Your Guide to Financial Planning for Lawyers

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Financial planning for this upcoming year—both personally and professionally—can help lawyers continue this upward ascent as the year goes on. If you're unsure of where to begin, don't worry. We've put together a primer on how to embrace financial planning for lawyers.

Financial planning for lawyers: what to consider

Financial planning can feel daunting for many lawyers. After all, with increased workloads and a deluge of administrative tasks, it's tricky to find time to prioritize your financial health.

To help you get started , we've developed a high-level overview of the considerations to remember when building your financial plan.

Take a temperature check

As you roll up your sleeves and set out to create your financial plan, it may be tempting to immediately list out your biggest aspirations. Before you do—pause. The first stage in financial planning for lawyers is to take stock of your current situation. Specifically, you'll want to have a solid grasp of how much cash is coming into your firm, as well as your expenses.

Budgets are an invaluable tool to guide you in this step. We've outlined the steps to creating a budget for your law firm.

Use KPIs to understand your law firm

A host of key performance indicators (KPIs) can provide powerful insights into your firm's performance. But ultimately, three core factors stand out as the top indicators: utilization rate, realization rate, and collection rate. Let's briefly review each one:

- **Utilization rate** is the number of billable hours worked divided by the number of hours worked in an eight-hour workday.
- **Realization rate** is the number of billable hours invoiced divided by the number of hours worked.

- **Collection rate** isthe number of hours collected divided by the number of hours invoiced.

Once you've crunched those numbers, you'll have a stronger understanding of your firm's financial health. You might also discover some issues your firm is facing—allowing you to proactively implement measures to overcome them.

For instance, are you losing vast amounts of billable hours each month? It's worth looking into a legal software solution with timekeeping features to help you effortlessly capture more billable hours, no matter where you are.

Are collections becoming a major point of friction with clients? Legal payment processing solutions like Clio Payments make it easy to get paid by accepting multiple types of payment and alternative payment options. Along with improving collections, you'll offer more client-centric service by letting your clients choose a payment method that's best for them.

The takeaway? By helping you understand how your firm is performing and identifying areas for improvement, KPIs are essential components of strong financial strategies.

Gather your data

KPIs aside, there's plenty of other information you can pull as you create your financial plan. These include financial statements (such as your income statement, balance sheet, and cash flow statement), tax statements, and vendor agreements. In Clio Accounting you can generate financial reports with ease.

This will help set you up for success next year by equipping you with an understanding of your profits and obligations. For example, Clio's dashboard allows you to track profits and productivity at firm-wide and individual levels. This is a feature that attorney Kristen Schneck has found to be especially powerful within her firm.

"The Clio Reporting, including the Dashboard functions, has allowed somebody like me—who is typically not a well-versed business person—to be able to understand where we are in terms of our profits and productivity," she explained.

Outline your financial goals

With a clear picture of your law firm's finances, you're now ready to reflect on your goals. Your core objective here is to gain a solid understanding of what you want to achieve in the coming year.

Maybe it's expanding your company by hiring additional staff. Perhaps you want to scale your firm by taking on new clients. Or you could have your sights set on improving efficiency with new legal technologies. Odds are, your goals will come with a price tag.

This is an ideal time to gather more information on the resources you'll need to make them a reality. For example, if you've decided to implement new software, research potential vendors and collect information about pricing early on. This will allow you to make informed decisions that can be incorporated into your plan.

Create your roadmap

Now you're ready to put everything together. Looking at your firm's profits and expenses, strategies, data, and the goals you've uncovered, you can build a financial pathway for next year and beyond. You'll want to outline the various steps that need to be taken to successfully reach each goal. For instance, if gaining new clients is a top priority, think about how you will achieve this. It might mean elevating your law firm marketing efforts, or automating routine tasks to service more clients.

It's important to discuss your roadmap with all stakeholders in your law firm. Make sure everyone understands any changes to processes, and most importantly, is on board with your plan.

Learn and adapt, as needed

Every law firm's roadmap will look different. They may also fluctuate significantly from year to year—and that's just fine. As the months pass, circumstances sometimes change and lawyers will naturally need to adjust.

Remember: financial planning for lawyers should function as a guide, not a fixed strategy. If recent years have taught us anything, it's that we can't predict what the future holds. While it's important to stick to your goals as best as possible, don't feel discouraged when changes need to be implemented.

As the Antifragile Law Firm Guide puts it: "An antifragile law firm makes multiple bets, learns from the results, and changes course quickly. If the external situation changes, the firm is able to shift attention to winning bets." Bonus: financial planning for lawyers starts at home

Throughout this post, we've focused on how to create a financial plan for your law firm. Yet, we would miss a huge opportunity if we didn't mention the value of personal financial planning.

Beyond looking at your law firm's financial performance, allocate time to build your own financial strategy. With less financial stress on your plate, you'll be able to more easily focus on your firm's strategy and goals.

This is especially important as lawyers often have unique financial planning considerations, including student debt and higher income brackets for tax purposes. As such, personal financial strategy should include a look at the following, at a minimum:

- Cash flow and debt
- Investments
- Tax strategies
- Retirement savings
- Estate planning

By taking the time to revisit or build your personal financial plan, you'll be on the path to realizing your dreams—whether it's an early retirement or building a rainy-day fund.

Final thoughts on financial planning for lawyers

There's no better time than the present to focus on financial planning for lawyers. By taking the steps to build a financial plan today, you'll kick off the new year on a strong note. Ready to take your firm's financial management to the next level? With Clio Accounting, built right within Clio, you'll be able to:

- **Reduce manual entry and risk of error.** Clio Payments transactions are automatically matched to your bank transactions using shared Clio data.
- **Remove the guesswork of where your money is.** Easily follow payments at every stage—trust deposits, payments, refunds, and more.
- **Collect on unpaid balances.** Monitor your firm's accounts receivable and enhance your use of Clio Payments with a real-time view of unpaid and partially paid invoices.

Ready to see just how seamless managing your billing, payments, and accounting can be? Book your demo today.

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