Sudden Impact

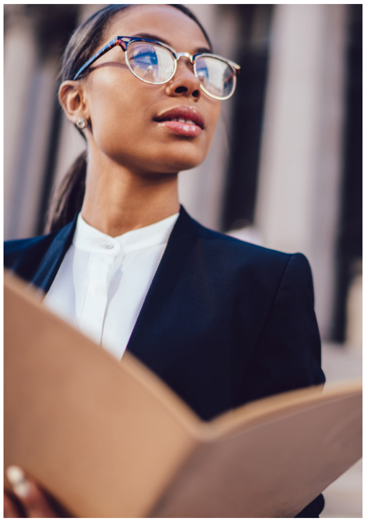
PROTECTING PERSONAL WEALTH FOR THE LAW FIRM PARTNER IN THE AGE OF PANDEMICS

By Jon Meyer, CFP®

INTRODUCTION

Today's economy is a reminder of what can happen in the blink of an eye. For many law firm partners, growth after the 2008–09 downturn was steady and lucrative. However, the COVID-19 pandemic reminds us that change is constant and can be abrupt. Law firm partners are being reminded that they need to be ready in their personal lives for any gyrations in their business.

Of course, I am always excited when firm partners succeed, but I am also concerned when they fail to recognize that achievement is never guaranteed. In some ways, partners might have shorter time spans to succeed since they can experience just as many bad years in business as they do good ones. And the bad years can wipe out the savings of the good years. Diversifying wealth out of the business can provide a hedge against those bad years.



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Why It's Important to Diversify Your Wealth

In working with business owners (and being one myself) for over 20 years, I have found that optimism is a double-edged sword. Law firm partners (small business owners, in some circles) tend to have a strong optimistic streak—they have a sense that they will always come out on top. While this confidence is key to overcoming bumps in the road to success, it can also lead to bigger problems that ultimately affect their retirement and families.

Being a partner can bring a lot of flexibility. But it also comes with a responsibility to be disciplined when times are good so that you can enjoy the flexibility when times are not so good. I have found that law firm partners who do this well are able to make better business decisions (especially when their competitors might be struggling) that help them be more successful in the long run. If nothing else, they tend to have more money because they thought about it along the way—not a bad place to be when you retire and want to take that trip around the world with your spouse.

The COVID-19 pandemic should be a warning to all of us business owners that control is illusory. No matter how good your product or service is, rainy days can happen.

HOW DIVERSIFYING PROTECTS YOU

An important note: I view attorneys, particularly law firm partners, as business owners—you are in the advice business for a set of clients who rely on you. I will use “law firm partners” and “business owners” interchangeably throughout this discussion.

Most business owners plow their profits back into the business (or outright spend most of what they make) rather than saving some for a rainy day. But before you decide to keep money in the business instead of pulling it out (or spend it on a new boat), look in the mirror at who is putting food on the table for your family

Control That Return

Most business owners can figure out how to make more money by investing in their business—and thus, themselves—instead of saving that money in the bank or investing it in the stock market. This return-on-investment calculation includes a variable that I will call “control.” I believe most owners can look at their business and figure out how to get a good outcome more than half the time they invest money back in the business. Yet if I asked those same business owners to put that money in the stock market instead, they would cringe since they can’t control the outcome.

Still, the COVID-19 pandemic should be a warning to all of us business owners that control is illusory. No matter how good your service or product is, rainy days can happen. Economic downturns come in many different packages. Just like there could be a winter with little or no snow for a snow-plowing company, an attorney could develop a health problem that prevents them from giving advice for a year. Sometimes real life gets in the way of a smoothly run business plan.

The Risk of Losing Control

The irony in controlling the reinvestment (and subsequent returns and control) in a partnership is that you can completely lose control when things go bad. In economic downturns, you can actually have less control if you do not have the personal cash reserves or investments to fall back on. To make matters worse, your spouse will remind you of this daily. I don't mean that as a joke. You should consider two realms of living: your business realm and your home realm. Both need adequate funding so that when times are tough, everyone still gets what they need.

The business realm is obvious from the operations standpoint. But the home realm is less obvious. Like everyone else when times are tough, you still need to pay the mortgage and cover the costs of the kids' soccer fees. Having the cash reserves to do that so you don't need to worry about pulling money out of a cash-starved firm can have two benefits. First, at home, it takes the pressure off you and your family. Second, it takes the pressure off the business. Often, the best move for a business when times are tough is for the owner to reduce their compensation instead of letting go of employees so that the company can continue to serve its clients. Having other investments to fall back on helps protect you, your family, and your employees.

When You Sell the Business

I have intimated that control is short term in nature, but there is a long-term perspective as well. By pulling money out of the company when times are good for long-term goals such as retirement, you are also setting yourself up to control your future. Too many people get to retirement and need to get a certain selling price for the business to retire. If they don't get that number, they won't have the retirement they want. Worse yet, they might not even be able to retire. Saving small amounts year to year can give you the money to fall back on so that the ultimate sale price of your business is the icing on the cake; and if you don't get the price you thought you might, it won't stop you from retiring.

Setting money aside monthly or annually for retirement is especially important for law firm partners. Since there is little value in the practice from a buyer's standpoint, funding retirement by selling your practice typically does not work.

Life happens, and any number of things can go right—or wrong.

Diversifying your business wealth helps protect you when life goes wrong such as:

- You get sick and can no longer work
- A lawsuit devastates your business
- An economic downturn forces your business to close
- A natural disaster, or now pandemic, damages or destroys your business

DIVERSIFYING AND CASH FLOW

The long-term issue is whether you have the foresight and discipline to use the good times to prepare for the bad times and, ultimately, retirement. Bad times can mean different things to different people, but at their worst, bad times mean no income is coming in and your spouse is wondering why you did not foresee this. The family tension can be agonizing.

The goal is to be able to say, “I prepared for that,” whether you are speaking to your spouse during a recession or whether you are successfully retiring after 40 years of hard work.

Your Business and Cash Flow

Take the following three points to heart. They can help guide all your decision-making.

Building personal cash reserves in good years gives you more control in bad years. While the typical financial planning advice is to have three to six months of a cash reserve, I think most attorneys should have 12 months or more of cash set aside. When the economy slips, your cash reserve can reduce the pressure to make short-term decisions that hurt the business in the long run (like letting key staffers go). It also means less tension in your home life since you can assure your spouse that you planned for the possibility that you would need to reduce (or not even take) a salary for yourself.

Consistent cash flow year after year means less impact on your family and a happier marriage. The often-unspoken reality is that a business owner’s spouse and kids can either give great support or be a draw on the emotional bank account. In a bad economy, money set aside to cover 12 months of your family’s expenses can maintain a normal home routine. That will take the stress off you so you can focus on rebuilding the practice instead of worrying about the mortgage payment.

Consistent cash flow allows flexibility when selling and frees you from being tied to a certain price to retire. When it comes to retirement, many business owners assume they will eventually sell their business for a large lump sum that they can live on in retirement. In the case of many law firm partners, they might rely on an equity account payout at retirement. Yet there is nothing that assures them that the sale or payout will be enough, especially if they did not save enough along the way. One million dollars (or multiple millions) sounds like a lot of money until math gets in the way.

STARTING WITH THE END IN MIND

Pick a Number

Channeling Steven Covey's book *The Seven Habits of Highly Effective People*, begin with the end in mind. Business owners know that having a goal (and writing it down) can help them accomplish what they want. It makes sense, then, to have a number in mind that you would like to achieve by the time you sell or exit your business. After all, your business should generate the income you need for year-to-year living as well as enough for 30 years of retirement.

For example, suppose you (maybe along with an advisor) determine you need to have $3 million in investments by the time you intend to retire. Just knowing that will allow you to create an annual (or monthly) savings plan to get there. You could assume that some of this is made up of the actual business sale or payout at the end but be cautious in that estimation.

While we advisors use more complex retirement planning software, you can get started with a back-of-the-napkin approach to get to your number (better to start with something than nothing). The implied spending in my $3 million example is somewhere between $8,000 and $10,000 per month. To get to this, take your monthly spending need, multiply it by 12 months, and then divide that number by .03 (3%) or .04 (4%), depending on how aggressive you want to be in assuming how much you can withdraw from a portfolio. Note that I used 3–4% versus an assumed growth rate on the portfolio. The assumed growth rate is a gross number, so you still need to reduce it by fees, taxes, and investment expenses.

I suggest fine-tuning that number as you approach your peak earning years (for most, in their 50s) so you are realistic about what it will take to achieve the income in retirement that you need.

Determine Social Security Benefits

Social Security is an income stream that needs to be assessed against your number (in this example, $3 million). While Social Security doesn't pay you a lump sum, you can estimate Social Security's effect on that lump sum. After all, the more you can maximize Social Security, the less you will need to save on your own.

You might find it easiest to estimate the effect by breaking your number down into monthly spending and then subtracting your estimated Social Security benefit to see how much of your monthly spending needs to come from a portfolio (thus reducing the $3 million lump sum needed in our example).

You can get an estimate of your Social Security benefits at **www.ssa.gov/myaccount.** It is good to review this number annually to make sure your income is being credited accurately toward your ultimate benefit.[1] While this is just an estimate, it gives an idea of Social Security's impact against your number: The larger your number, the lesser Social Security's impact as a percentage of that number.

Determine the Mix of Pre-tax and Post-tax Savings

In starting with the end in mind, envision the types of accounts your number will consist of the day you shift into the next phase of your life (retirement or still working). One of the mistakes that I see often is business owners who think in the moment, versus thinking strategically about the future makeup of their portfolio. This is especially true in law firms, where many firms put large chunks of money away for the partners in retirement plans.

In-the-moment thinking usually entails saving as much as possible into a retirement account [401(k), SEP IRA, IRA, etc.] because this can be done pre-tax today. Accountants love this. But in doing so, note that a tax time bomb is being built. Anything saved pre-tax will be taxed at ordinary income tax rates when it is taken out. Thus, if all savings are done in pre-tax accounts, you are practically guaranteeing a higher tax bracket through your retirement years.

A different approach is to consider getting to retirement with approximately 50% of your savings in retirement plans (pre-tax) and 50% in regular brokerage accounts. The brokerage account money still has tax issues, but it will be subject to potentially lower tax rates (qualified dividends and/or capital gains rates). If you can add a Roth IRA or Roth 401(k) to this mix (since the account grows and is distributed tax-free but you use post-tax money to fund it), all the better.

In this manner, you will give yourself more tax control in retirement since you can choose which accounts to pull spending from each year. You receive the added benefit that if your business suffers, you have a brokerage account with post-tax dollars that you can access without the penalties that would be assessed if you pulled from your retirement account.

[1] See appendix for current-year numbers.

STRATEGIES TO DIVERSIFY YOUR BUSINESS WEALTH

I was talking with an accountant recently about ideas that law firm partners miss when they are running their business. Law firm partners often focus on using the business to pay for their car or cellphone, but many wait to pull out hard dollars until they see a big payday somewhere in the future.

Rainy days do happen, however, so knowing if your business will be able to provide for your family's future is just as important as knowing what your income will be this year. Here are some strategies to help you prepare for rainy days (note, I don't list all the available strategies; instead, I discuss the strategies that are generally easy to implement and widely available but not talked about enough).

Savings Strategies

401(k) plans: A 401(k) plan is a defined contribution plan; there is a contribution limit on the front end without knowing what that means to the benefits you receive on the back end. There is both an employee and employer savings component. The employee can save money in it (more if they are over age 50), and the employer can match the amount or even provide a profit-sharing component. The profit-sharing can be discretionary so that when you have bad years in the business, you do not need to contribute to the plan. The money is then invested by each participant in the plan so each person can take as much, or as little, risk as they want.

- **Pros:** A 401(k) plan will often give you the ability to save more than other types of retirement plans. Additionally, a 401(k) plan has more creditor protection available than other plans (ask your attorney about this). And in industries where competition for employees is high, a 401(k) plan is a good recruiting and retention tool.

- **Cons:** A 401(k) plan is an expense, just like everything else in a business. If you offer matching contributions or profit-sharing for employees, this needs to be a line item in your profit and loss statement. Since there are strict rules that must be followed (including tax reporting), you need to be comfortable with the ongoing costs of administration. Also, consider the risks to the business since you will be the fiduciary of the plan. Hiring a good consultant is often needed for ongoing maintenance of a 401(k) plan.

Pension plans (defined benefit): A defined benefit plan is just that: defined. In other words, you decide how much you want to be paid from the plan annually during retirement, considering age, income, and years until retirement. Owners of smaller companies who are over age 50 but who have primarily younger employees tend to be good candidates for this strategy. The older the business owner is, the more money they will be able to put in for themselves, because at retirement age, a defined amount must be there.

- **Pros:** Since the end benefit is defined, the amount you put in now is also defined. And that amount is often much higher than the 401(k) limit. The actuarial calculations are complicated, but they must assume a rate of return on the money in the plan. In a low-interest-rate environment, this dictates a higher contribution to the plan (and vice versa in a higher-interest rate environment). Some people might be able to put more than $100,000 per year into a defined benefit plan if they have the income to qualify. Paired with a 401(k) plan, this could be an opportunity for future retirement savings with tax savings today.

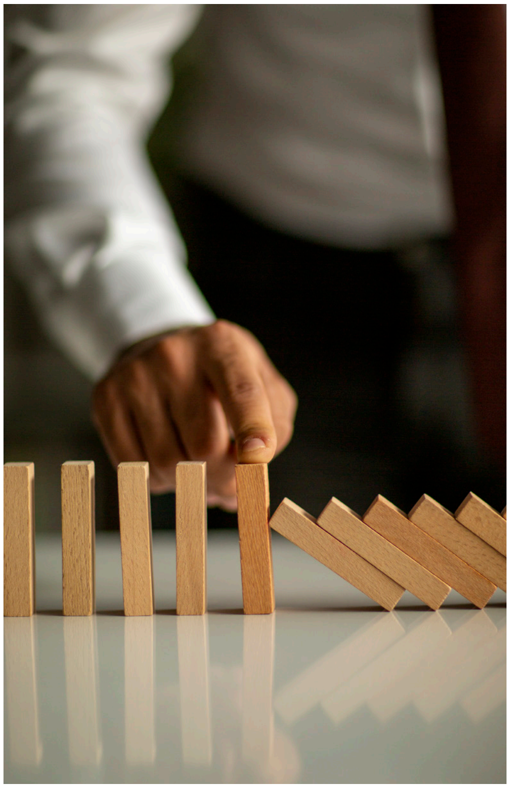
- **Cons:** The biggest issue most law firm partners point to is that a defined benefit plan is fixed. You must make annual contributions whether the business has had a good or bad year. You must also commit to the plan for an extended period; you can't just do it for a year and then shut it down. Committing to five or more years of contributions might be too burdensome for some firms.

HSAs: Consider setting up a health savings account (HSA), which is basically a bank account with a high-deductible health insurance policy in it. Assuming you are healthy and do not use all the money in your HSA each year, you can roll the money over for future use so that it grows tax-free. You can also use the money tax-free if you use it for a qualified medical expense. Ideally, you will save the money until retirement since medical expenses will probably be higher then. (In this case, I am advocating using health insurance for catastrophic events, not day-to-day maintenance. So, if you prefer the latter approach, HSAs might not work as well for you.)

HSAs' Triple Tax Benefit

HSAs have a triple tax advantage: Contributions are tax deductible (check with your accountant), money invested in the account grow tax-deferred, and distributions for qualified medical expenses (see IRS Publication 502 for details) are tax-free.

Insurance Strategies



Personal insurance: Insurance is an obvious resource for some of the problems that can affect you. Everyone considers homeowners and auto coverage, life insurance, and health insurance. What often gets overlooked is disability insurance (more on this below), umbrella coverage on a homeowner's policy (keep in mind that people hear the words "law firm partner" and assume you are rich if they are thinking about suing you), long-term-care insurance and, for those who travel, travel insurance in case the trip needs to be canceled. (And as the COVID-19 pandemic shows, make sure you can cancel for any reason—which is more expensive, of course).

Another important point: If you travel overseas, you should investigate whether your health insurance will pay medical institutions overseas directly. Most won't, which means you will need to pay the bill personally and then submit those bills once back at home. You can also buy insurance to evacuate you back to the United States; ask your health care agent for a recommendation on how to do this.

Disability insurance: Many people don't have disability insurance, but they should. It is easy, as people enter their 50s especially, to think that you still have time to build wealth before retiring. But then suddenly an accident or illness occurs, and you can't work in the business for a while. As a result, revenues fall. With a reduction in revenues, you are hurt in two ways: First, you will not have current income to pay your bills; and second, you will not have extra money to save toward retirement.

If you have disability insurance, you can replace a portion of the income lost. You will be able to support your family while recovering from your injury or illness.

An important point: Pay your disability insurance premiums with after-tax dollars. When the business pays the premiums on disability insurance and deducts them as an expense, the benefits are taxable if you ever need to use them. You might insure 60% of your income, but if that benefit is taxable, you probably end up receiving closer to 40%. It is always better for a law firm partner to pay the premium out of personal funds (or have the premium added to their income for tax purposes if the business is paying it).

Business insurance: Liability insurance is important, but you should also think about business interruption insurance. For example, if your building burns down and it takes you a couple of months to get back up and running (although you should have a disaster recovery plan to do so sooner), can you continue to pay salaries, vendors, etc., while you rebuild?

In this day and age, no business recovery plan is complete without also including cybersecurity insurance. A law firms' asset is its client's data. Recovery from a system interruption can be a long road, and expensive. Note though that getting the policy is not the final step. Read the policy and understand the business processes you need to follow so that if you ever need the policy, it actually will cover your firm. Too often, the fine print of a policy precludes coverage because the firm was not following good business practices.

Distribution Strategies

Determine optimal salary vs. distribution mix for Social Security: While some law firms have changed their legal structure, there are many that are set up as an S-corporation. S-corps pass income through to the shareholders, and the shareholders report this income on their individual tax returns. What law firm partners and accountants have really enjoyed is that the wages are subject to FICA (or Social Security) taxes, but dividends or distributions are not. Thus, the strategy that gets used most often is to set the business owner's salary lower and then distribute as much as possible to the owner(s) as a dividend, which ultimately limits the FICA taxes paid.

But I advocate for paying more taxes now by setting wages higher and, yes, paying more FICA tax today. While owners may assume the business will one day sell for a large chunk of money, the reality is that life happens in the middle, and nothing ever turns out as planned. Social Security might be needed, hopefully for retirement but possibly in case of disability.

Additionally, you should have a similar conversation with your accountant about paying your spouse (and thus incurring FICA tax) for the same reason: ensuring a Social Security benefit later in life. This has the added benefit now of allowing your spouse to participate in the company's retirement plan.

The key to determining pay is knowing the Social Security benefit formula.[2] While complex (work with an advisor to figure it out), know that it is based off your highest-earning 35 years (not consecutive), so you can potentially affect this benefit starting today.

Pull money out along the way: I often speak with law firm partners about how to invest more money out of their business on an ongoing basis instead of waiting until larger paydays down the road (sometimes from big cases) to fund their retirement. Some will set aside money for retirement, while others still think they need to reinvest every penny in the business to keep it going. The downside to reinvesting everything becomes apparent when a business hits a rough patch. That's when the owner suddenly realizes that the business is at risk, and

[2] See appendix for current-year numbers.

with little extra savings, their family might be facing rough times. Maybe business owners should start thinking about themselves as an employee of the company—an employee who has the decision-making authority to help themselves and their families.

I often see a mind-set of small versus big. Small distributions from the firm along the way that are saved are not that exciting; instead, many want to wait for the big payday. I would encourage the opposite: Take small distributions to build a pile of money so that the big payday is not needed but, instead, is a choice that is just icing on the cake.

Tax Strategies

Law firm partners should not wait until April 15 to figure out their tax bill. That is rear-view mirror thinking. Instead, they need to look out the front windshield of the business throughout the year and particularly in November and December, when they can do better tax planning. This is where professional advisors earn their keep.

Asset location: As law firm partners start to save more money outside of retirement plans into vanilla brokerage accounts, it is important to go back to the

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book I mentioned (Steven Covey's *The Seven Habits of Highly Effective People*) and start with the end in mind. In designing a portfolio that matches your goals and risk tolerance, it is easy to focus on the asset allocation (what asset classes to invest in). But if you think about it with five or 10 years' hindsight, asset location will become just as important.

Asset location refers to the actual location of the assets you invest in. Focus early on in investing in active mutual funds or higher-turnover investments inside of IRAs, Roth IRAs, or other tax-deferred accounts. And focus on investing your taxable brokerage account in more index funds or lower-turnover actively managed funds (even here, consider annual taxable distributions) that complement your overall asset allocation. Keeping your tax bill down over the long haul is a function of small decisions along the way.

Roth conversions: If pre-tax dollars were used to fund an IRA, a Roth conversion (moving dollars from an IRA to a Roth IRA, where they can grow tax-free) is a taxable event. But the opportunity to do this in lower tax brackets (i.e., lower than you think you will have in retirement) can occur in years when the business is not doing well. In those years, you may even see negative income (depending on deductions and personal exemptions), which means a Roth conversion could potentially incur no tax. The key is to never let bad years go to waste.

Tax loss harvesting: Many people don't even look at brokerage accounts before year-end. But doing so with an eye toward your losses is important. Capital gains can be offset by capital losses; the issue is that you need to look for losses in portfolios and make those trades before December 31. Being proactive in this can reduce tax liability.

Section 179 deductions: When attorneys have good years, they often consider upgrading their equipment, computers, furniture, etc. From a planning standpoint, it can make sense to time those large expenditures, even bunching them together, in certain tax years using a Section 179 deduction. This deduction will allow you to deduct these expenses from income if they qualify (ask your accountant).

These are just the basic strategies that every attorney should be considering. When Enron collapsed, we all wondered how those employees could simply hold all their net worth in one stock. Yet many business owners do the same thing because they believe they can control every outcome. Diversifying business wealth is a concept that needs to be part of your annual business plan.

SELLING YOUR BUSINESS

Most law firms will not have a liquidity event like many business owners get; therefore it is important to diversify your wealth along the way. The question then becomes “Will I be able to sell my firm for enough money to add a meaningful amount to a comfortable retirement?”

The reality of selling a business is that nobody gets what they want exactly. Instead of one lump sum, you might have to take installments over many years (which could put your retirement at risk if the new owner stumbles). Or you might not get the tax treatment you want on the sale so your proceeds are less than expected.

In order to get the final selling price that will allow you to retire, you need to start planning at least five, if not 10 or 15, years before you want to retire. This is true whether you want to sell externally (to maximize your price) or internally. You’ll need to take several steps to successfully sell your firm.

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Step 1: Create a Path for Younger Owners

One of the keys to building a business for a future sale is to create a path for people who want to climb the ladder into ownership. Other law firms, or even an individual, that might buy your business want to see stable management, which starts with people who are going to stick around for five years or more to help run the business. Also, bringing in new shareholders can help you diversify your wealth earlier (which allows you to invest and grow it from there), just in case you don’t get the number you want when you sell.

Step 2: Prepare for a Transition

As founders of a firm reach their mid-50s, they need to start transitioning from being doers to being teachers. This shift doesn’t happen overnight—it often takes five years or more. The goal is to hand over the “doing” (operations, human resources, daily decision-making) to the junior partner(s) so that you can still counsel and train younger partners and offer expertise and advice on any mistakes that happen.

Step 3: Become a Teacher

As you transition to being more of a teacher, you will find that you have more time to do what you are good at. Most likely, you built your business through relationships. I have always believed that retiring too early is a mistake for many attorneys because it is easier to leverage your relationships for the growth of the firm in your 50s than in your 30s and 40s. Law firm partners can drive the selling price of their business higher by spending less time on day-to-day business activities, being a proactive teacher, and using their extra time to bring in more business.

Selling price is a relative term in selling a law firm practice since many firms will not sell for the multiples you see in other professional services firms. But consider replacing the sale price for terms. In any deal, someone gets to pick the price they want, and the other party gets to pick the terms (or vice versa). So, in the case of a law firm, knowing that an ultimate selling price is lower than other businesses that sell, the terms matter more. If you can become a teacher and free up more of your time just to bring in more business, your terms can be extended, and you can work into your 70s (or 80s) if you want to. Ultimately, this adds to your ability to build a big retirement pot of money.

Step 4: Design a Shareholder Agreement

One of the keys to bringing in new partners is having a document that explains how decisions are made (so the minority shareholder doesn't feel steamrolled); how the company is valued; how a sale to younger owners is financed; the legal structure of the organization (and accompanying tax issues); and who gets to buy/sell shares (in the event of a retirement, sale, disability, or death). Think of a shareholder agreement as a prenuptial agreement: While everyone is still getting along, decide how decisions will be made in the future. You should hire a business attorney to draft the shareholder agreement. Not doing so could cost you far more later when you are called upon to rely on this document than you saved on attorney's fees today.

You need to send the message from the get-go that a path to ownership exists for employees willing to buy into the business. One of the subtle ways to communicate this is to make sure the shareholder agreement includes a mandatory retirement age. Businesses that have a mandatory retirement age create a clear goal for the founder as well as for the junior partners.

A law firm partner's road rarely comes with a map, so it is up to you to create your own. To position your business for success, build your personal wealth, and achieve a successful retirement, you need to start drawing that map when the business starts.

A Couple of Important Points About Internal Succession

While some law firms will sell to outside law firms, many will transition to internal successors. Some owners get lucky and find a "mini-me," but most will need to develop one or more people to take over the business (or at least manage it). This training is key since the next generation of owners might not be as entrepreneurial as you. That can be a hang-up for some owners, but remember, the skills needed to build the business are not the same skills needed to run a mature business.

The best thing a first-generation law firm partner can do is to install a management system that allows employees to learn how to run the business so that everyone can feel comfortable that there will not be a large stumbling block when they take over. Ensuring a smooth transition is important. You'll likely be receiving a payout on your sale price for many years into retirement, so you want the company to succeed.

CONCLUSION

Diversifying business wealth is more than taking money out of the business and investing it somewhere else. It really comes down to a lot of small decisions now that have large ramifications decades later. In science, this is called the butterfly effect: Small causes can have large effects.

As a business owner, you may not always be aware of your butterfly effect, particularly the one you have on your family, retirement, and personal wealth. Unlike many in our economy, business owners have more levers they can pull to make sure they get a better outcome for themselves. But to do this, it is important to remember that what makes you good at taking the risk of building a practice (particularly optimism) can also get in the way of maintaining wealth.

Diversifying business wealth comes down to a simple tradeoff: control versus perception of control. The perception of control occurs if you keep plowing profits back into the business (or continually spending them on toys) because you truly believe you can "control" the outcome. True control, though, comes from devising contingency plans that allow you to have safety nets for the ebb and flow of business.

If you are interested in exploring your personal diversification plan further, please contact us.

About Jon Meyer, CFP®

Jon Meyer is passionate about helping business owners, and particularly law firm partners, secure their futures and protect their families. From decades of experience working with business owners, he knows how easy it is for them to fall into the mind-set that they need to put all their earnings back into the business—and how harmful that mind-set can be.

As a Certified Financial Planner™ professional with BGM Wealth Partners, Jon offers comprehensive financial and investment advice with a special focus on law firm partners and small business owners. He is committed to helping them avoid needless mistakes and instead lay the foundation for a secure, comfortable retirement while providing for their families.

About BGM Wealth Partners

The financial professionals of BGM Wealth Partners have been helping small business owners and law firm partners diversify their wealth since the firm's founding in 1996. BGM Wealth Partners is an independent Registered Investment Advisory firm based in Bloomington, Minnesota, offering comprehensive financial planning and investment management services.

By handling the financial details, BGM Wealth Partners helps clients live better lives with less stress and more freedom.

BGM Wealth Partners
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APPENDIX

Social Security

In 2023, the maximum Social Security benefit payable at full retirement age is $3,627 per month. This benefit is payable if you have been maximizing the amount you pay in (benefits are calculated on your highest 35 years of income). For 2023, the maximum income that you pay Social Security tax on (and thus is eligible toward the benefit calculation) is $160,200.

Your benefits are determined on the following basis for 2023:

1. 90% of the first $1,115 of your average indexed monthly earnings, plus
2. 32% of your average indexed monthly earnings over $1,115 and through $6,721, plus
3. 15% of your average indexed monthly earnings over $6,721.

If you look at this formula, you will notice that the first $13,380 of annual income ($1,115 x 12) gives you the largest bang for the buck since a majority (90%) of that amount is used in the primary insurance amount (PIA) formula. The next $67,272 ($5,606 x 12—the difference of $6,721 and $1,115) in annual income is used fairly heavily in the PIA formula as well. It is only after that amount ($80,652 per year) that the formula drops to 15% (maximum taxable earnings are $160,200 in 2023).

Retirement Plan Contribution Limits (2023)

- IRA or Roth IRAs: $6,500; $1,000 catch-up contribution if you are over age 50.
- 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan: $22,500; $7,500 catch-up contribution if you are over age 50 (this combined $30,000 contribution is considered an employee deferral).
- The employer limit on defined contribution plans is $66,000; this would be the $22,500 employee limit listed above plus any matching or profit-sharing on part of the employer. If you are over age 50, with the extra $6,500 catch-up contribution, the limit raises to $73,500.

Health Savings Account Limits (2023)

- Single: $3,850; $1,000 catch-up contribution if you are over age 55.
- Family: $7,750; $1,000 catch-up contribution if you are over age 55.

Ready to protect the wealth you've built?

Contact BGM Wealth Partners for a complimentary consultation at 952.844.2500 or info@bgmwealth.com.