

4 Things Every Big 4 Partner Needs to Know Before Retirement

by William Richardson III, CLU®, CFP®

1. The majority of the benefits from the various retirement plans and pension programs are funded on a pre-tax basis and will be taxed as ordinary income at retirement (according to the benefit booklets at Big 4 firms.)

This means that, regardless of a family's needs at retirement, they will receive as much as \$300,000 or \$400,000 per year in taxable income from pension plans, plus the required minimum distribution from the 401(k) and other pre-tax contributory plans. For a person with \$2.5m in contributory retirement plans, the first year minimum distribution will be about \$100,000 at age 70. Many of the partners we work with have told us that they haven't thought about the impact of having this amount of income coming out to them at distribution in a way that is taxable and they want to know what they can do now to mitigate this problem and minimize taxes during retirement.

One idea is to contribute the deferral amount of a 401(k), currently \$19,000 for those under 50 and \$25,000 for those over 50, into a Roth 401(k) so we are funding after tax dollars into a bucket that can be withdrawn tax free at retirement.

Another strategy that is often very relevant is utilizing an efficiently designed life insurance program which in addition to providing a death benefit is guaranteed to grow every year and the cash value can be withdrawn basis first, i.e. FIFO accounting so that we have another lever to pull that generates tax free income.*

2. A large percentage of the partner's net worth is connected to their firm and its future financial outcomes.

Many of the partners we work with are participating in deferred comp plans that are unfunded liabilities of their firm. They like these plans because they are pre-tax in nature. The challenge is that, in addition to what was discussed in item 1, these plans rely on the firm's ability to continue to do well and the payment of these benefits later is not connected to any vehicle. In other words, these plans do not segregate the money to pay these benefits and if there are challenges down the road, these benefits could be at risk. That combined with the pension benefits that are also tied to the firm, creates high correlation between the success of the firm and the success of the retired partner.

Because of this, part of our work is in helping our clients understand these risks and working with them to create non-correlated assets that accomplish their objectives and in many cases accomplish those objectives in a more tax-efficient manner.

We do this by factoring in what is offered by the firm and connected to it, and building in other vehicles and strategies that are complementary to what is already provided.

3. Many partners have assumed that the firm benefits will take care of them during retirement and that no further planning is needed beyond a consultation with the internal planning department.

Because partners are so busy with their work, in many cases the financial planning they have done doesn't extend past having a consultation with partner matters and the internal planners available to them.

What we find is that we are able to give our clients great clarity by putting a financial plan together for them and helping them understand things that hadn't previously occurred to them. Because of the number of these plans we have created for our other clients at each firm, we are able to add incredibly value to our clients' lives by understanding their world and giving them relevant ideas in the context of their own firm's unique situation. This saves the partners who work with us time and gives them great clarity and confidence as they move closer to retirement.

4. They handle their investments themselves because they are worried about independence issues.

Because all the partners we work with are bright, financially savvy, and sophisticated, there is no question they can handle many components of their financial plan, including managing their assets.

In fact, some do this simply because they worry about getting in a tricky situation related to independence.

What we find is that many of the partners who are in this situation tell us that they simply aren't taking the time to look at their portfolios and their plans because they are so busy and not only are they not getting to it, the fact that they aren't getting to it is weighing on them and taking up space in their thinking.

Working with a financial planning team at a firm like ours that has access to the broker data feed system alleviates this worry and helps our clients focus on what they do best at work and to then be able to spend time with their families when they are not working. They like knowing that we are paying attention to these things in a way that clears independence and they love knowing they don't have to pay attention to it.

*Utilizing the cash values through policy loans, surrenders, or cash withdrawals will reduce the death benefit; and may necessitate greater outlay than anticipated and/or result in an unexpected taxable event. Assumes a non-Modified Endowment Contract (MEC).

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