



# INTEGER WEALTH GLOBAL

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## **IOLTA Accounts.**

### **A Comprehensive Guide**

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As a company which operates and engages constantly with trusted legal professionals, it is important to understand 'Interest on Lawyer Trust Accounts' (IOLTA) and how these are managed.

Law firms need to follow specific rules on how client funds are managed and maintaining an IOLTA account ensures compliance with ethical and legal obligations.

IOLTA applies primarily to the United States and US based clients and investors. In other countries this is often referred to 'Fidelity or simply 'Trust' accounts, where IOLTA is primarily US applicable.

#### **1. Understanding IOLTA accounts**

What is an IOLTA account.? IOLTA stands for 'Interest on Lawyers Trust Accounts'. This type of trust account is used by lawyers to responsibly hold client funds.

#### **2. What is an IOLTA account used for.?**

Lawyers may need to hold funds for retainers, settlement proceeds, and court-awarded damages, among other reasons. Using an IOLTA account ensures any interest earned is remitted to state bar associations, which are donated to support legal aid programs and other public service initiatives.

Additionally, interest from earnings in these accounts helps fund improvements in legal representation and social justice initiatives that strengthen communities across the country.

#### **3. How does IOLTA benefit lawyers and clients.?**

IOLTA offers advantages to both lawyers and clients alike. For lawyers, these accounts ensure compliance with ethical rules regarding the safekeeping of client funds while also reducing the administrative burden of managing multiple individual accounts.

Clients benefit from IOLTA as they gain peace of mind in knowing their funds are held in a secure environment. Moreover, the interest generated is pooled to support legal aid programs, allowing clients to indirectly contribute to ensuring equitable access to justice for all.

#### **4. The history of IOLTA accounts**

Today, in the US, the National Association of IOLTA (NAIP) shares that there are IOLTA programs throughout the United States, including all fifty states, the District of Columbia, Puerto Rico, and the Virgin Islands.

However, this was not always the case, as Bar associations had to petition vigorously to establish the first IOLTA program in the United States.



Beginning in 1978, the American Bar Association (ABA) provided information on the development of American and foreign IOLTA programs to interested bar associations, legal services providers, and states. Federal banking laws passed by US Congress in the 1980's allowed some cheque accounts to bear interest.

In 1981, the ABA formed the Advisory Board and Task Force on Interest on Lawyer Trust Accounts, which reported to the ABA Board of Governors in 1982.

In 1982, the ABA 'Standing Committee on Ethics and Professional Responsibility' issued an opinion that examined the ethical implications of a lawyer's participation in an IOLTA program. The opinion concluded that it is ethically permissible for a lawyer to participate in an IOLTA program authorised by a state. To support the initiation and operation of IOLTA programs, the ABA created the Commission on IOLTA in 1986.

Since 1981, IOLTA has generated over \$4 billion in revenue throughout the United States, providing a significant source of funding for programs that provide civil legal services to those in need, with over 90 percent of grants awarded by IOLTA programs ( $\pm$  \$196 million in 2023) supporting legal aid offices and pro-bono programs.

While IOLTA is not mandatory in all states, as mentioned above, all 50 US states do have an IOLTA program. It is important to understand that different states will have different IOLTA requirements. We recommend to US clients to check in with their bar association and state program to understand geographic-specific compliance.

Further, most jurisdictions require law firms to address three primary areas to comply with IOLTA regulations when managing client funds:

- Account identification: Law firms must deposit funds into an account specifically labeled as a trust/client account.
- Segregation of accounts: Law firms must keep client funds separate from a lawyer's own funds.
- Accounting records: Law firms must create and maintain appropriate records of funds belonging to their clients.

## **5. Getting started with IOLTA accounting.**

Working with an accountant and the right legal practice management software will ensure you have accurate record-keeping and help avoid the challenges in situations of malpractice.

As with general trust accounting, IOLTA presents malpractice traps, such as:

- The commingling of funds
- Charging fees for processing online payments
- Borrowing IOLTA funds to cover operating expenses

These mistakes can impact even the most diligent lawyers, which in any event, are the ones one's on the proverbial 'hook' for misusing funds from an IOLTA, even if it is made by a bookkeeper or paralegal. Many malpractice claims also arise from minor human errors, including missed deadlines and miscommunication.

The positive is that this can be alleviated by using sophisticated legal practice management software. This provides 'peace of mind' knowing you are compliant and clients get the best version working on their case, creating a win-win environment where all contributing parties win.

## **6. Choosing the correct IOLTA provider.**

While IOLTA is widely recognised and practiced across the US, and other countries, there are differences at the US state level. Ensure and verify which rules apply to your law firm with your state bar association.



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While it may seem simple enough theoretically, the reality is that maintaining a compliant and ethical IOLTA account can be incredibly complex and time-consuming, especially without the proper tech-stack. The strict state specific rules and accounting intricacies can be a 'malpractice trip wire' for the most experienced lawyers. After all, even large law firms with dedicated accounting teams have specific processes to maintain IOLTA compliance.

Smaller law firms and solo attorneys have more pressure to be diligent—just the slightest mistake can have career-limiting consequences.

Thankfully, these challenges can be alleviated with the correct legal trust accounting management software. When selecting a provider, look out for features like:

- Thorough record-keeping capabilities for trust accounts
- Strict adherence to industry regulations
- Robust security features that protect client confidentiality
- Seamless integration with third-party accounting tools

## **7. Final notes on interest on lawyer trust accounts.**

The IOLTA system can have tremendous benefits for investors, clients and society at large. Consider all the good you can help support by simply ensuring your trust accounts are handled effectively where the benefits are paid forward.

Ensuring adherence to the IOLTA principles through self-management can be stressful and risky. Be sure to work with a trusted accountant with experience working with lawyers and so consider investing in legal trust accounting management software.