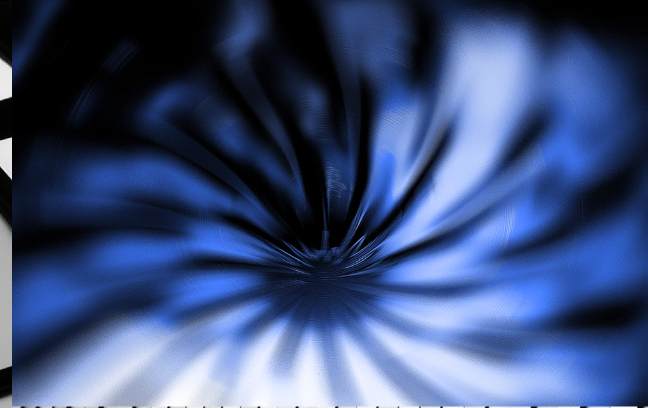
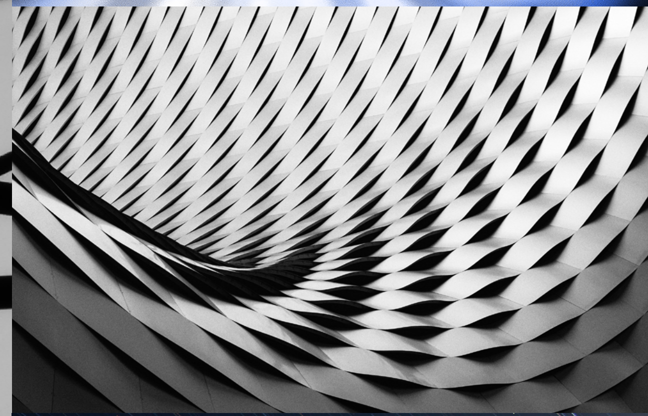




A&M Executive Compensation And Benefits

THE PARTNERSHIP RETIREMENT PLAN TIME BOMB

Part 1

Steven J. Leifer | Posted in Ark Group, Management

This is the first installment of a three-part series dealing with law firm retirement plan obligations.

This material was originally published on Legal Business Insider -
(http://legalbusinessinsider.com/tabs/blog/2016/07/the-partnership-retirement-plan-time-bomb) May 11, 2016

Case Study

George is the managing partner of a 100 partner multi-office United States law firm. He and the firm's Chief Financial Officer have been watching the firm's liability for partners' retirement benefits keep growing. Partners have retired and new partners have been admitted to the firm to replace them. All of these partners have been accruing retirement benefits that the firm someday will have to pay. Although George and the CFO really don't have a reliable handle on the size of the probable liability, they know it is large – and growing. And they both wonder how it will be paid. New partners are concerned about taking on this debt, and current partners hope someone will be there to pay them when they retire.

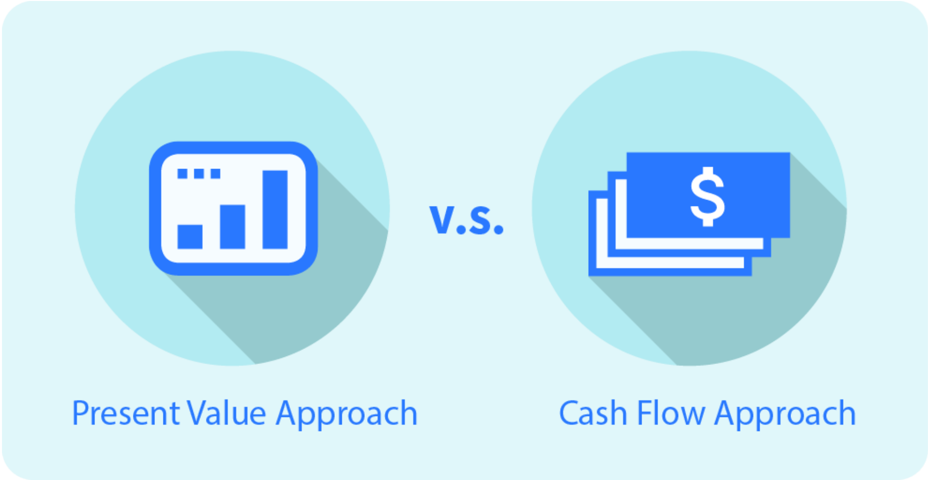
About ten years ago George's firm voted to adopt a nonqualified plan that would pay each retired partner $250,000 a year for fifteen years. George's firm helped many clients implement nonqualified retirement plans for senior executives. The partners saw first-hand the popularity of these plans and how they helped executives build a financial base for retirement.

After much discussion, the partners also concluded that a nonqualified retirement plan would help retain their best talent and assist in attracting star performers to the firm. While these discussions were going on, the firm's per-partner earnings were steadily increasing and the partners concluded that this was a plan they could afford. All active partners were covered, including partners close to retirement. Although since then the average partner's earnings has increased each year, the retirement payment has not changed. Partners have been encouraged to save, but firm approved qualified savings plans will not provide sufficient income in retirement.

The partners saw the retirement plan as a way to help finance their own retirement and a way to bind partners closer to the firm. Having a retirement plan also made the firm more competitive in recruiting lateral partners, who gave much weight to financial inducements. Of course there is no third party "employer" to pay these benefits. The only source of benefit payments is the partners themselves. The partners understood this, but little attention was paid to exactly how this in practice would work. The general thinking was "I will pay the benefits for partners who retired before me, and in turn my successors will pay for my benefits".

Another unwelcome fact emerged when the CFO recently began digging into this issue. Most analyses of retirement plan liabilities focus on the present value of the liability, which is a balance sheet approach. The real issue for a law firm is the actual amount of cash that will be required to meet the firm's obligation, and when that cash will be needed. George, who participates in the retirement program, wonders how the firm will deal with this significant cash flow commitment.

We have been working with several law firms which have been struggling to deal with this issue. In this environment, the firms' managing partners are facing the prospect of ballooning liabilities for partner retirement payments. Although there had been general agreement that these plans should be adopted, little thought was given to the eventual magnitude of the liability, or how the firms would come up with the cash to meet these retirement payments when they came due.



Times have changed

The relationship of partners and their firms has changed dramatically in recent years. In the past, lawyers joined firms soon after graduating from law school and intended to stay there until retirement. Assuming they were admitted to partnership, a lawyer could spend his or her entire working life at a single firm.In this environment, active partners acknowledged the obligation to pay for retired partners. Retirees were those who had come before and had helped build the firm to where it is now. Active partners accepted this financial responsibility, confident that when it was their turn to retire, their right to retirement payments would be met by the firm.

The bond of mutual loyalties has somewhat frayed, with lawyers often changing firms to better their career and compensation prospects, and firms making staffing changes as the economy rises and falls. Lateral partners typically do not feel the same obligation to support already retired partners, and have to wonder whether yet-to-be-admitted partners will want to support them in retirement. Who then will be motivated to meet the firm's obligation to retired partners?

Firm mergers have sometimes brought with them a liability for partner retirement payments. Partners in the surviving firm may be paying benefits to partners they never knew. The magnitude of this inherited liability often is not adequately analyzed until after the merger is consummated.

Also, the ratio of staff to partners in many firms has gone down, with fewer staff persons working to support each active partner. This makes it even harder to pay retired partners.

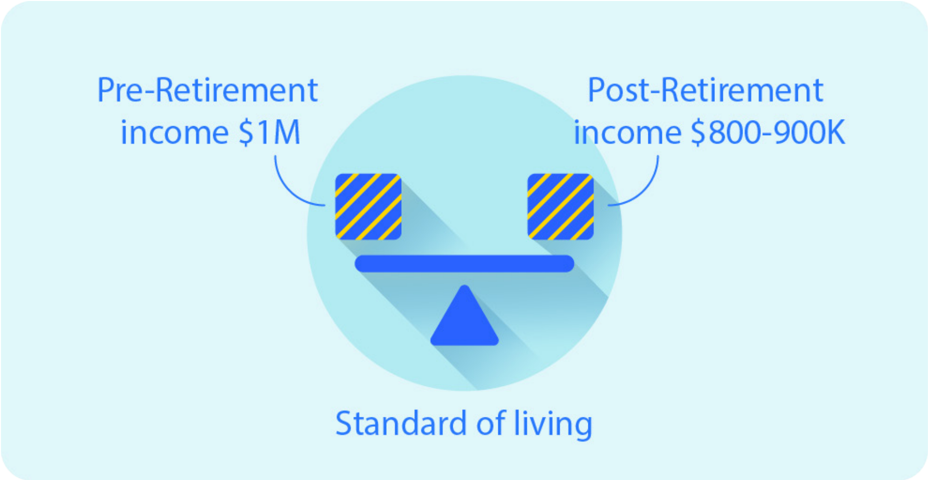
Who then will be motivated to meet the firm's obligation to retired partners?

The origin of the retirement obligation

Payments to retired partners serve many purposes, including:

- Payments to founding partners as “purchase price” for the firm they created
- Payment for uncollected receivables or work-in-progress
- Payment for goodwill
- An inducement to retire when there was no legal obligation to leave
- As a supplement to the retiring partner’s other retirement income

A commonly accepted guideline states that in retirement a high-earning individual will need about 80-90% of his or her pre-retirement income in order to maintain his or her pre-retirement standard of living. In other words, a partner earning $1,000,000 a year immediately prior to retirement will need $800,000 to $900,000 a year following retirement, and this amount will remain steady (barring inflation) for the remainder of his or her life.



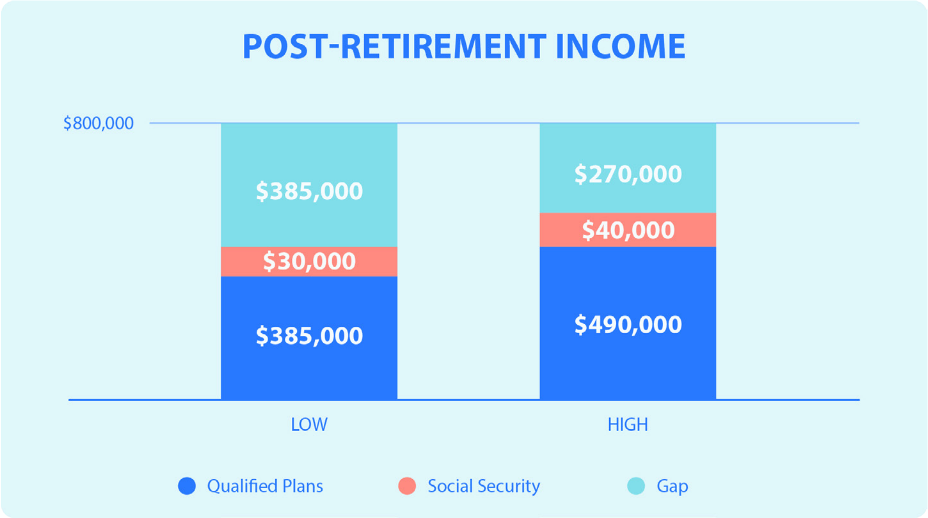
Of course the retiree can expect to receive other income:

Social security
Most partners can expect to receive $30,000 to $40,000 a year

Qualified retirement plans
Assuming the firm maintains both a defined benefit (DB) plan and a defined contribution (DC) plan, because of qualified plan statutory limitations the maximum combined benefit that reasonably can be expected is an annual retirement benefit of from $385,000 to $490,000.

Assuming a mid-point of $475,000, the partner would need at least an additional $325,000 or so a year in retirement income to meet the 80% threshold. Some of the shortfall might be made up from personally accumulated assets, or if the partner continues working, but at some point that probably will end.

Many firms will seek to have the shortfall made up, at least in part, by implementing a nonqualified retirement plan for partners. Such a plan can be tailored to meet the specific objectives of the firm and can be adopted on a discriminatory basis, meaning that no non-partners need be included. Once adopted, of course, the nonqualified partner retirement plan becomes an obligation of the firm to its partners.



Nonqualified retirement plans are a frequent solution

The absence of qualified plan restrictions have made nonqualified retirement plans a solution many businesses have adopted. Nonqualified plans afford enormous flexibility in design and can be used to cover only selected individuals.

"Top hat" rules generally restrict nonqualified plans from covering the rank-and-file. In addition, Internal Revenue Code Section 409A has eliminated some of the almost unlimited access to accrued benefits, but most companies have figured out how to deal with these relatively new rules. Whether permitting workers to defer substantial amounts of income until a later date, or permitting employers to provide generous retirement benefits, nonqualified plans are a tried-and-true solution.

Although partners would not seem to be "employees" as that term is commonly understood, the nonqualified plans rules and Section 409A broadly apply in the partnership situation and to law firm retirement plans.

Popularity of nonqualified benefit arrangements

Nonqualified benefit arrangements satisfy a broad variety of company needs, so it is not surprising that they have been adopted by many businesses. A recent survey of larger companies found that 84% sponsor some form of nonqualified arrangement and that 71% include some type of employer paid benefit. Thus it is not hard to understand why law firms, seeing the example of their clients, look to nonqualified plans to satisfy their own requirements.

Who pays?

In most larger business situations, the executives and owners represent two different economic interests. Nonqualified plan participants look to the employer-company to satisfy plan obligations. Of course, in a law firm, partners are their own employers, so the interests of employer and workers tend to merge. However, in a retirement benefit context, the partners still look to the firm-employer to make good on the promise. This of course brings up a whole range of issues that must be faced.

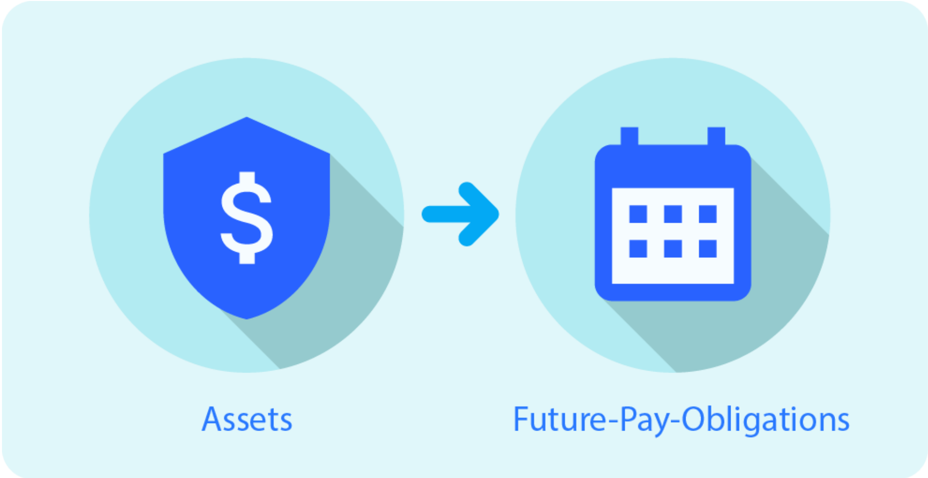
The nonqualified plan trap

Nonqualified plans by their terms are not "funded". That is, funds cannot formally be set aside (beyond the employer's reach) to satisfy the promised benefits when they come due. Therefore, companies (and law firms) sometimes make extravagant promises without worrying about where the cash will come from to pay these benefits when they later mature.

Qualified plans must be funded, which means that cash has to be set aside in trust to pay the promised benefits. This provides at least some brake on the generosity of employers in providing benefits.

Many employers (and some law firms) do set aside funds informally designated as funding for nonqualified benefits. "Rabbi trusts" are often used and they provide some level of comfort for plan participants, but this still is short of the protections offered by qualified plan trusts.

A recent study showed that 62% of companies informally fund their nonqualified plan liabilities. Reasons for funding include improving benefit security and mitigating the profit and loss impact of the plan.



Of those who do fund, 54% use COLI (company owned life insurance) aggregate funded arrangements as the funding vehicle for long-term obligations. The percentage of law firms that have funded their nonqualified plans would seem to be much lower.

For many law firm partners, the absence of funding means that their firm's promise provides the only assurance that retirement benefits will be paid when they come due.

What to do now?

George, and other managing partners like him, are right to be concerned about their firm's partner retirement plan liability. These benefits are firm obligations which must be paid. Even with a "cap" on retirement payments that many firms have in place, the cash outlay is significant. And, if a firm hits the cap and limits its retirement payouts, it means that the full amount of expected income that retired partners were counting on will not be received.

The first step is to get a fix on the amount of the projected cash flow liability. Taking into account partner turnover and expected mortality, just how much can the firm expect to pay and when? Only then can the firm really address this issue.

Some firms have just thrown in the towel and either frozen or cancelled their plans. Even with a frozen plan, however, the already accrued retirement plan liability may be substantial. Also, freezing a retirement plan leaves the partners to individually deal with accumulating adequate funds to support their lifestyle in retirement. This also means that the partners have walked away from the considerable leverage and economy of scale that would be available through a firm sponsored retirement program.

Even if a firm has capped the annual amount that can be paid in retirement benefits, the amount up to the cap will continue to be a significant drag on currently distributable earnings.

If the firm decides to begin allocating funds to meet this obligation, some thorny issues must be addressed:

- How much cash should be set aside annually
- How much of the total obligation should be targeted for funding
- On what basis should the funding cost be allocated
- How should the funds be invested

Recognizing that there is an issue is the first step in dealing with it. Many firms have funded a substantial part of their partner retirement benefit liability. For those that haven't, the passage of time will not make the problem go away.

The firm's unfunded partner retirement plan obligation has been keeping George up at night. And George isn't the only managing partner suffering from insomnia.

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THE PARTNERSHIP RETIREMENT PLAN TIME BOMB

Part 2

Steven J. Leifer | Posted in Ark Group, Management

This is the second installment of a three-part series dealing with law firm retirement plan obligations.

This material was originally published on Legal Business Insider -
(http://legalbusinessinsider.com/tabs/blog/2016/07/the-partnership-retirement-plan-time-bomb-part-2) July 15, 2016

Managing a law firm these days is not for the faint-of-heart. In addition to the demands of clients for more service and lower fees, retaining key partners and staff and attracting rainmakers to join the firm has become more difficult and expensive. Among the many issues facing firm managing partners is the question of how to pay for retirement benefits that many firms have promised to current and already retired partners. For many if not most firms, all or a major portion of this partner retirement obligation is unfunded. This means that future firm earnings will bear the cost of retirement payments to partners no longer producing revenue for the firm.

Law firm managing partners have many issues that demand attention, and a large proportion have a direct impact on firm earnings. Meeting a firm's unfunded partner retirement obligation can significantly affect the amount of earnings available for distribution to currently active partners.

Many law firms impose a cap or limit on the amount of current earnings that can be used to pay partner retirement benefits. When the cap is reached, which has happened at several firms, it means that a significant portion of current earnings already is being paid to retirees. Hitting the cap also means that retirees will not receive the full amount of retirement benefits they were promised. In some firms retirement benefits lost because of a cap are not made up in later years

Our Case Study

In our first installment we met George, the managing partner of a 100 partner multi-office United States law firm. Several years ago the firm had adopted a nonqualified retirement plan for partners. In addition to helping provide a financial base for each partner's own retirement, the firm concluded that a generous partner retirement plan was important to help retain the firm's best talent and also to help in attracting star performers to the firm.

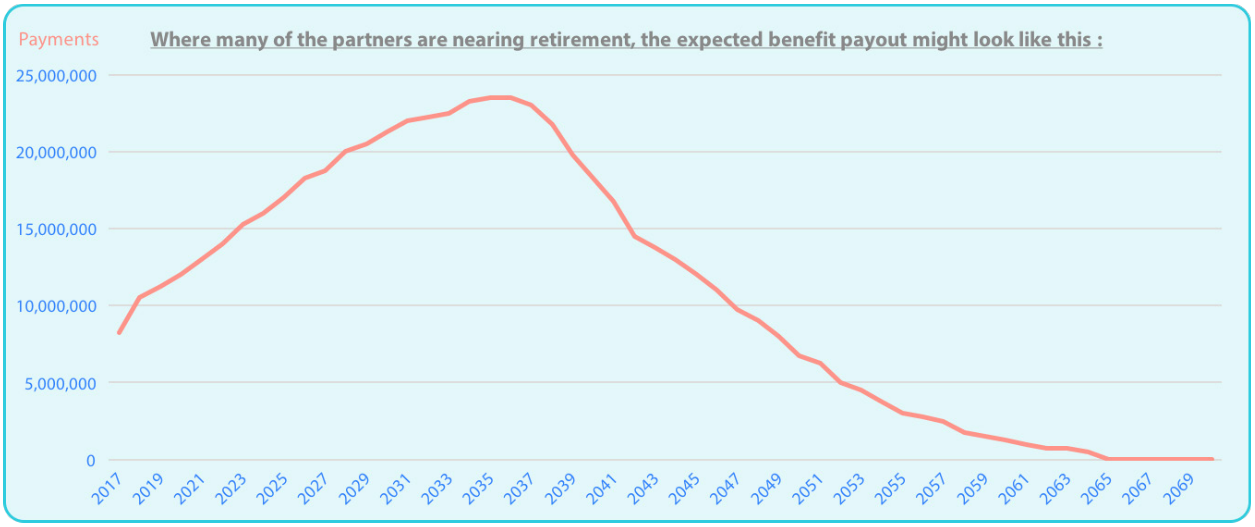
Ten years later George and the firm's Chief Financial Officer are beginning to eye this retirement plan obligation with some concern. When the partners retirement plan was adopted, firm earnings were increasing steadily and all concerned concluded that this was a plan they could afford. In addition, better partner retention as well as improved lateral partner recruiting would help pay for the program.

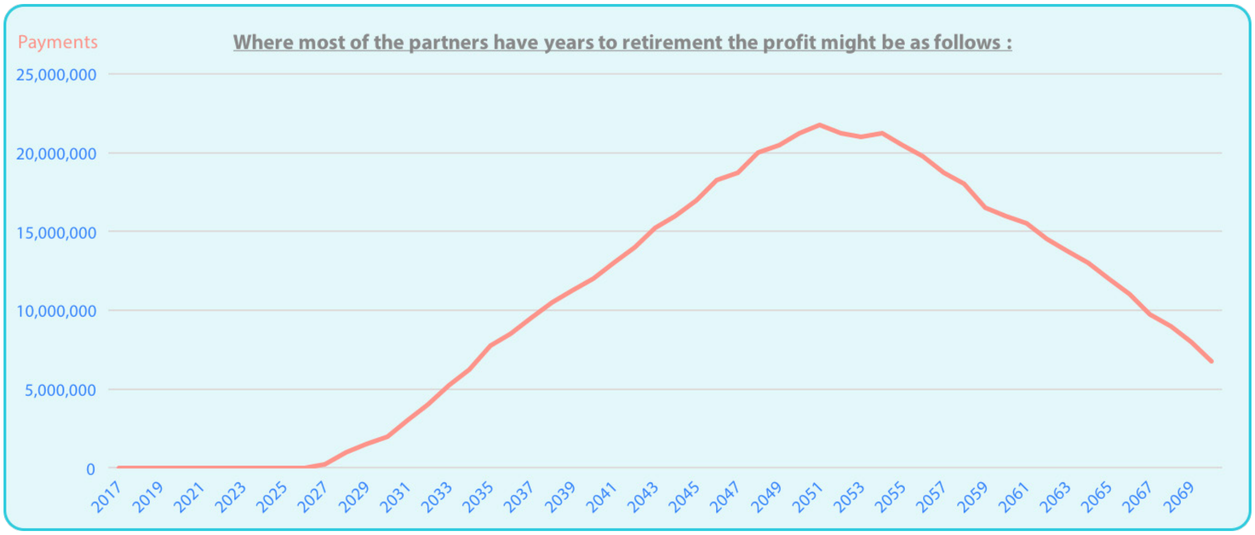
Already retired partners are receiving benefits and currently active partners are accruing benefits that will have to be paid. The firm's retirement benefit obligation continues to increase and it remains completely unfunded. George and the CFO can only hope that the cash will be there to meet this obligation as it comes due.

Understanding the Obligation

A first step in addressing a firm's partner retirement obligation is to understand what is payable and when. The obligation is not a single amount; it typically is made up of a series of payments payable over a number of years. Depending on the plan, the amounts may vary by partner and, if benefits are payable for life, the period over which payments are due is not fixed. Understanding the terms of the retirement obligation is the first step in figuring out if or how to provide funding for it.

Many partner retirement plans take into account years of service as well as total earnings. For example, the plan may provide that the retirement benefit is equal to 1 ½% for each year's service as a partner times the average of the highest 5 years' annual earnings as a partner. Thus, if a retiring partner had been a partner for 30 years and his or her 5 year high average earnings were $1 million, the annual retirement payment would be $450,000 (1 ½% X 30 = 45% X $1 million = $450,000). These formulas often have a limit on (1) the number of years' service that can be credited, (2) the amount of the high average earnings that will be taken into account, or (3) the total computed annual retirement benefit.





With such a plan design, determining the firm's retirement obligation for a currently active partner population involves projecting when partners will retire, what their high 5 earnings will be and how long partners can be expected to live while collecting their retirement benefits. Fortunately there are tools to help.

Where the plan provides a fixed annual benefit (e.g., $300,000 a year), or a fixed benefit period (e.g., 15 years), or both, it is easier to estimate the total plan obligation. A significant variable, though, is when partners will retire and begin collecting their benefits

Determining the amount of retirement benefits that actually will be paid is different than determining the accounting cost of the obligation, which focuses on the present value of the obligation, rather than the future cost. What is being sought is not the present value, but the actual amount of the expected benefits that will be paid when partners retire, and when.

The profile of expected benefit payments will depend on many factors, including the current age of the partner population.

Retirement Plan Obligation Understood

Having gone through the exercise of determining the amount of the firm's partner retirement plan obligation and when it will be due, George's mind certainly has not been eased. George and the firm's CFO are beginning to wonder whether any of the other partners are aware of the financial implications of the firm's partner retirement plan.

George has been speaking with some other law firm managing partners and they have told George about funding approaches their firms have implemented to address partner retirement plan obligations. George is intrigued and is thinking about how to convince the partners in his firm to pursue that path.

Why Provide Funding for the Retirement Plan Obligation?

Law firms, and sometimes companies, make benefit promises without really examining where the cash will come from to pay these benefits when they later mature. Law firm retirement plan obligations are a significant concern that firms often choose to ignore. In many cases, firms are unsure how to address this liability or how to motivate the partnership to act. However, currently active partners question whether the firm will be able to pay their retirement benefits when it is their turn to collect.

Many partners wonder whether the firm can afford to contribute to a funding program while there are many other pressing needs. Of course, this liability continues to grow over time, compounding the issue.

The presence of unfunded partner retirement benefits affects future partners and partner candidates, whose earnings will be weighed down by the need to pay benefits to individuals no longer productive for the firm. Lateral partner prospects also will view these significant unfunded obligations negatively when considering whether to join the firm. For all these reason, and many more, setting aside funds to meet the partner retirement plan liability makes good business sense.

Fortunately, qualified and experienced advisors can help the firm quantify the exposure and structure a funding program that meets the firm's financial objectives and that will be supported by the partners. Typically a firm's leadership will consider funding options and will decide on the most efficient and cost effective approach. The funding approach then will be communicated to the firm's partners.

In designing the funding program, the firm and its advisors will have to weigh and balance many different interests and concerns, not least of which is how the cost of the funding will impact different groups of partners. Generally older and more highly compensated partners will have a higher annual charge, but for a shorter time period, as their contributions will end when they retire. Younger and generally lower compensated partners will have a lower annual contribution, but contributions will be required for a longer period of time.

Motivated to Act

George feels a little easier, knowing that there is something that can be done about the firm's partner retirement plan liability, but he is unsure whether he can get enough support within the firm. He thinks that once enough partners understand the situation, he can get them to agree on a solution. Getting there, though, means a lot of conversations with the partner group.

The Funding Approach

Determining the best funding method is critical if the funding targets are to be met. As the dollar amounts involved are usually significant, it is important that the funding approach be both cost efficient and flexible.

When considering an efficient funding solution for the firm, the profile of the expected retirement benefit payout has important implications, because it affects the length of time over which the funds can grow. A longer payout, of course, will allow for greater growth in value. An extended period for fund contributions allows for smaller annual contributions, meaning that the annual cost to the partnership will be reduced.

The goal of funding partner retirement benefits is to have cash available when it is needed to pay benefits. Therefore it is important that the funding vehicle either be cash generating or be sufficiently liquid so it can easily be converted into cash.

Mutual funds often are looked to as funding assets because of the range of investment choices and general liquidity. Properly structured and institutionally priced company owned life insurance often is preferred because of its greater tax efficiency and its ability to generate cash as needed to pay benefits. Company owned life insurance can also offer a range of investment allocation options similar to mutual funds, and also protection against market volatility.

The funding approach must take into account the fact that benefits to currently retired partners must continue to be paid while the firm sets aside funds to pay future benefits. Also, it generally is inefficient to place cash in a funding vehicle and shortly thereafter withdraw the cash to pay benefits. In addition, although it is less costly to set aside funds now to pay future benefits, the total cost of paying current benefits and funding future benefits must be managed.

A Solution to the Firm's Dilemma

George is beginning to feel better about the firm's situation. He is far from having solved the problem of the firm's unfunded partner retirement plan obligation, but George now knows that there is an approach that can work. Also, George has to find advisors who can help him design a funding program. The CFO is on board, so all George has to do is convince the rest of the firm.

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Steven Leifer is a Senior Director in Alvarez & Marsal Executive Compensation and Benefits in Greenwich, CT. He brings significant tax, accounting and executive benefit planning experience to clients. He was a Former Partner and Head of the International Tax Group at Ernst & Young, LLP.

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THE PARTNERSHIP RETIREMENT PLAN TIME BOMB

Part 3

Steven J. Leifer | Posted in Ark Group, Management

This is the third installment of a three-part series dealing with law firm retirement plan obligations.

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The business of running a law firm has become much more difficult. First there are clients demanding greater accountability for fees while bringing more work in-house. Then, in order to hire the best and the brightest, law firms are having to raise salaries for beginning lawyers. Add to that the need to attract lateral hires who can generate the work to keep the firm profitable, on top of the cost of retaining star performers. It is hard not to see the increasing financial pressure on law firm management.

Another issue facing law firms is figuring out how to pay for the retirement benefits that have been promised to active and already retired partners. Many firms adopted these plans in order to provide a stable source of income for partners after retirement and to attract and retain top talent. Often little thought was given as to how the firms would actually pay for these benefits or even calculating what would be the total cost to the firm. Now that benefits actually must be paid to retired partners, more attention is being focused on these obligations.

In most firms a major portion of the partner retirement obligation is unfunded. This means that current earnings must bear the cost of benefits to partners who no longer are productive members of the firm. The obligation keeps changing and growing, as partners' earnings increase and they accumulate more years of service, which often translate into a greater benefit. Even when a firm tries to understand the size of the firm's partner retirement plan commitment, the firm's advisors usually only calculate the present value of that liability. That doesn't begin to explain when actual payments must be made.

Our Case Study

In parts one and two of this series we met George, the managing partner of a 100 partner multi-office United States law firm. Several years ago the firm adopted a nonqualified retirement benefit plan for partners. The firm had concluded that a generous partner retirement plan was important to help retain the firm's best talent and also to help in attracting star performers. The partner retirement plan also would help all partners maintain their standard of living in retirement.

The nonqualified partners retirement plan the firm adopted pays a retired partner $250,000 a year for fifteen years. When the unfunded plan was adopted the partners were confident that the firm could afford this benefit. The plan also was seen as a way the firm could attract lateral partners, who would help grow the firm.

Of course there is no third-party "employer" to make the retirement benefit payments. The only source for paying the benefits is the partners themselves. Now that the annual benefit cost has been climbing, the partnership ranks keep changing, and the ratio of active to retired partners is shrinking, partners are beginning to wonder "who will be there to pay my benefits when it comes time for me to retire?"

George and the firm's Chief Financial Officer have concluded that they have to get a better handle on the partner retirement plan and develop a way to meet this obligation. They know that they will need expert help.

Understanding the Firm's Liability

The first step in addressing the firm's liability is figuring out just how much that liability is. A thorough understanding of the partnership retirement plan is essential, both to determine the benefits each partner will receive and when the firm can expect these benefits to be paid.

Many partner retirement plans provide benefits which depend on length of service, the partner's share of firm earnings and when the partner was admitted to the firm. Lateral partners often have special retirement arrangements agreed to when they joined. A partner-by-partner analysis must be done in order to gain an accurate estimate of the firm's total liability. In addition, a detailed analysis of partner retirement benefits often uncovers anomalies in the pattern of benefit payments. These can be addressed at this time.

Many firms have capped the annual amount of firm earnings that can be used to pay partner retirement benefits. A detailed analysis will provide greater insight as to whether and when these caps will be reached and the amount of retirement benefits that may be deferred or lost because of the cap.

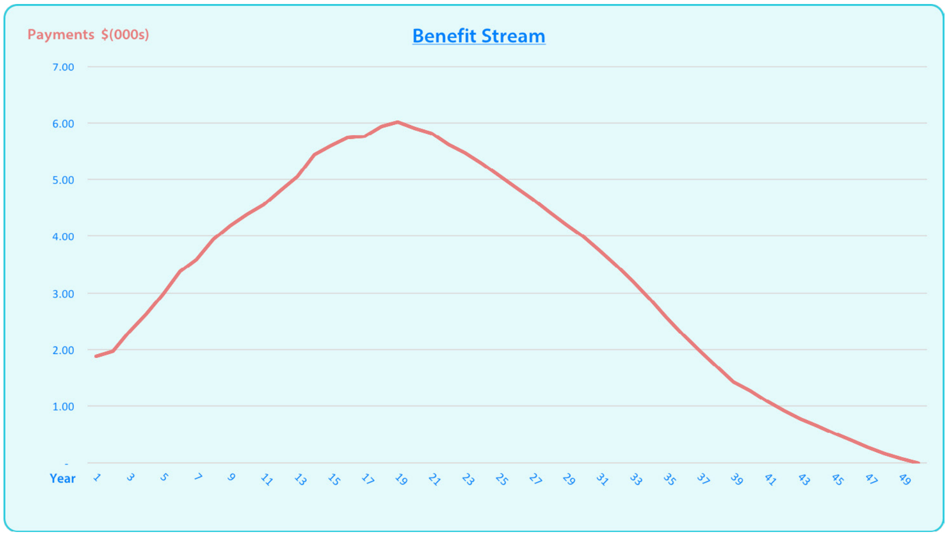
What the Firm Owes

George and the CFO have received several recommendations of retirement plan consulting firms and have interviewed a few. George has decided on a consulting firm that has experience in advising law firms and seems to understand the predicament the firm is facing. This consulting firm also has helped several organizations design funding programs to relieve the financial pressure on the firm.

The consulting firm's first step was to gather a census of all of the firm's currently active and already retired partners and the details that determined each partner's retirement benefit. After gaining a thorough understanding of the firm's partner retirement program, the consulting firm made a year-by-year projection of the firm's partner retirement plan obligation, using actuarial assumptions as to benefits due and partners' mortality. For this purpose, all currently active partners were assumed to work until normal retirement age and then retire. Although some partners inevitably would leave before retirement, and some possibly stay past normal retirement age, that was ignored for this purpose.

If the plan's benefits had been based in whole or in part on compensation and firm earnings, the consulting firm would have factored in the firm's own estimates as to those elements.

The consulting firm's projection of the firm's partner retirement plan obligation looked like this:



This projection became the basis for developing a funding approach.

George was now ready to consider how to pay for these benefits. One choice, of course, was to keep the plan unfunded and pay for the benefits out of current firm earnings. Thinking about the annual benefit cost and the increasing impact the unfunded plan would have on the earnings of active partners, George decided that the funding option had to be explored.

Developing a Funding Program

In developing a year-by-year funding program for a firm's partner retirement plan obligation, typical goals are as follows:

- Have funds available to meet the firm's annual benefits cash flow requirements
- Develop a funding plan that the firm could afford and that the partners would support
- Annual contributions to the fund should be flexible and able to be adjusted should the need arise
- The funding program should be cost and tax efficient
- Assets in the fund should be secured from firm creditors if possible

Assets in the fund typically are expected to grow over time and are dedicated towards paying retirement benefits. A range of choices for the assets and their attributes are:

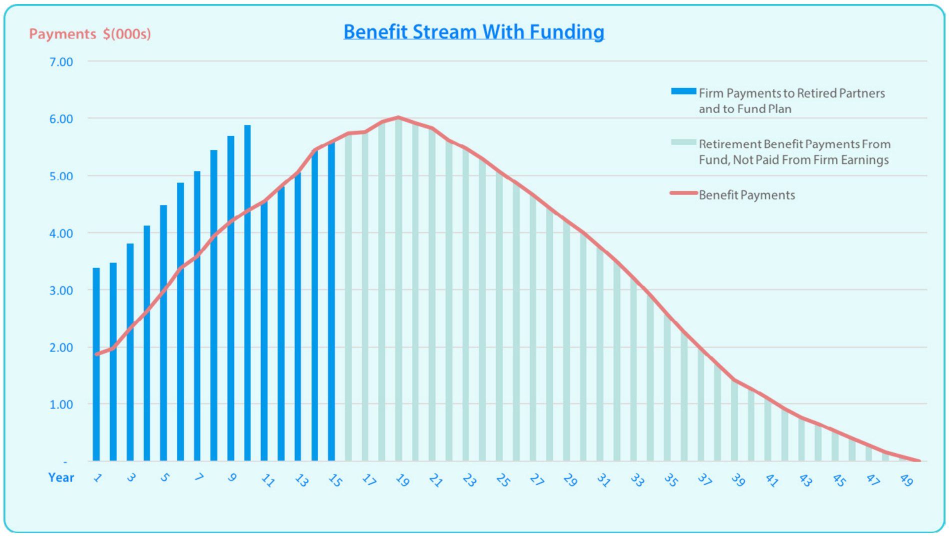
	Equities	Bonds	Mutual Funds	Firm/Trust Owned Institutional Life Insurance Arrangement
Liquid	✓	✓	✓	✓
Broad range of investment options	✗	✗	✓	✓
Earnings, gains & losses not subject to tax	✗	✗	✗	✓
Death benefits tax-free	--	--	--	✓
Annual administrative & management fees	✗	✗	✓	✓

The Consulting Firm's Funding Proposal

The consulting firm proposed a ten year contribution program that would fund the retirement plan benefits for all the active and already retired partners. The firm would continue to pay out of current earnings benefits to all retired partners.

At the end of the initial ten year period, contributions to the fund would end and the assets would continue to grow. Beginning in the fifteenth year, the fund's value would be sufficient to pay all benefits under the partner retirement benefit plan.

The proposed funding program appealed to the partners because, for a reasonable cost incurred over a ten year period, they would be able to satisfy a liability that otherwise would stretch out over a much longer period and would involve a much larger cash outlay. A comparison of the existing unfunded firm retirement benefit cost and the total cash outlay under the proposed funding approach is as follows:



Although there is a modest increase in the total cash outlay for the first ten years, the savings beginning in year sixteen far outweigh the upfront cost.

Planning for asset growth

George and the CFO had to decide how to invest the contributions to the fund. The goal of the fund is to accumulate and grow the assets so they would be sufficient to provide the cash for all the partner retirement benefits after the fifteenth year.

After considering a range of choices, the firm's consultants recommended that the firm develop a trust -owned life insurance arrangement covering the lives of currently active partners. These institutionally priced contracts would be owned by the firm and the firm would be the beneficiary of the policies.

Using an aggregate funding approach, the total value of this arrangement will provide the funds for the firm to pay the partner retirement benefits. Individual partners would not have any direct interest in any of the policies and the policy on a partner's life would not necessarily correspond to that partner's retirement benefit.

The insurance arrangement offers a broad range of investment allocations, including fixed income, equities and indexed accounts. Gains are not taxed currently and, if the policies are held to maturity, the gains are not subject to taxation. Death benefits also are free from income tax. These life insurance contracts seemed the most effective and efficient way to finance the firm's obligation.

Lesson Learned

George and the CFO are convinced that, with the help of their consultants, they finally have the partners retirement benefit plan under control. Whereas previously the firm's understanding of the plan was limited to an actuarial calculation of the present value of the accrued benefit, the firm now knows what benefits will be paid and when. And the firm has an actionable plan for meeting that benefit obligation.
The firm and its partners have achieved several goals:

- The partners have greater confidence that the firm will be able to meet its partner retirement plan obligation
- The firm is better positioned to attract star performers and to retain those already making a substantial contribution to profitability
- Funding for the partners retirement benefit avoids the increasing annual benefits charge that otherwise would have reduced firm earnings for many years to come.

George sleeps better at night knowing that his firm is better positioned to face the future.

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