax** - Money contributed to the account reduces current taxable income. Any capital gains, dividends, and/or interest is tax-deferred until you withdraw money from the account.
- **Roth** - Money contributed to the account does not reduce your current taxable income, but any capital gains, dividends, and/or interest is never taxed again.

Correspondingly, there are generally three types of tax rates you may incur:

- **Capital Gains** - Capital gains are generated when you sell an asset (like a stock or bond) at a higher price than you bought it. These tax rates may be lower than your ordinary income tax rates.
- **Dividends and Interest** - Dividends are paid by stocks and interest is paid by bonds. Both are generally taxed at your ordinary income tax rate, which is typically your highest rate.
- **Qualified Dividends** - Qualified dividends are regular dividends paid by stocks but then qualify for preferential tax treatment, whereby they may be taxed at the capital gains rate, which again is typically lower than ordinary income.

You can then break up your investment portfolio into its component parts and place the holdings in the most efficient account from a tax perspective:

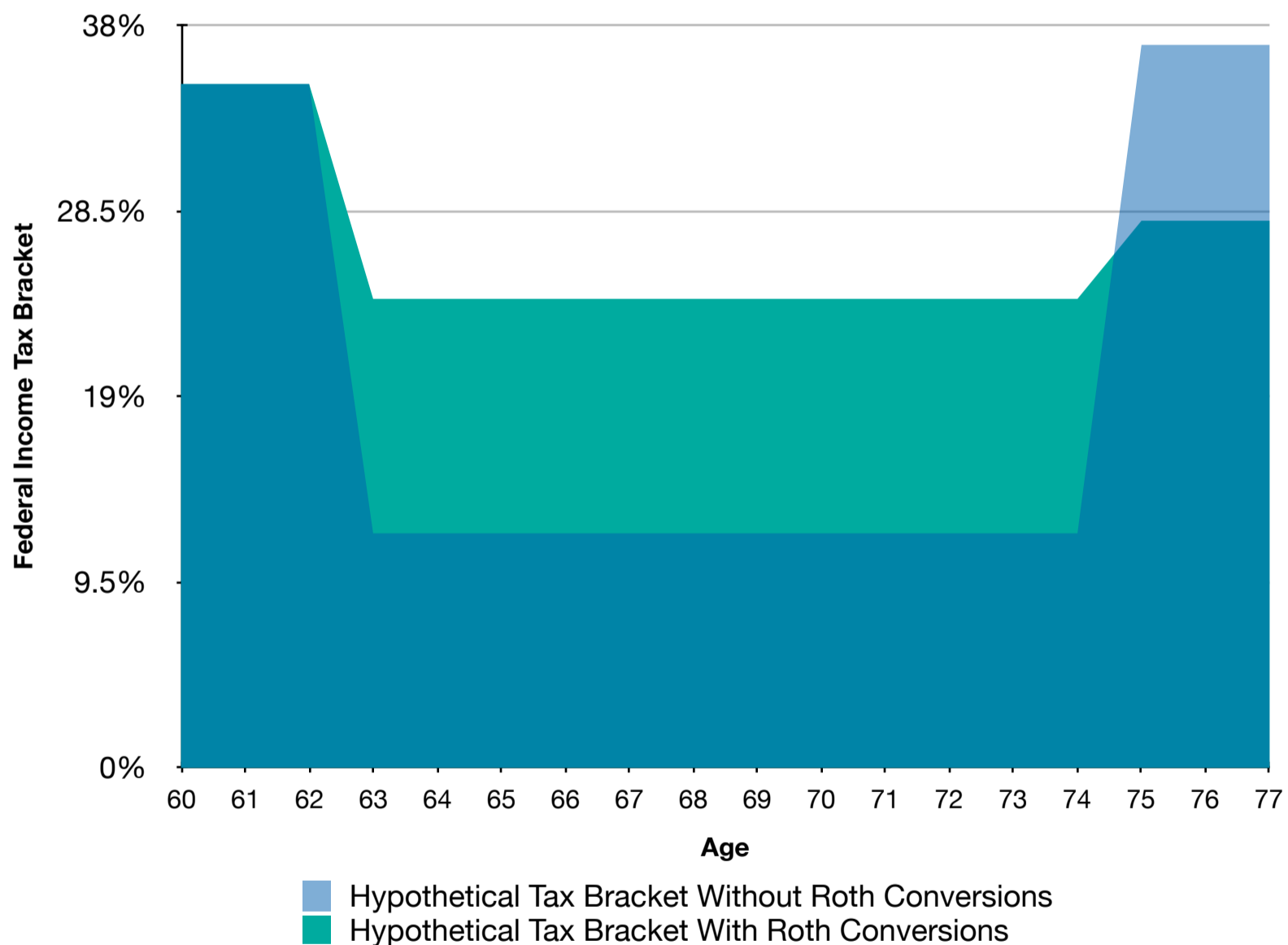


3 / Reduce Taxes (cont.)

ROTH IRA CONVERSIONS

Make use of relatively low-income years to adjust your overall financial picture and improve your long-term tax position. Lower income years may occur as you transition from an Associate to your next role or as you transition from full-time employment to retirement. The specifics of this strategy and others are beyond the scope of this brief, but we can help estimate your potential tax burden over time and consider ways to smooth payments and/or reduce your lifetime tax bill.

Roth Conversion Strategy Example



Each person's situation will be different, but the concept is to voluntarily increase taxable income in years when your taxable income would otherwise be very low, thereby preemptively paying taxes at a potentially lower rate than you might later in life when pre-tax dollars are forced to be withdrawn and taxes paid, via Required Minimum Distributions (RMD's).

4 / Manage Debt

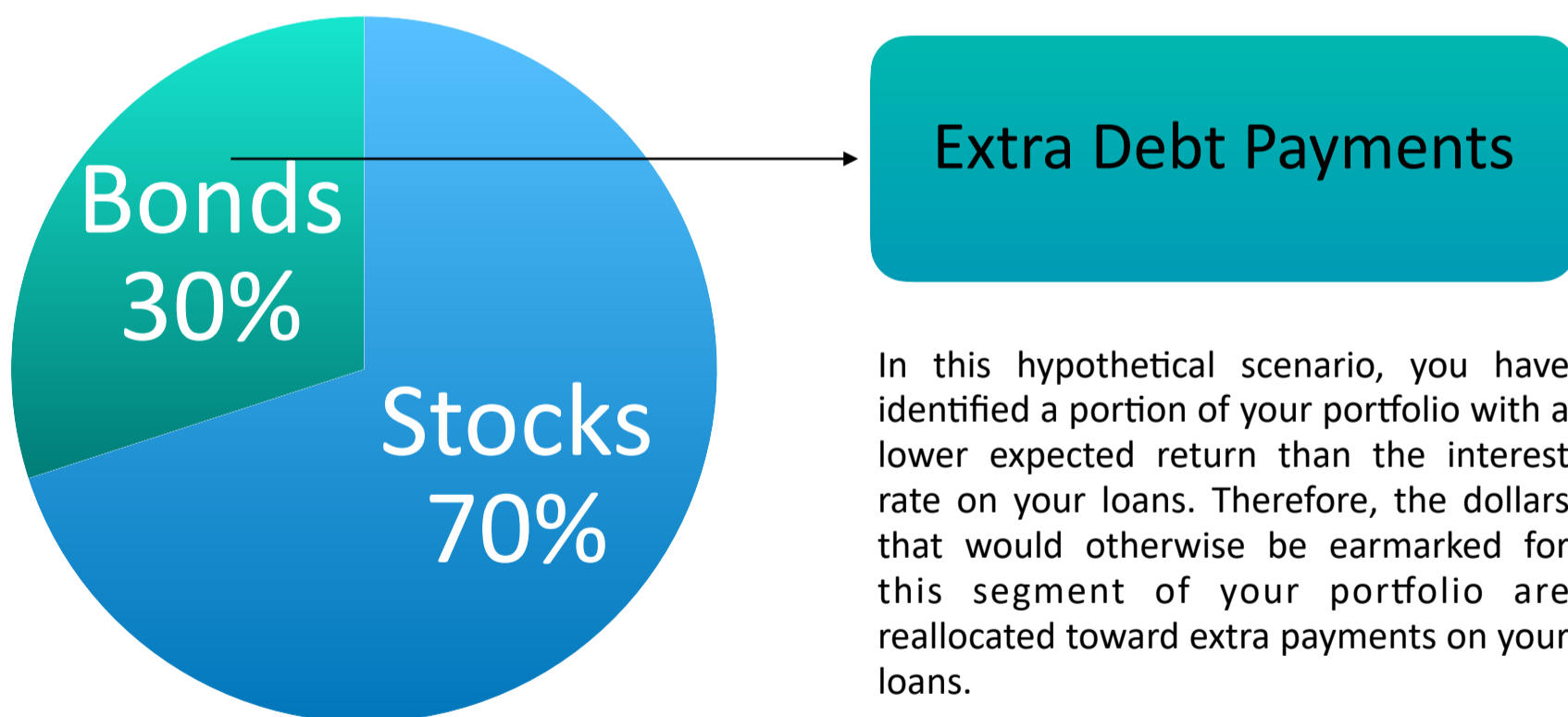
The most frequent question we are asked by BigLaw Associates is how to balance the repayment of student loan debt with short-term and long-term goals, like buying a house, raising a family, and saving for retirement.

THREE GENERAL APPROACHES TO REPAYING DEBT

1. Pay the minimum and invest the rest
2. Pay down the debt aggressively as a first priority, and then move on to savings and goals
3. Coordinate the debt repayment with your long-term investment plan

YOU'RE FAMILIAR WITH OPTIONS 1 AND 2; HOW WOULD OPTION 3 WORK?

Essentially, you can consider the “expected return” (this has a specific meaning in finance) of the various asset classes you are investing in, and compare it to the interest rates on your student loans. In cases where the “expected return” is lower than the rate on your loan, you may choose to allocate those dollars to extra payments on the student loan for a guaranteed savings on interest. This is a complex strategy and requires analysis beyond the scope of this brief, but can be generally illustrated below:



This can be a very satisfying way to balance the repayment of your student loans with your investing goals because it prescribes a specific split between the two and is based on some degree of optimization. But again, this is a complex strategy that requires a deeper analysis than is shown here in this example. Maintaining liquidity in your investment portfolio is paramount, for example.

4 / Manage Debt (cont.)

Debt most often carries a negative connotation and, understandably, many people strive to live without it. As with most financial concepts, however, there is a lot of nuance to consider to approach debt strategically.

PAYING OFF STUDENT LOAN DEBT MAY NOT BE THE TOP PRIORITY

This is one of the most emotionally-charged topics in financial planning for attorneys. The debt you likely incurred during your undergraduate and/or law education can feel like an enormous burden you cannot wait to lift. There are scenarios, however, in which it may make sense to focus on other financial priorities as you pay down your debt on its regular schedule. Factors such as the types of loans you have and their interest rates should be weighed against the status of other financial priorities such as:



Emergency Cash Reserves

Maintain your lifestyle should you temporarily lose employment or choose to take time off.



Disability Insurance

Private insurance can close the gap between the coverage your firm offers and your typical income.



401(k) Plan Contributions

If your firm matches your deferrals, think of their match as a risk-free return on your investment.



HSA Contributions

Your firm may also make matching contributions to your triple-tax advantaged Health Savings Account.

THERE IS SUCH A THING AS “GOOD” DEBT

Good debt is debt that frees up your capital to be put to more productive use. Said another way, good debt should carry an interest rate that is lower than the return you would expect to make investing the same amount of cash in a more productive asset. In this context, a “more productive asset” does not necessarily mean stocks or bonds, although it may.

A more productive asset may include:



Student Loans

If your degree is used to earn a high level of income to form a life-long financial foundation.



Mortgage Debt

A home is a rare use asset that may actually increase in value over time.



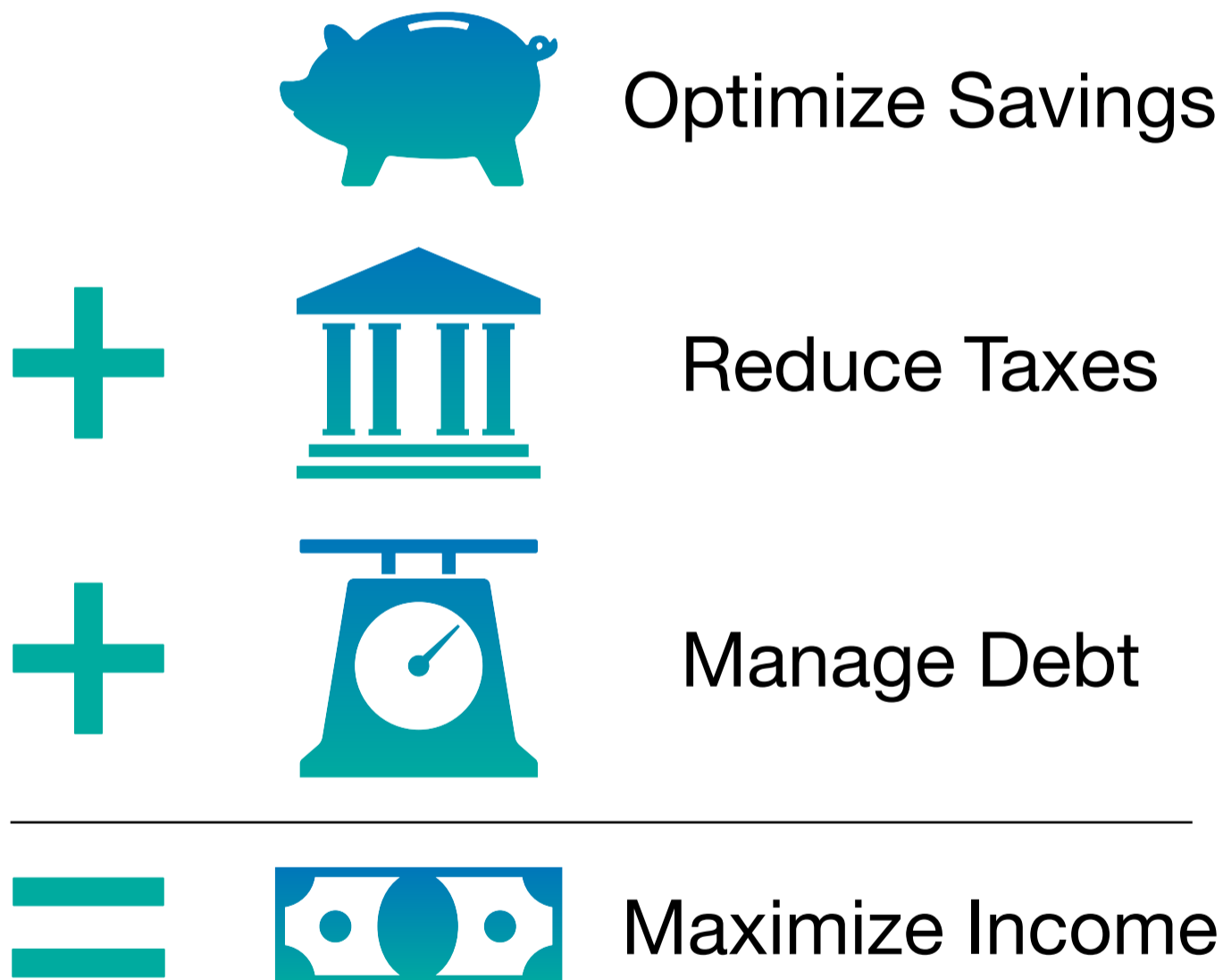
Big-Ticket Purchases

A big-ticket purchase, like a major home improvement, may call for the responsible use of debt.

5 / Maximize Income

Although the specifics of each firm vary, most BigLaw Associate Attorneys have one thing in common, regardless of firm: a ton of cash is being thrown your way at the expense of more fancy benefits packages. For example, you're likely not receiving much of a 401(k) match from your employer, if at all, nor are you likely receiving compensation in the form of equity.

This high cash/low benefits dynamic is all happening right when you start your career, with little to no runway to ease into the management of it. Therefore, it is imperative that you address the three things we have previously discussed as soon as possible, in order to make the most out of your high income and hard work:



Optimize Your Savings by using the right types of accounts and holding the right types of investments within those accounts. **Reduce Your Taxes** by being smart about tax-favored investments and “good” debt. **Manage Your Debt** by prioritizing the right payments and knowing which repayment plan is right for you.

By focusing on these 3 strategies, you can be confident that you are **Maximizing Your Income** and setting yourself up for financial freedom!

6 / Plan for Your Career Path

PARTNERSHIP

If you are considering going for Partner, see our Brief for BigLaw Partners and start planning now. Your compensation as a Partner may change in structure, frequency, and/or amount relative to your years as an Associate. In addition, your benefits will likely change.

For example, you may need to prepare to finance roughly 1/3 of your target comp for an equity buy-in. From a benefits and cashflow perspective, you may have to make mandatory 401k contributions as the “employer” of the firm and/or be required to cover the full cost of health insurance. Overall, you may need to plan for a lower monthly cashflows via “draws” on your target comp before receiving the true-up distribution in the following calendar year.

SENIOR COUNSEL

Many BigLaw Associates decide to become Senior Counsel or similar title in order to balance the demands of work with the desire to have more time to focus on things outside of work. While this choice may not be known well in advance, or at least not articulated to peers well in advance, it is nonetheless critical to plan for your financial security in light of the expected change in income.

IN-HOUSE

Moving from a BigLaw firm to a role as in-house counsel can be a major shift in mentality and day-to-day work life, as well as finances. Not only will your compensation structure likely change to incorporate a wider variety of incentives (stock, options, grants, etc.), but your benefits package may also be very different from that which you’ve grown accustomed.

PRIVATE PRACTICE

Embarking on your own as a solo practitioner can be an incredibly rewarding path to take, and also offers some unique financial planning opportunities allowing you to save considerable sums of money in a short amount of time. But it also means that you will need to provide for your own benefits among myriad other aspects of business management that will be your sole responsibility. This path is not for the faint of heart, but it is rife with opportunities for enhancing your financial security!

AND NOW FOR SOMETHING COMPLETELY DIFFERENT

Some readers of this brief may intend to leave the field of law completely after saving as much as possible as an Associate Attorney. You may plan to spend time doing something for which you have developed a passion, knowing that you have built an incredible base of financial security. These types of transitions are as unique as the people that go through them, but almost always require significant advanced planning to execute them well.

About the Author

Matt Smith is the Founder and Lead Advisor of Concert Financial Planning (“CFP”), which is a ***Fee-Only, Fiduciary, and Independent*** Registered Investment Advisor in Houston, TX. CFP focuses on helping BigLaw Attorneys organize and optimize their financial life. Most of our client families have at least one attorney spouse, and of course we serve the whole family regardless of profession.

Matt earned his B.A. in Economics from the University of Texas at Austin in May 2004 and has earned a series of licenses and accreditations including the Series 65 License, the Chartered Financial Analyst (CFA®) designation, and the Certified Financial Planner (CFP®) designation, among others. You can find a full list of Matt’s credentials at www.ConcertPlanning.com/Credentials.

Matt founded CFP in 2019 after spending 14 years working for two large asset managers, where he developed an expertise in investment analysis, portfolio construction, and financial planning. During this period, Matt consulted with and educated hundreds of financial advisors across the central U.S. on his companies’ funds, economic and market outlook, and investment strategies.

Matt also saw how the financial services industry works from the perspective of a product developer whose clients were distributors – a/k/a “financial advisors”. He saw an antiquated business model that relies on selling financial products for commissions that are often hidden from client view, and/or focusing attention on retirees that have built up a large nest egg from which to draw management fees.

Matt decided to launch his own firm to serve his contemporaries, and to do so in a modern way. He is compensated in a ***Fee-Only*** manner, meaning no commissions, kick-backs, or product sales; he acts as a ***Fiduciary***, meaning he is bound legally and ethically to act in the client’s best interest at ***all times***; and he is ***Independent*** of shareholders or other stakeholders whose interests may not align with those of his clients.

MATT IS A MEMBER OF THE FOLLOWING PROFESSIONAL ORGANIZATIONS:

NAPFA / Fee-Only Network / XY Planning Network / CFA Society of Houston / CFA Institute

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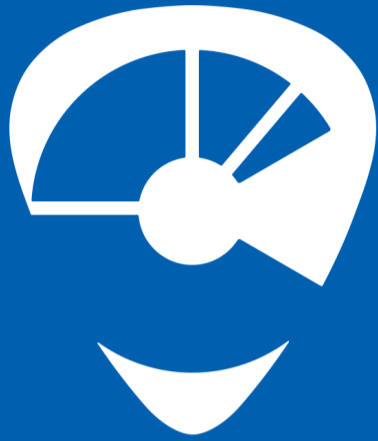
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