A Financial Plan for Young Attorneys

By Patrick H. Yanke, CFP®

The biggest financial mistake young attorneys make is spending beyond their means. After years of scrimping and saving it's tempting to buy a new car, a condo, new furniture, etc., despite still facing significant college loan debt. Before you know it, you are in a bigger hole than when you graduated.

Priority number one is making sure you can cover all of your practice's expenses, your living costs and servicing your college debt.

The old saying "attorneys make their money in their 40s" reflects the expectation of the time when the practice has matured, and the burdens have been satisfied. But don't make the mistake of delaying your retirement and other savings until you are rolling in the dough.

Getting started with a financial planner early in your legal career will help you develop a strategy for meeting immediate, near-term, mid-term and long term financial plan. These are the kinds of issues I talk about when I do presentations to new attorneys at the North Carolina Bar Association's "Professionalism for New Attorneys" program.

Life Happens

Retirement isn't the only financial goal people face in life. Along the way, there will be houses and cars to buy, children to educate and emergencies. Life happens. The investment vehicles used are driven by the purpose of the savings.

- Rainy day emergency funds needed to be available at all times so should be kept in cash-equivalents.
- Short-term savings and investments should balance risks to ensure availability when needed.
- Long-term savings (like retirement assets) should have a significant leaning toward equities. The volatility of the markets is the engine of long-term wealth creation.

Rainy Day Fund

Whether it's a lost job, an injury or an act of God, something will eventually disrupt daily routines. Dealing with many of these situations will require the availability of ready cash. This is the emergency fund.

Double-income households may be prepared having an emergency fund equal to less than six months of normal expenses. Single-income households should be prepared to deal with this situation for up to a year. The emergency fund is the foundation of the financial plan because without it, these disruptions make it impossible to maintain long-term savings if drawn for every need.

Short-Term Savings

Vacations, new furniture, a new car, home remodeling and similar expenses should not be paid with credit cards, they should be paid out of short-term savings. This is where you will accumulate money for a home down payment. Once the emergency fund is in place, this savings plan takes priority for near-term goals.

Don't try to time the markets. Use a balanced approach to weather market perturbations. When a goal is anticipated within the coming year, it's time to consider putting the funds in cash accounts to preserve their value. A short-term loss may put the goal back out of reach while a small amount of additional gain isn't worth the risk.

Retirement

Don't wait until your emergency fund and your short-term savings plans are built up before starting to save for retirement. It should be an ongoing commitment.

To maintain a similar standard-of-living in retirement, a 25-year-old may be okay saving around 10 percent of income. Starting at age 40 may require as much as 25 percent savings to achieve the same outcome. *The best solution for building significant wealth is to start early and be consistent throughout the working years.*

Although many attorneys don't envision a time beyond the practice of law, statistics suggest that preparing for a next stage in life is prudent. Continuing to work into the golden years is a good plan – until it becomes physically impossible. Whether the next step is ultimately retirement or a follow-on career, being able to make choices depends on the resources available.

If your law firm provides matching contributions, doing at least this amount provides a 100 percent return on those invested dollars. Not taking advantage of a company match is like leaving free money behind. Take advantage of retirement savings to benefit from the power of tax-deferral. Having the ability to defer taxation on investment assets is powerful for building wealth!

These long-term savings should have a strong leaning toward equities. Despite the fact that the average annual drop in the stock market over the last 39 years was almost 14 percent (as measured by the S&P 500), three-quarters of the time, the market ended the year positively. Long-term gains are made by consistency through short-term fluctuations.

Bear in mind, that these suggestions are general in nature. Consult the services of appropriate professionals for answers to specific questions.

Patrick Yanke is a Raleigh financial planner with a simple business philosophy: Treat others as he wants to be treated. He has a national business with clients in every American time zone. He delivers newsletters and speaking programs on a wide range of financial topics. Opinions expressed here are Patrick Yanke's and not necessarily those of Raymond James. You should discuss any tax and legal matters with the appropriate professional. www.yankefinancial.com.