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In The Trenches: Experts: Lower associate pay is here to stay

Cuts are part of 'fundamental reset' after two decades of steady growth, Altman Weil consultant says

By Meredith Hobbs, Staff Reporter

Fifty-five percent of participants in an online seminar on associate compensation last week believe associate salary cuts are temporary.

But the two Altman Weil consultants presenting the webinar said lower salaries are here to stay. They are part of a “fundamental and profound reset” after two decades of “steady, sometimes spectacular growth” for the legal profession, said Pamela H. Woldow, who advises firms on getting work from in-house legal departments.

Altman Weil's Oct. 27 program, called “Leverage, Lockstep and the Changing Associate Model,” was for law firm clients.

Altman's James D. Cotterman, who advises firms on compensation, said associate pay did not drop enough in the recent round of cuts at the nation's big law firms, which included Atlanta's largest firms.
Cutting pay from $160,000 to $145,000 was only “about half of what was needed,” said Cotterman. The starting salary at big firms in New York, Washington and Los Angeles was $160,000 before the pay reductions that started last spring.

Cotterman said a $15,000 cut does not make a significant difference in “changing the value equation to clients.”

“They probably should have set pay back a decade, to 1998. That's what I was expecting,” he said. “This story may not be over yet.”

In 1998, Atlanta's big firms paid starting salaries of $72,000.

Lower associate salaries, said Cotterman and Woldow, are an inevitable outcome of decreased demand for legal services, the glut of lawyers on the market and increasing competition from other suppliers of legal services, such as contract attorneys, offshore providers and virtual law firms.

In-house counsel are resisting paying high hourly rates to give first- and second-year associates on-the-job training on their matters, Cotterman noted. In response, a number of firms are instituting apprenticeship programs, which are a typical model in public accounting firms, he said.

It costs firms money to have associates spend more time training instead of billing. But the 10 percent reduction in associate pay that has played out at the nation's large law firms is not sufficient to cover the increased training costs, Cotterman said.

Raising rates to offset that cost is no longer a viable option, he added.

Past increases in associate salaries were driven by increasing demand for associates and funded by raising rates, said Cotterman. He said law firms have been able to raise rates at 1.3 times the rate of inflation for the past two decades.

“Clients are saying they can't take the price increases,” said Cotterman. “The pushback is more intense this year,” he said, prompting a “continuing trend of downward salaries and fewer associates.”

“Corporate legal departments are not going to have much appetite to going back to paying higher rates for first- and second-year associates,” added Woldow.

Instead, they are going to outsource and offshore the work, she said, and “are using their own contract lawyer systems, where they can get greater value from experienced lawyers charging at the same rates as the associates.”

“Clients are more amenable to offshoring … but there is tremendous resistance among firms. They want that work for their first- and second-years,” Woldow added.

Cotterman said some firms that have instituted apprenticeship programs have dropped pay from $165,000 to $100,000 for new associates, with a bonus to defray educational costs. He pointed out that this still leaves new lawyers with heavy student loans in a bind.

It costs partners money to train associates without billing for their time. “The economics of these programs don't look good to partners,” Woldow said.

Woldow pointed out that corporate clients are more amenable to using first- and second-years on their matters in fixed-fee arrangements. “So if you really want to use and train your first- and second-years, then up the alternative fee arrangements,” she said.

Cotterman and Woldow addressed the related shift away from lockstep compensation to performance-based schemes that many firms are putting into place for associates.

The move away from lockstep compensation, where associates receive pay increases as they progress in class years, is motivated by concerns about the expense of associate salaries and a desire to increase the value of the work they do.

Woldow said that in the current climate firms can only charge higher rates for an associate for enhanced value.

Performance-based programs group associates into levels, based on their mastery of competencies defined by the firm. Associate pay is linked to associates' level of competency and billing rates instead of their hiring class.

Woldow directed firms looking for a template for such a program to “From Classes to Competencies, Lockstep to Levels,” a book by Peter B. Sloan of the midwestern firm Husch Blackwell Sanders.

Husch Blackwell's predecessor firm instituted one of the first merit-based programs in 2001, she explained. Woldow and Cotterman cautioned that performance-based programs require far more time from partners for training, evaluation and feedback. A human resources department and a professional development director can take on some of the workload, developing training modules for associates and teaching general skills, but partners must invest more time in a performance-based program than a lockstep system, said Woldow.