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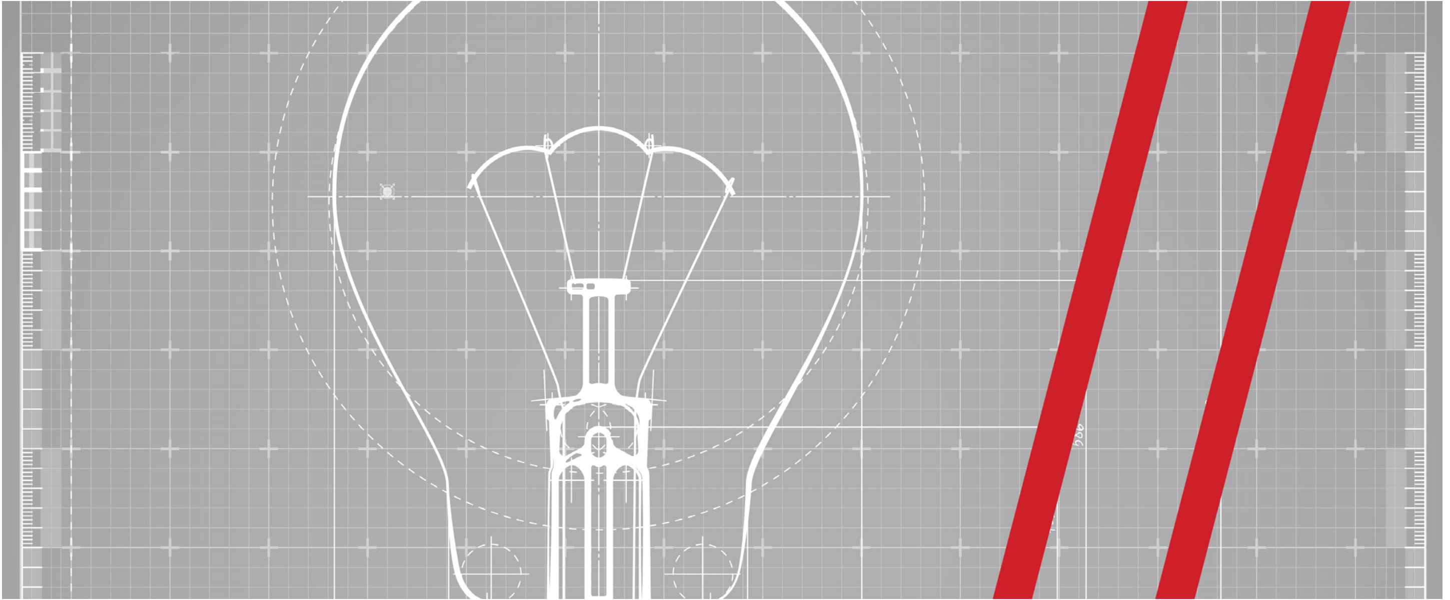

Financial Planning for Partners of Bain & Co: Seven Decisions to Make

A disproportionate number of Geometric Wealth Advisors' clients are Partners or Senior Partners at Bain & Co. While each person's financial situation is unique, certain commonalities exist amongst those sharing an employer and career arc. This whitepaper identifies those shared attributes and provides advice regarding their financial planning implications.

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What makes you different?

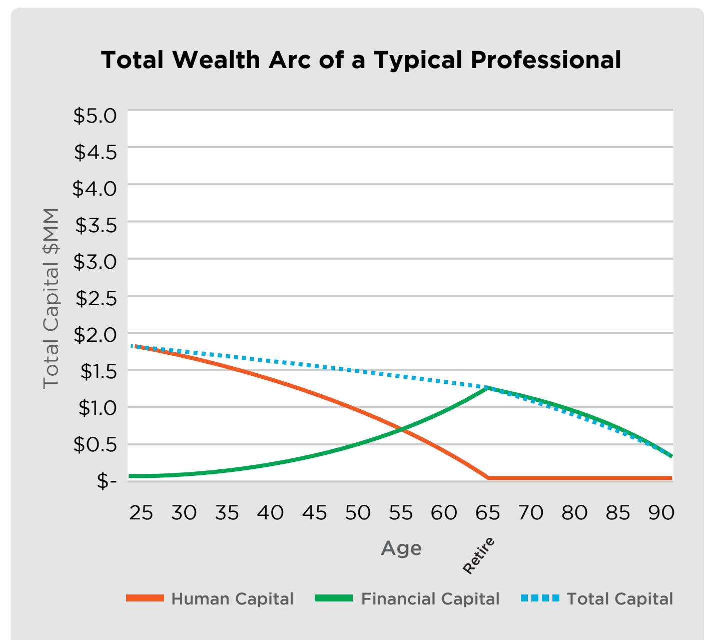
As a Partner at Bain, your financial situation is unique.

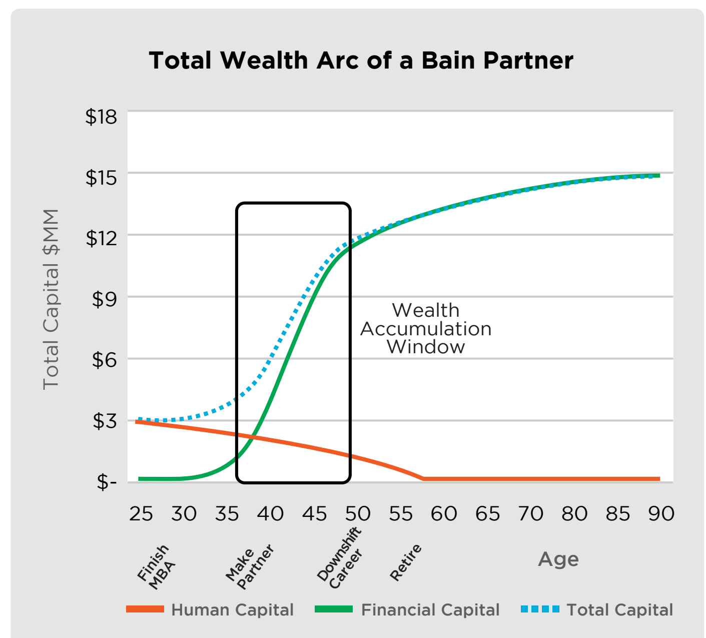
Your position has several interesting financial planning implications: your quarterly bonus structure, Cumulative Deferred Compensation (CDC), access to the Bain-coordinated private equity investment platform, restrictions on trading the stocks of Bain clients, and exceptionally good Partner benefits all have their own financial, investment, and tax-related consequences. Yet the implications of your title run deeper.

Bain Partners find themselves in the midst of a unique "wealth accumulation window." Given the demanding nature of your job, it is unlikely that you will remain a Bain Partner until "normal" retirement age. Your accelerating income, combined with the relatively short time period in which it will be earned, creates a rare savings window that does not exist in the typical career path.

At the same time, you're probably busier than ever before. Your work, travel, and family responsibilities may crowd out proper management of your finances. Because your rapidly-increasing compensation means that you are likely saving more absolute dollars than ever before, it is easy to become complacent, determine that you are "probably saving enough," and leave it at that.

We urge you not to. Optimizing your portfolio, minimizing your taxes, and maximizing your savings during this period is essential. Doing so will make a big difference in the short-term and





compound to an enormous one in the long-term. Your window will not be open forever.

Regardless, chances are good that you will "hit your number" and achieve financial independence – when you no longer *need* to work to achieve your financial goals – at a relatively young age. Assuming you take your foot off the gas pedal at some point before age 65, you may have a retirement (or semi-retirement) lasting 40 or more years. This too creates unique planning needs.

Your analytical capacity also sets you apart. At the risk of over-inflating your tires, you are more intelligent than the average professional. This can cut both ways. On one hand, overconfidence is the worst enemy of the investor. Because markets are largely efficient, investing is the rare pursuit where simply being smarter than the next person does not necessarily translate into better performance. This counter-intuitive fact has derailed many successful professionals[1], including several of our consultant friends. On the other hand, your analytical abilities help you to understand the critical tenets of financial planning – you probably build Excel models to analyze certain decisions that others simply guess at. Properly harnessed, your brainpower certainly puts you in a better position to manage your finances.

The standard financial rules-of-thumb, online calculators, and Suze Orman tips simply do not apply to Partners at Bain. Yet developing a thoughtful plan is vital at this stage of your career. How can you do so despite your nonexistent free time?

We hope this paper helps.

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1. For example, doctors are notoriously bad investors (a sweeping generalization that we can only confirm anecdotally), which is typically attributed to overconfidence. A track record of professional achievement does not always – or even often – correlate with personal investing success.

The Seven Decisions You Need to Make

1. What type of investor are you?

"Active" investing means selecting individual securities that you expect to outperform the market, timing the market, or paying a manager to do either. "Passive" investing typically means buying and holding index funds that own every security in their underlying benchmark indexes.[2]

The distinction is fundamental: an investor either believes that she can identify assets that the market has mispriced (active), or she believes that markets are largely efficient, meaning that the market-determined price of an asset already reflects all information about that asset (passive).

You will need to choose a side.

While the are-markets-truly-efficient-or-not debate could fill an entirely separate paper and is outside the scope of this one, we can't help ourselves: if you believe that you can consistently beat the market, then you are 1) ignoring an overwhelming amount of empirical evidence on the subject, 2) in the wrong profession, because your extraordinarily rare talents would be better rewarded on Wall Street than in consulting, and 3) probably incorrect.

Moreover, what is the cost of being wrong in each case? A passive investor who is "wrong" achieves market returns instead of something greater. As a Partner at Bain, you will likely save enough money that capturing market returns over the long-term should compound your portfolio to significantly more than is needed for your family's financial goals.[3] When active investors are wrong – as the overwhelming majority of them will be – their returns can be dramatically less than the market, which can put the goals of even good savers in jeopardy.

Intelligent passive investing still requires thoughtful portfolio construction, regular attention, and decades of discipline, but a commitment to the principle is a powerful first step.

2. Innovative firms like Dimensional Fund Advisors (DFA) further refine passive investing by capturing market returns without strictly tracking an index, thereby overcoming the structural flaws of strict indexing. (Full disclosure: we invest our clients' money – and our own – primarily in passive-but-not-indexed funds from DFA.)

3. Everyone is different, but our experience is that Bain consultants are not gunning for "private jet money." More often, your goals sound something like, "I want to pay for my kids' education, retire a bit early, do whatever I want after that, and not have to worry about money."

2. How much of your portfolio will you put at risk?

The most important determinant of a portfolio's results is its allocation to "growth" assets (e.g., stocks and REITs) versus "conservative" assets (e.g., bonds and cash). Deciding how much to allocate to each bucket is a critical step in the investment process.

There is a clear trade-off: allocating more of your portfolio to riskier assets increases your long-term expected returns, but doing so also increases the volatility of those returns and the range of potential outcomes.

Selecting the proper allocation requires a profound understanding of your personal risk tolerance, which is a function of your *ability* to take risk, your *need* to take risk, and your *willingness* to take risk.[4] The process is more art than science.

As a starting point – dangerous as a rule, helpful as guide – a reasonable percentage to allocate to conservative assets might equal your age (or average age, for couples) minus ten.[5] Engage in some honest self-reflection to determine if your personal circumstances warrant a higher or lower allocation.

Bain Partners often have counter-balancing forces: a high *ability* to take risk coupled with a low *need* to take risk. You also tend to have a lower-than-average *willingness* to take risk – perhaps it's the nature of consulting – but we know of several exceptions to this rule.

For those who invest in the Bain-coordinated private equity platform (e.g., Squam funds), we recommend that you incorporate the market value of those investments into your "growth" bucket. Your Cumulative Deferred Compensation (CDC), on the other hand, should be an asset on your household balance sheet and be part of your retirement planning, but you should not consider it an investment asset that factors into portfolio decisions.

Regardless of the allocation you select, it is safe to assume that your risk tolerance will decrease as you age. We recommend that you establish a "glidepath" for your retirement portfolio, in which you decrease your target allocation to growth assets by approximately 1% per year.

Resist the urge to tweak this plan or react to headlines, and revisit it only when your circumstances change so significantly that your risk tolerance should be affected.

4. Your ability to take risk is based on quantifiable variables such as age, size of investment portfolio, expected retirement date, future earnings, and financial obligations. Your need to take risk is determined by the amount of investment risk necessary to achieve your financial goals. Your willingness to take risk is the human, emotional element that is difficult to quantify.

5. This applies only to the portion of your portfolio intended for long-term investing. Money needed for working capital (e.g., monthly expenses), short-term goals (e.g., down payment on a new home or renovation of an existing one), or intermediate-term goals (e.g., college tuition) should be managed differently. All remaining money – regardless of whether it is held in a "retirement account" – should be treated as your retirement savings and invested as a single, integrated portfolio with a target risk allocation.

3. In which asset classes will you invest?

When evaluating an asset class for inclusion in your portfolio, consider three things:

First, **does the asset class represent an "investment" or a "speculation?"** People often conflate the terms, but an "investment," by definition, is expected to produce a future stream of income, while a "speculation" is a zero-sum bet between the buyer and the seller on the future price of an asset. The most relevant investments are stocks (which typically pay dividends), bonds (interest), and real estate (rent). Speculations include gold, commodities, currencies, fine art, and countless other assets that produce no income. Your portfolio should include only true investments.

Second, **can you invest in the asset class in a low-cost manner?** Venture capital, private equity, timber, and farmland may produce income, but most investors cannot access them without disqualifying costs.

Lastly, **can you appropriately diversify your investment in the asset class?** Angel investing or buying a rental property may produce income and theoretically could be done without onerous costs, but neither can be adequately diversified to eliminate the unsystematic risk of that unique investment. In the aggregate, investors are only compensated for the systematic risk inherent in an entire asset class, so that is the only risk we should be willing to accept.

As a Bain Partner, you are in the rare situation where private equity may have a place in your portfolio. Thanks to the Bain-coordinated investment platform, you can invest in private equity funds at a low cost and achieve diversification. We recommend that you participate only in the Squam funds – the cherry-picked basket of the most desirable companies diligenced by your Partners and which you can access with no management fees – and that you diversify by participating in each vintage of Squam fund. Despite this rare opportunity, we recommend that you still limit private equity to 5-10% of your overall portfolio. Each Squam fund invests in only a handful of companies, and you do not want a significant portion of your portfolio dedicated to a not-fully-diversified investment.

The primary components of your portfolio should be:

- U.S. stocks
- International stocks
- REITs
- U.S. bonds
- International bonds
- Inflation-protected bonds

Owned in each case via a low-cost, diversified, index/passive fund.

Given your career success, you will inevitably be approached by investment opportunities that fall outside this recommended list. Each of them will fail to satisfy at least one of the three important criteria. Your friend's startup, a real estate opportunity, or a prestigious hedge fund invitation will all sound enticing, but the more frequently you say no, the better off you will be.[6]

6. Consider the old joke applicable to Bain Partners: "What's the easiest way to end up with a million dollars? Retire with $10 million, and become an angel investor." If you absolutely must participate in these types of deals, we encourage you to limit them to a very small slice of your net worth and write it off as entertainment.

4. How will you minimize your tax burden?

Given your marginal bracket, tax management should be a priority. Tax strategy will differ by individual, but here are a few boxes that all Bain Partners should check:

Invest tax-efficiently. Own passive funds, which have lower turnover and are therefore more tax-efficient. "Harvest" tax losses (by selling positions with unrealized losses in taxable accounts) to offset other income. Hold tax-inefficient asset classes (e.g., REITs and bonds) in tax-advantaged accounts (e.g., 401(k) and IRA).

Maximize usage of tax-advantaged accounts. You want every allowable penny growing in a tax-advantaged manner. Most Bain Partners are already maxing out their 401(k) contributions and are ineligible to contribute to a traditional or Roth IRA, but consider non-deductible IRA contributions[7] and utilize 529 plan savings accounts.[8]

Maximize the tax benefits of your charitable giving. If you are making charitable donations via your credit card, you are almost certainly leaving money on the table. Donate appreciated securities whenever possible, and consider using a Donor Advised Fund.

Work with a tax professional. At this point, your situation is complex enough (K-1s, multi-state filings, etc.) that outsourcing tax preparation to a CPA is probably wise. Your accountant should work closely with you (and/or your financial advisor) to ensure that your investment and tax strategies are aligned.

Bain Partners should strive to have every allowable penny growing in a tax-advantaged manner.

7. There are no income limitations on non-deductible IRA contributions, but we advise them only for those eligible to convert non-deductible balances to a Roth without the conversion being taxable. Research the "Pro Rata Rule" for taxation of Roth conversions, or contact the authors.

8. Independent of state income tax deduction opportunities, we recommend Utah's 529 plan. However, those tax deduction opportunities are meaningful in some states, in which case we recommend either using that state's plan or that state's plan in conjunction with the Utah plan. Bain Partners should consider "super-funding" 529 accounts with a single contribution equal to five years' worth of gifts when the child is young.

5. How willing are you to pay to avoid bad outcomes?

When you were promoted to Partner, the likelihood of achieving your family's financial goals became very high. From now on, your mission is to not screw it up.

Doctors take an oath to, above all else, "do no harm." We would suggest that you adopt the same principle as your guiding philosophy when making financial decisions.

In every instance, there will be a cost to this principle. Buying sufficient insurance will cost you premium payments and always has a negative expected value. Implementing a proper estate plan will cost you time and hassle. Allocating an appropriate portion of your portfolio to conservative assets will cost you long-term returns. Do them anyway.

Three events that could truly damage your financial well-being are a premature death, a long-term disability, and a liability lawsuit.[9] Each needs to be protected against. Fortunately, Bain's exceptional Partner benefits package makes this easier.

The amount of life insurance coverage needed will be different for each individual, so spend time (or get help) in calculating how much you need to protect your dependents. Make sure you have at least that much via Bain's group life coverage, and purchase an additional private term life policy if necessary. Do the same for long-term disability coverage (though it's less likely you'll need private coverage given the supplemental option Bain recently introduced). You can likely purchase enough umbrella liability coverage through Bain that you will not need a private policy, but be sure to take advantage of this rare benefit.[10]

As for estate planning, you and your spouse/partner both need up-to-date wills, living wills, and durable powers of attorney for both health care and property. As you build wealth, you might also benefit from trusts and more complex strategies. Procrastinating on (or altogether avoiding) these steps can place unnecessary burdens on your family.

> The likelihood of achieving your financial goals is very high. Your mission is to not screw it up.

9. Your title makes you a target for litigation, and you likely have people working around your home on a regular basis.

10. We'd recommend $3 million in umbrella coverage for most Partners and $5 million or more for Senior Partners.

6. What's your number?

The most frequent question we hear from Bain Partners: "When can I retire?" (Or, to translate what you usually mean, "When will I have saved enough that I can choose to continue working but don't *need* to?")

The most frequent question we hear from Bain Partners: "When will I have saved enough that I can choose to continue working but don't *need* to?"

The answer is a moving target: the younger you are when you retire, the higher the number needs to be. In fact, distilling it to a single number is misguided. Instead, the "right" way to answer this question is to use financial planning software[11] to model your family's net worth from now until the end of your life, accounting for all expected inflows, outflows, investment returns, and tax rates.

Proceed with caution. Any model that projects 40+ years is bound to be wrong, but it can still serve as a valuable framework for financial decision-making. Before making any major decisions, refer to this model for an estimate of its long-term implications. How else could one answer big questions like "when can I retire," "how much house can I afford," or "am I spending too much?"

If that advice is unsatisfying, we reluctantly offer the following rule-of-thumb: multiply your desired annual retirement expenses (in today's dollars) by 40.[12] Once you have accumulated that much in your retirement portfolio, you are probably safe to retire, regardless of age.[13] At that point your investment growth should outpace your withdrawals. Please use this only as a guidepost and not as the basis for any important decisions.

11. We can say with confidence that the Excel model you built to answer this question is not comprehensive enough to be reliable.

12. If greater than 30% of your retirement portfolio is in traditional IRA or 401(k) accounts (funded with pre-tax dollars), you should use a higher multiple (45 or 50x) to account for taxes that will be assessed upon withdrawal.

13. Remember: money needed for non-retirement goals such as a new home, a vacation home, kids' education, or weddings falls outside of this calculation and should not have been included in your retirement portfolio in the first place.

7. Should you work with an advisor?

Our bias on this topic is obvious. Still, we are in a unique position to help answer this question specifically for Bain Partners, so we will attempt to do so.

While the do-it-yourself versus hire-an-advisor decision involves many factors, for Bain Partners it essentially boils down to just one:

If investing and personal finance is a hobby of yours – in other words, if you derive energy from managing this aspect of your life – then you should do it yourself. Outsourcing to an advisor would likely be a frustrating experience for both you and your advisor.

Alternatively, if these responsibilities feel more like a burden, then outsourcing to the right advisor should help you to both increase wealth and decrease stress. Your time is better spent on career, family, and true hobbies.

Finding the *right* advisor is critical. As with strategy consultants, a good advisor produces value far in excess of costs, and a bad one is probably worse than no advisor at all.

How to find a good one? Beyond the minimum criteria[14], it comes down to "fit": Does the advisor's services match the functions you want outsourced? Do you share investment philosophies? Does the advisor understand the needs of people in your stage of life and with your career arc? Does the advisor share your academic background and work style?[15] Do you like this person? Can you envision working with him or her for a long time?

Now do something about it

Becoming a Partner at Bain is a professional height rarely achieved, and it is not one that happens by accident. You earned your current seat – and the financial rewards that come with it – with years or decades of professional growth.

As your career has matured, so has your financial situation, quietly morphing into something far bigger and more complex than when you began. If you are still managing things the way you did as a junior consultant, your plan is likely incomplete. With some targeted efforts, you can address any gaps and maximize the value of your professional accomplishments. We hope this paper provides a useful jumping-off point.

14. You should only work with an advisor who serves as a fiduciary.

15. This item in particular is difficult for Bain Partners. Becoming a financial advisor is a lot easier than getting a job at Bain, and therefore the average advisor does not have the degree of business background and training as the people you work with every day. To benefit from the relationship, try to find one who does.

GEOMETRIC // WEALTH ADVISORS

Geometric provides comprehensive financial planning for executives and partners in management consulting, finance, and other demanding careers.

Portfolio Management

- Low-cost, diversified, tax-efficient investment philosophy
- Implemented primarily using funds from Dimensional Fund Advisors (DFA)
- Managed holistically across a household's accounts: brokerage, IRA(s), 401(k)s, 529 college savings, etc.
- Guidance on investments outside of Geometric's management (e.g., Bain-coordinated Squam funds)

Financial Planning

- Proactive guidance on all matters potentially affecting the achievement of your goals: tax strategy, insurance needs, estate planning, housing decisions, college savings, charitable giving, etc.
- Advisors who share your background and work style and who understand your career arc, life stage, and immediate financial needs
- Periodic modeling of your projected net worth to be used as a framework for decision-making

Tax Services

- In-house tax planning, preparation, and filing, with deep expertise on issues relevant to consultants (K-1s, multi-state filings, etc.)
- Tax services for Bain Partners provided at no additional cost (included in standard wealth management fee)

Preferred Lending

- Discounted mortgage rates and flexible loan structure via our partnership with a private banking group

For More Information

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