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Leaner pay, bonuses may be reality in 2008

Echoes of the last boom-to-bust cycle.

Leigh Jones / Staff reporter

[The National Law Journal](#)

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Weil Gotshal's Naomi Munz

As law firms wrapped up operations for 2007, the associate compensation picture looked eerily similar to the boom before the bust seven years ago.

The ratio of bonuses to base salaries for first-year associates at the nation's top law firms in 2007 was on par with the figures in 2000, a year that precipitated a dramatic plunge in those annual perks that help to make the punishing associate hours more tolerable.

For 2007, beginning associates made as much as \$45,000 in bonuses in addition to the \$160,000 in base pay at top firms in New York and on the West Coast, with some shops doling out "special bonuses" and getting bragging rights ahead of competitors.

But all that cheer in 2007 may become a distant memory as 2008 is looking increasingly leaner.

"There's more concern out there now than there was in the summer," said James Cotterman, an attorney-compensation consultant with Altman Weil. "There's more talk about a recession."

Most of 2007 apparently was strong enough to support the giant bonuses at elite law firms. But subprime mortgage failures, high oil prices, unrest in the Middle East and an enfeebled dollar closed out the 2007 economy with a whimper.

Big firms, big money

At top firms, including Sullivan & Cromwell; Cravath, Swaine & Moore; Shearman & Sterling; Fried, Frank, Harris, Shriver & Jacobson; and others, the \$45,000 bonuses for first-year associates ran at 22% of total compensation, which equaled \$205,000. Senior associates ended 2007 with as much as \$110,000 in bonuses alone. Some firms paid those bonuses across the board, while others tied amounts to hours billed.

Top firms, for the purposes of this article, compose a group of large New York-based law firms that generally copy one another in bonus structures. The exception is Wachtell, Lipton, Rosen & Katz, which usually provides bonuses far above the others.

Many law firms other than the top New York pack offered attractive year-end bonuses in 2007, ranging from \$10,000 to

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higher, but without the "special bonus" offerings.

At Weil, Gotshal & Manges, sixth-year associate Naomi Munz said she'll put a big chunk of her bonus in her savings account. She started at the New York firm two years ago after working for a law firm in Australia, where firms bestow associate bonuses only in rare circumstances.

Weil Gotshal was one of the firms that gave out special bonuses in November, and is giving out year-end bonuses matching those in the New York market.

Munz plans to have a little fun with the windfall, too.

"I'll end up spending some on travel," said Munz, a mergers and acquisitions attorney.

The last time that bonus amounts at top firms exceeded 2007's percentages was in 2000. That year, the perks for beginning lawyers equaled 24.2% of total compensation. Back then, beginning lawyers at major firms were making \$125,000 in addition to bonuses of \$40,000.

Much of the good fortune in 2000 came from growth in the Internet sector, which buoyed a strong stock market and venture capital endeavors.

By March 2001, however, 10 years of sustained economic growth — the nation's longest period on record — officially had come to an end, according to the National Bureau of Economic Research. The terrorist attacks on Sept. 11, 2001, sent an already faltering economy plummeting even further.

Bonuses in 2001 reflected the big changes. In sharp contrast to the previous year, first-year perks at top firms sank to 13.8% of total compensation, or \$20,000. Bonus amounts fell again in 2002 to \$17,500 for first-years and remained at that level in 2003. During that time and up to 2006, salaries for beginning lawyers remained at \$125,000.

Law firms started to rebound in 2004, when several announced first-year bonuses that were 19.4% of total compensation, or \$30,000. Salaries remained at \$125,000. The following year was the same, except that some firms in 2005 upped senior associates' bonuses from \$50,000 to \$60,000.

Senior associates again were favored in 2006, when many elite firms increased perks for those attorneys to \$65,000, while the rate for first-year associates stayed the same. But associates enjoyed an increase in salaries, which for starting attorneys went up to \$145,000 at many big firms. Many of those same firms raised first-year pay again in 2006, at least in some of the their offices, to \$160,000.

'Game of chicken'

But if the economy remains tepid, or grows worse, less homogeneity in bonus and salary structures is expected this year. Already, one firm, Washington's Williams & Connolly, has raised associate salaries for 2008 to \$180,000. The firm generally does not provide year-end bonuses. The question is whether other firms will follow that salary hike or go even higher.

"It's a game of chicken," said William Henderson, a professor at the University of Indiana School of Law — Bloomington. His scholarship focuses on law firm operations.

Henderson expects many of the firms that were able to match the \$160,000 salaries and even some that met last year's bonus amounts will not be able to keep pace should one firm break from the pack in 2008 and increase starting pay yet again.

"Somebody's going to play hardball," he said. Only those law firms still performing well in a few of the most lucrative practice areas in 2008, such as mergers and acquisitions, private equity and white-collar defense, will be able muster a match, he said.

Altman Weil's Cotterman agreed. He also expects new levels of market segmentation among law firms in 2008 and predicts that only "a handful" of firms this year will be positioned to raise pay again. He added that the stronger firms will see an advantage if the economy weakens in 2008 by hiking associate pay when they know that other firms will struggle or even fail to ante up.

"One of the times you want to play that card is when you know you have an upper hand in a challenging market," Cotterman said.

But at least one non-New York firm, which is among the 50 largest law firms in the nation, said it will play. Its leader, who requested anonymity, said that if a New York-based firm with offices in its market raises associate pay in 2008 and other firms followed, it likely will have to keep up.

"Our firm must be competitive on salaries," he said. "If the increase is applied in other markets, we and other firms would likely match."

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