

Beyond the AmLaw Rankings: What is there to learn about law pay? **by Nancy Faughnan, Senior Research Analyst, Yale University**

For those interested in researching prospects in the legal profession, it is worth taking stock of what information is available regarding pay at private law firms and considering how the profession has changed in the wake of a difficult economy. It is important to note that private law firms operate in a very competitive atmosphere where profit sharing matters are only revealed strategically, and hardly ever in the public media. The fruits of their labor—for example, awards from court cases or fees for mergers—are rarely found to be publicly reported.

Additionally, firms have been getting creative with ways to attract or keep clients. Clients, perhaps finding the economy affecting their own bottom line, are questioning the wisdom of paying Big Law top dollars for routine work that a smaller firm with lower rates could do well just as easily. This has led firms to re-examine practices of billing clients, and the billable hour system has come under fire as being inefficient and unwieldy. Firms have undergone structural changes including eschewing the billable hour system, at least partially, and it has become harder in recent years for partners to achieve equity holder status in private firms.



What do these changes and other recent trends mean to your approach to qualifying prospects for your organization? In general, the researcher will be confronted with a large amount of compensation data if he or she cares to read the abundant news on the profession. I hope here to point out some aspects of private firm pay that seem to endure, as well as some shifts that may be worth noting.

Traditionally our research group at Yale has qualified lawyer prospects by referring to the average profits-per-partner figures (PPP) for the top 200 law firms as they appear in *The American Lawyer's annual* “AmLaw” 100 and 200 lists. Of equal importance when evaluating lawyer wealth is non-law related wealth indicators, such as real estate ownership or philanthropic history. In order to get an idea of how the prospect’s pay might vary from the average, especially if the lawyer does not happen to be a partner at one of the top 200 firms, we have found that it is necessary to create likely scenarios where details are pieced together and given weight in calculating the bottom line. It is helpful to maintain a basic awareness of the current fields of practice that are “hot” and those which have cooled off recently. Evidence of big deals on which the partner has worked or been the lead is perhaps highly telling that he or she will be rewarded at bonus time.

Key Factors In Partner Pay

There are partners and there are *partners*. One of the most dramatic changes has been that many firms have made equity partnership more elusive than it had been. It has traditionally been about a 10-year journey through the ranks of the law firm until one was to “make partner.” Some firms have always had a two-tier partner system (equity and non-equity), but recently more have implemented this model. In order to keep a lid on the number of equity shareholders (and keep that PPP dollar amount high), firms have initiated lengthier partner tracks, where one might make partner, but not share in profits until a few years later. What does that mean to the researcher who counts the years from law school to partnership? It is wise to keep counting a little longer before you can assume your prospect has just received a sizeable profit share.

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A non-equity partner, or someone usually in the first few years as a partner and typically who is at least eight to ten years out of law school, should probably be earning income somewhat higher than a senior associate. However, once promoted to partner, the attorney has ceased to be an employee of the firm and is now part of the employers, the partners, the owners. As such, partners are very often responsible for paying their own benefits such as health care, practice insurance, and other obligations. If the firm has legal or other difficulties such as loss in revenues, partners might see their income diminished in order to right the situation to ensure the firm stays afloat and the employees get paid.

Are you relatively sure that your partner prospect is an equity partner? It is rarely something you can confirm in



media accounts. As mentioned above, in the last year or two, more firms have instituted a second layer of partnership status in order to limit the number of partners who will be partaking of the profits while revenues are depressed.

When did this prospect become a partner? If it was more recently, it is less likely he or she is getting an equity stake. Nothing found in the course of research for this article was able to confirm that equity status is finally achieved after 2 years, 5 years, or more. Anecdotal information I received from an attorney indicates that when equity is first awarded in top firms, the stake is likely to be in an amount of approximately **1/10 of one percent of**

net revenues. I have not verified that this is correct, but have no reason to doubt it is accurate for at least a number of firms. At the very least, it gives a ballpark figure to use in estimating junior equity partner income.

Rainmakers—those who bring in business to the firm—are more valuable than ever amidst a challenging financial climate. In fact, the business side of law is of greater importance than ever. Finding ways to make every side happy may be a talent of some lawyers when dealing with negotiations on a case, but it has now become crucial in making sure the firm itself is run smoothly, attracting and keeping young talent, rewarding the star partners well enough, and recognizing the contributions of many.

Big firms do not only have to keep top rainmaker partners happy and prevent them from leaving for another firm—they also have to compete with the private equity world that is equally eager to harbor those who know how to find wealth and make deals. Recently the *Wall Street Journal* reported that some top law partners are making \$10 million per year, representing a widening of the spread of minimum-to-maximum profits per partner, a figure that used to be 3:1 and is now in some cases 5:1.

Good news for small non profits! You don't have to work for a lawyer's alma mater to get his or her attention! A former law firm marketing professional told me that in the case of raising money from lawyers, it may not be a big advantage to appeal to their fond memories of college or law school. In the case of the law profession, institutions with no affiliation to the lawyer might have the advantage. The reason: lawyers (as well as other local professionals) are often concentrated on finding new clients who are local to their firm or business. For example, a professional at a Mid Law firm or even a branch of a Big Law firm might be looking for social service agencies or arts organizations to support. If it wins them a spot on the organization's board of trustees and visibility in the community, it might be much more rewarding to their career than a gift to their alma mater, a place that might seem distant in years and geography.

Have you looked at the lawyers in your database? Perhaps they are in business for themselves or have a small firm in a small community. Though you will have less compensation information to draw from, you might find good information through large salary surveys of the field.

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Even if they are fee-based, often consulting firms that author these surveys provide some sample data in the way of an introductory article to the survey. It can help you frame your thinking regarding pay in specific geographical areas. You might also think about how you can provide the attorneys in your area publicity that could attract new clients.

The AmLaw 100 and 200

Though not a free resource, the AmLaw (www.law.com) appears to be the first to report on revenues and estimated profits per equity partner every year, now published in the May (AmLaw 100) and June (AmLaw 200) issues. Produced by *The America Lawyer* magazine, you can either subscribe to the print version or the online version in order to get the list. There are also other benefits of the subscription – you will find other ranked lists, as well as some law industry news, that you might not find in the general media. The information most often useful to the researcher is the average profits per equity partner (PPP) figure. The AmLaw derives this by dividing net operating income by the number of equity partners.

The Associate

According to Alreadybored.com, associate attorneys working in Big Law firms earned at the following level in 2010:

- 1st year post law school: \$160,000
- 2nd year: \$170,000
- 3rd year: \$185,000
- 4th year: \$210,000
- 5th year: \$230,000
- 6th year: \$250,000
- 7th year: \$270,000
- 8th year: \$280,000



Some firms provide performance bonuses, and some do not. It is worth perusing the blogs dedicated to the legal industry to find news of performance awards to associates. At the 9th or 10th year, attorneys are at the point where they will “make partner” or not. They are usually given an idea early in their associate career (often at the three-year mark) what their chances are. Often you will see movement at this point—jumping to another firm or going “in house,” for instance. The brass ring for most associates is equity partnership in the firm.

As already discussed, if they make partner, they may not automatically be offered an equity stake in the firm. In fact, financially, they may have been better off at the senior associate level, as for at least a couple years, they will not receive any share of profits (though they may receive a performance-based bonus). The phenomenon of the non-equity partner has been in existence a long time, but in the last two or three years, the financial climate has made this a more and more common entity. As firms work out how to maintain their PPP figure in the face of depressed revenues, they have required a few years of sacrifice on the part of the new partner while they have simultaneously attempted to make retirement (and de-equitizing) attractive to retirement eligible attorneys.

The above-mentioned associate salary figures represent what attorneys earn after their employer takes out a typical 60 percent of what they bring into the firm. Associates (and partners, too) are expected to put in between 1500 and 2000 hours of billable time per year.

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This would not include the time spent on pro-bono work or other tasks not directly associated with a paying client.

Some Terms

- **Big Law:** The definition of a Big Law firm varies, but in general, a firm is “Big Law” if it has several hundred or more attorneys, a presence in major US cities, and a global presence. As far as revenues go, a firm may have high revenue figures, but still be considered “boutique,” mid law, or small law.
- **Rainmaker:** The commonly used term to describe someone who brings clients and business to the firm and therefore affects its revenues (and presumably its profits).
- **Equity:** It is not public knowledge how much equity a partner holds in the firm. It is not divided equally among partners, nor is the practice of how it gets awarded or increased disclosed anywhere that I have found.

Useful Sources

The number of articles reporting on law pay abounds. There are always exceptions to pay practices from firm to firm, and certain firms lead the pack in setting the standard for pay and bonuses. Here is a list of articles and sources I found particularly helpful that have supplied good intelligence regarding the compensation climate of 2011, which in some ways is different from what it was in 2010.

- **WSJ.com** (2/11/11): "Pay Gap Widens at Big Law Firms as Partners Chase Star Attorneys"
- **The AmLaw Daily** (3/14/11): "The Am Law 100: New York Firms' Profits Spike on Wall Street Rebound"
- **Association for Legal Career Professionals (NALP) Directory of Legal Employers** (http://www.nalpdirectory.com/dledir_search_advanced.asp). This resource provides detailed information regarding member firms, including the number of partners and the male/female breakdown.
- **Robert Denney Associates “What’s Hot and What’s Not in the Legal Profession”** (http://www.robertdenney.com/pdf/comm-legal-hot_not_2010.pdf). This list is a snappy, semi-yearly overview of how legal professionals doing work in various industries and various specialties are faring. It is worth staying abreast of the hot spots as they can change very quickly. It is not a bad idea to review this list towards the end of year to remind yourself of how your prospect’s field performed, to best be able to judge whether he or she was rewarded well at bonus time.
- **AbovetheLaw.com** is an aggregator of all kinds of interesting news regarding the world of law. Frequently gossipy, it still provides some intelligent articles and interesting pay information, and doesn’t hesitate to offer its own take on the news it reports.

