

LAW.COM **CLE CENTER**

Completing your **MCLE**

is as easy as...

1 → 2 → 3

**Enroll
now**

LAW.COM **LARGE LAW FIRM** Featuring **AMERICAN LAWYER**

[Law.com Home](#) > [Large Law Firm Home](#)

Will Law Firms Take First-Years' Money Pot Off the Boil?

Gina Passarella
The Legal Intelligencer
March 8, 2006

 [Printer-friendly](#)  [Email this Article](#)  [Reprints & Permissions](#)

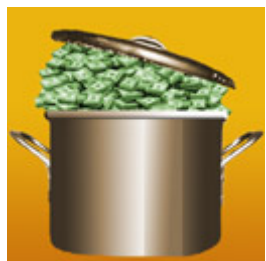


Image: Ed Chandler
means for the industry as a

Most people can recall a time or two when an elder bemoaned how hard it was in the old days: "I walked to school through 10 feet of snow ... uphill ... with no shoes!"

For young attorneys, the equivalent are tales of senior partners who started in the profession in the late '70s making, maybe, \$20,000. Except that's not an exaggeration, and the term "it's all relative" doesn't seem to apply.

In the last 20 years, associate starting salaries have increased nearly \$100,000. But are firms seeing a return on their investment? And what does it

According to some attorneys in the industry, when they started practicing in 1985 they came out of school making around \$36,000 in their first year at major Philadelphia firms. A little more than two decades later, most of those same firms have bumped up salaries to \$125,000. That's a 247 percent increase over 20 years.

Even with inflation factored in, the numbers have still risen substantially. For instance, using an online inflation calculator, the average equivalent of \$36,000 in 1985 would be about \$62,000 in 2005.

What's blown up the salaries so much in a mere 20 years? According to most firm heads, it is all "market driven."

There are two major factors responsible for throwing Philadelphia into the salary wars during the last two decades, according to most industry analysts.

While most increases can be attributed to changes in the New York market, salary increases in the late '90s were driven by California.

After about five years of stagnant wages from 1991 to 1996, the dot-com boom helped elevate starting wages, leading to a 60 percent increase from 1996 to 2000.

Firms were forced to compete with the corporate world for top talent coming out of law school. At the time, an in-house position that allowed for khakis, polos, stock options and a handsome salary was an enticing option for recent grads, according to many legal recruiters.

There was a "perception that working inside the company was more attractive than a service firm," Buchanan Ingersoll chief operating officer Francis A. Muracca said. "That drives up demand for quality people."

The second impetus behind the salary increases comes down to the price firms pay to become national, according to several consultants.

"Over the years, they only had to look at the Philadelphia market," Frank D'Amore of Attorney Career Catalysts said. "Having offices in other parts of the country -- New York, D.C., San Francisco, Los Angeles, maybe Chicago -- you can't just look at Philadelphia anymore."

When D'Amore started practicing in 1984 at a large Philadelphia firm, he made \$36,000.

ADVERTISEMENT

CONGRATULATIONS

NATHAN R!

VP of a Legal & Compliance

department at a large

financial institution in NY

Duane Morris Vice Chairman John J. Soroko said the salary increases started in an effort to stop the "brain drain" out of large local law schools to big New York firms.

"We also don't want to lose the opportunity to get to know people because of financial issues," he said.

When Soroko started at Duane Morris in 1977, he made \$20,000, which he said was the average going rate for major Philadelphia firms at the time.

James M. Keating, managing director of Major, Lindsey & Africa's New York office, said most good firms have expanded into New York, and those firms have to remain competitive there.

"At the same time, they can't increase their starting salary in New York and then not reciprocate," he said.

Some firms that consider themselves national with no "home base" choose to implement uniform salary wages in each office.

Peter J. Devlin, president of Fish & Richardson, recently bumped up his firm's starting salary to \$135,000 in every one of the firm's 10 markets. He said that when he was convinced the increases were a nationwide trend, he made the move to remain competitive.

Among Philadelphia-area firms, Ballard Spahr Andrews & Ingersoll, Saul Ewing and Pepper Hamilton -- with the exception of a few offices -- were three firms that decided to pay all of their first-years the same salary.

"When the firms in your peer group are there, you kind of have to be there," D'Amore said. "Many firms that don't compete with Morgan and Dechert were pulled up even if they don't want to be there."

James D. Cotterman, a consultant with Altman Weil, said that while firms are being more cautious when it comes to salary hikes, some cities are faced with a tiered system that makes it difficult for the smaller firms to ignore the tone the larger firms are setting.

According to Cotterman, when a second-tier city houses the headquarters of a strong regional and a strong national firm as well as an office of a strong, first-tier national firm, salary conflicts are bound to come up.

"The top of the Philadelphia market can be influenced by firms in New York," he said, adding that smaller firms grapple with whether to simply match the large firms because they have moved into their market.

William Sasso, chairman of Stradley Ronon Stevens & Young, said that a firm with a more regional practice like his doesn't always want to keep the pace.

According to Cathy Abelson of Abelson Legal Search, in-house attorneys are starting to wonder where their big payday is.

She said several in-house attorneys have seen the increases in private practice and called looking to make a lateral move for increased pay.

The increases have not seeped into that market, however, because there are so many attorneys looking at in-house positions, Abelson said.

According to Louis Thompson, associate dean for career planning at Temple University's Beasley School of Law, only about 5 to 10 percent of the school's graduating classes choose to go to New York.

He said those students that make decisions based on money are usually ones who would rather do public interest work, but know that they would not be able to survive financially. The difference between \$100,000 and \$135,000 is not usually the motivator, Thompson said.

Since 1999, Temple's law school has seen a 32 percent increase in the average amount of debt and an approximately 30 percent increase in the number of students with debt.

RETURN ON INVESTMENT

It's a debate among those in the industry as to whether firms are seeing a return on investment from salary increases. While most firm leaders agree that the increases are put in place to recruit top talent, few think they are trying to compete with the New York market.

Even still, retention is an issue among all of the large firms.

Cotterman said that after some young associates get their debt under control, they move to a smaller firm just a year or two later for a better lifestyle.

Recruiting fourth- or fifth-year laterals may become a new tool for firms that would rather reduce the size of their summer programs and the hefty fees of law school recruiting, some consultants said.

Cotterman said that according to a survey conducted by Altman Weil, associates are a drain their first year, and the initial cash deficit is not recouped until their fourth year.

"The return can be there if they can hold on to these men and women," he said.

Keating said one of the causes of salary increases, moving into the New York market, might be one reason that firms can see a return

on investment.

"As firms get bigger and expand into different marketplaces, they become more profitable," he said.

Pepper Hamilton's executive partner Robert E. Heideck said his firm is seeing the return on investment even with the loss of some associates. He said many of the attorneys that leave the firm go to work for clients, continuing to bring the firm business.

Heideck said many of the associates that started at the firm in the late '70s are firm leaders today. When Heideck started at the firm in 1980 as a first-year, he was paid \$26,000 and had paid about \$3,000 a year in law school tuition.

Sasso said that while each year an associate becomes more and more valuable, there is something to be said for molding someone right out of law school.

He said the turnaround comes from the expectations placed on associates. He said that while a firm might increase salaries and say that they will keep a 1,900-billable-hour requirement, associates are really expected to do 2,200 or 2,300 hours.

Stephen A. Cozen, chairman of Cozen O'Connor, said there is no point in raising salaries if the firm is not going to see an increase in revenue per lawyer or profits per partner.

"What guarantee do you have that because you raised these starting salaries you're getting more or better quality people to join you?" he said. "I've never been able to see empirical evidence that one leads to another."

According to Peggy Dixon of Abelson Legal Search, "There's an awful lot of awareness in the first few years that really motivates change."

Soroko said it is "on the firm to create an environment in which the younger attorneys feel they can grow."

COMPRESSION

"The compression in Philadelphia has always been and continues to be great," Abelson said.

She said the difference in pay between Philadelphia and New York is still tremendous when you factor in the compression of higher-level associate salaries.

That is true in the case of Dechert, which recently announced it would increase its starting pay for first-years to \$135,000 in Philadelphia. Its New York first-years make slightly more than that at \$145,000. The difference comes in at the additional levels.

According to an internal memo shown to *The Legal Intelligencer*, Dechert's fourth-years in Philadelphia make \$155,000 while their New York counterparts bring in \$190,000. Similarly, sixth-years in Philadelphia make \$170,000, and in New York they make \$225,000. Eighth-years make \$180,000 in Philadelphia and \$250,000 in New York.

Cozen said he would rather pay his younger associates a lower starting salary and reward hard work through merit-based bonuses.

According to Cotterman, the increase in salary on the lower end and the dwindling of partner profits to pay for it on the other end creates a tension zone somewhere in the middle.

Compression and reduced profits make it difficult to keep the pay progression for senior associates and new partners, he said.

"This is about recruiting top talent," Devlin said.

Muracca echoed that sentiment.

"The skill set today for the most sophisticated firms is much more than it was 10, and certainly 20, years ago," he said, adding that the pool of opportunities for top talent has spread across several industries.

But even Muracca admitted that the firm has never lost a candidate over \$10,000 or \$15,000.

Sasso echoed the same sentiments as well.

"If I'm going from nothing to over \$100,000, do I really need that extra \$10,000 or \$15,000?" he asked.

Michael Hayes, chairman of the Philadelphia Bar Association's Young Lawyers Division, said that in interviewing several summer associate candidates, it was clear that money was not at the top of their list of concerns.

In a survey of more than 200 young associates in the Philadelphia market done by Abelson Legal Search, the results showed that many associates would take at least a 10 percent cut in pay for an equal reduction in billable-hour requirements.

According to the results, 76 percent of women would take that deal as would 60 percent of men.

"These are people that have most of the things they need in life, and what they want and don't have is time," Abelson said.

"It's got to end," Cozen said. "There's not an unlimited pot out there."

"It's like an arms race when firms start doing this," Hayes said.

While most firms say that client rates and billable-hour requirements won't go up as a result of these increases, those promises come with skeptics.

"Clients read the same papers," Devlin said. "If you go too far too fast, then you alienate your client base."

Most agree that there will continue to be an ebb and flow.

Cotterman said he advocates for a system in which young associates are paid less and fewer hours are required of them. He said that in the long run, associates will be more productive contributors if they have more time to "observe the art of lawyering."

[About ALM](#)

[About Law.com](#)

[Privacy Policy](#)

[Terms & Conditions](#)

Copyright 2006 ALM Properties, Inc. All rights reserved.