

Accounting and Financial Planning

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Retirement Planning: Develop an Exit Attitude that Directs Business Strategies

By Joel G. Block

Traditionally, our economy has generously rewarded lawyers. Many attorneys earn a substantial income and live well during the course of time that they practice — the key words being “during the course of time that they practice.”

But what happens when they no longer practice? Unlike product-based companies, a lawyer’s primary product is his/her level of expertise and the accompanying inventory of skills and experience that go with it — intangibles on which no price tag can be hung. In most cases, attorneys simply have few saleable tangibles with which to feather their retirement nests. In other words, when they no longer practice, they no longer have an income-generating vehicle. While some lucky few may be able to sell their practices, many others will not.

So what should they do to plan for retirement? To employ a cliché, “the best defense is a good offense.” Retirement planning for attorneys means adopting a new attitude, an exit attitude that directs their business strategies and exit actions. This attitude breaks down into three parts:

- **Reality check.** This is a consciousness that recognizes there may not be a liquidity event that yields substantial cash at the time of retirement; therefore, attorneys need to take care of themselves in terms of planning for an adequate retirement.

- **Build cash.** Address this financial reality by developing a strong business that throws off a maximum amount of cash.

- **Create a personal investment plan.** Take a share of the cash off the table and put it into vehicles to secure attorneys’ retirements, rather than depend solely on firm-sponsored instruments.

Reality Check

Ms. Smith is an attorney and partner in a successful

law firm. The firm has succeeded in building a prosperous team. Over the years, the well-run firm attracted a strong contingency of legal expertise. A synergy developed from the menu of specialties that became available to clients as the firm grew. Revenues exceed \$3 million annually.

Ms. Smith has a client, Mr. Jones, who owns a thriving widget factory making more than \$3 million annually. Both the attorney and her client are successful individuals with strong revenue streams, but that’s where the similarities stop when it comes to the valuation of their respective businesses and retirement planning. Mr. Jones can reinvest a considerable percentage of the profits into expanding his business so that over time it will accrue good will or value for someone who will pay substantially to buy it. The money from this sale can be the lion’s share of Mr. Jones’ retirement fund.

That’s not likely to be the case for the attorney. Why can’t Ms. Smith sell her share of the firm to her partners for a significant price? The reality is that customers may not care who makes their widgets, but clients care a lot about which attorneys handle their legal matters. Her clients may or may not stay with the firm when she leaves. The senior partner may be able to transfer client contact and client responsibility to another partner, and Ms. Smith’s client relationships may survive with another partner. Regardless, Ms. Smith will likely get her share of the firm’s receivables on her departure and may get some buyout. In other words, the survivorship of the practice is not the key to her exit strategy.

What is key for Ms. Smith’s exit planning is to realize that she cannot base her retirement plans solely on her firm. Her exit strategy must focus on what she must do to take care of herself. If anything comes from the firm when she exits, it should be considered a bonus.

Build Cash: Develop A Strong Business

“If you’re going to plan for financial security at retirement, you have to have the finances with which to plan. That happens by developing business,” advised Lyndon J. Parker, recruiting manager for The Affiliates, a leading legal staffing and consulting business. “Go back to the basics of business development as the key element to getting where you’re going.”

Go back to the basics of business development. In the case of an attorney, it means building a strong business, a strong firm that generates a lot of cash. There are a dozen criteria that could define the strength of a law firm. The tangible or quantitative aspects include the backlog of cases, the receivables, and the quality and quantity of the clientele. There are also intangibles by which the strength of a law firm is judged, such as its culture (the elements that make the behavior of one member of the firm similar to the behavior of any other member; continuity in the quality of the advice being given) its cohesiveness (most law firms are a partnership legally and in spirit), and its practice areas (degree of skill, flexibility, diversity). Building a strong law firm is no simple task. The business may not flourish without sufficient attention to the following areas:

• **Professional Management**

A flourishing law practice as a key component of an exit strategy relies on good management and leadership to run the firm on a full-time basis. Keith Sharp of the Los Angeles-based partnership of Falk & Sharp said that “most firm practitioners don’t have the time and/or foresight to consider [the details of business management]. Financial management and planning expertise are very important, and most attorneys are not equipped with these skills.”

Ideally, professional management means nonlawyers dedicated to the full-time job of managing the daily affairs of the business, the tangibles, so that the attorneys can focus on doing what they do best. Attorneys can generate more income and build a stronger practice by serving clients than they can by getting involved with the day-to-day business operations.

Consider this scenario: Ms. Smith serves her clients and generates 2,000 billable hours per year, a reasonable goal. She bills \$300 an hour for her time, which is \$600,000 in potential revenue. A professional manager is employed at an annual salary of \$150,000 to \$250,000. Although the firm has the overhead of the manager’s salary, without the time that the manager frees up, she wouldn’t have had the opportunity to generate the billable dollars.

In smaller firms, the senior person or the managing partner may function as the business manager. Attorneys who run their own firms have to commit to investing the energy to become better managers, which

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includes acquiring the management skills that enable them to be more effective. The American Bar Association, as well as some local bar associations offer seminars and training in law practice management.

• **Strategic Planning**

The strategic planning process is important to building a business because it forces partners to make tough, critical decisions about the course that they want to set for the firm. The plan should focus on:

- Practice areas and culture.
- Types of clients that they will serve.
- Billing terms (hourly or contingency).
- Work ethic expected. (Do we work on Saturdays and evenings? What is our attitude toward spending time with family?)

• What part, if any, the firm will play in retirement planning for its partners and employees — 401(k), annuities and so on, and investment planning for firm growth.

The use of outside facilitators to help with the development and implementation of the strategic plan is becoming more common. Law practices find that outsiders tend to hold people more accountable and to keep them on track.

An Accountability System

An accountability system is dominated by an attitude that “everything we do and have now is directly related to what we will have in the future,” including at retirement. This system is multifaceted and sets standards in place for evaluating management skills, staff performance and the ethics and morals that guide the relationships between members of the firm and outsiders, that is, the intangible elements of culture and cohesiveness.

On the tangible or quantitative front, it provides a vehicle for tracking total hours and chargeable hours and monitoring collection and write-offs of receivables. Accountability recognizes the realization percentage, the real dollars collected as opposed to billed dollars, and its impact on the financial life of the firm. For example, if Ms. Smith bills \$5,000 and collects \$3,000, she only real-

izes 60 percent. A low percentage is a red flag indicting inefficiency in billing and collections that should be addressed by the manager if the firm is striving for increased profitability.

The Marketing Plan

Sales and marketing processes and plans are a key component for developing a strong practice, the second part of the exit attitude. The marketing plan is designed to maximize all the potential in the firm to fit in with the goals and standards of the overall strategic goals of the firm. Engaging a professional to create and execute a marketing and sales plan that helps to accomplish the strategic plan and uses the accountability system that is in place is an integral step. This professional also may train firm personnel to implement the plan successfully. A good plan without appropriate implementation is useless.

Create a Personal Investment Plan: The Future Starts Now

As a financial consultant to the legal profession, Jean L. Tardy, a partner with Los Angeles-based JVT Financial Sources, finds that most attorneys are not particularly good at financial planning for their retirements. "The first 10 to 15 years of an attorney's career is frequently marked by heavy spending and little savings," said Mr. Tardy.

This trend of increasing standard of living as income increases is a symptom of our materialistic culture. If attorneys spend all their cash as it's made and don't get substantial lump-sum retirement payouts in the same way as our widget manufacturer, then they may find themselves in trouble at retirement time. If the manufacturer spends all the cash while still owning the business, that may or may not be significant to retirement because there is still a company to sell for a material sum when it's time to retire.

In the practice of law, skills are synonymous with product, and they retire with the attorney. Consequently, if attorneys don't plan for retirement by taking deliberate action in that direction early in their careers, they may not be able to retire while maintaining their accustomed lifestyles. Deliberate action means disciplined spending and disciplined investing. Disciplined investing means using savings to fund a planned investment program.

There are two ways to save money: before tax through a company's pension and profit-sharing plan and after tax in individual investment vehicles. Tax implications — that is, tax deferral — may determine the choice of financial plan options: insurance, estates, trusts, real estate, the stock market, bonds and myriad vehicles available for investment.

How Savvy is Your "Money Guy"?

Financial professionals and strategists should be qualified to handle current financial needs and investment planning for smooth exits. A savvy "money guy" is the guide to effective, aggressive pension and profit sharing and tax planning that allows significant money to be set aside for retirement. But how does one know if a planner is doing the right thing? Here are a few questions to ask when evaluating the recommended exit strategy:

- What are his or her recommendations going to accomplish? Will they meet expectations?
- How can savings be maximized with the least cost to employees?
- Will certain programs happen inside the firm and others independent of the firm?
- Will there be retirement benefits directly related to the firm?
- Should exit strategies be built into the firm's incorporating documents?

Exit in Style

Most attorneys don't plan adequately for retirement. To retire and exit in style means adopting and implementing the exit attitude. The exit attitude is based on the cliché that "the best offense is a good defense," that is, realizing that when attorneys make their exits, there may not be much to take with them.

Successful execution of an exit attitude is the culmination of many years of hard work spent building a strong firm that generates a significant amount of cash. It means disciplining oneself to take as much cash as possible off the table on a regular basis and put it into vehicles that will secure retirement. It requires employing the right professionals to help plan and build a strong business by directing the investment of cash wisely. This attitude implemented as business strategy and exit actions will provide numerous options for the professional when the time comes to exit.



Joel G. Block is president of Growth-Logic Inc. in Agoura Hills, Calif. He counsels public and private companies on succeeding with critical initiatives such as creating momentum, controlling growth, launching businesses, evaluating e-business practices, assessing risk management and strategic and financial planning. Telephone: (818) 597-2990 or visit their web site at www.growth-logic.com.