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How Low Could Associate Salaries Go?

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Managing partners have been complaining for years about increasing associate salaries, though in Philadelphia it ultimately became a good marketing tool to be the first in town to raise them.

The same rules don't apply now that the pendulum is swinging the other way. The first to take an ax to associate compensation risks falling out of favor with law schools and future recruits. However, many see a compensation cut as an otherwise smart business decision that would serve as a "market correction" rather than an unfortunate result of the bad economy.

Although most firms are talking about it, many in leadership positions have made it clear they wouldn't want to be the first.

Wolf Block was technically the first local firm to say that it was doing more than just a salary freeze by cutting associate salaries 10 percent across the board in February. That ultimately proved too little, too late given the firm's vote last month to dissolve, but other Pennsylvania firms weren't jumping on that bandwagon in the few weeks after the salary cuts were announced. Maybe it was because the cuts weren't viewed as substantial enough.

One firm leader said, "I could see \$145,000 go to \$100,000 in a nanosecond," though he wouldn't be the first to do it.

The issue of first-year associate salaries may be a non-issue for many firms, however, as several have announced they aren't bringing in first-year associates in 2009. So it could be the existing ranks that are left to feel the brunt of compensation cuts.

One partner in a leadership position at a local firm said he thought cutting salaries was "dangerous."

"I think it just sends a bad signal," he said. "It's a lot easier to put in a zero increase than to put in cuts."



But another firm leader in Pennsylvania, while admitting that no one wanted to be the first to cut salaries, didn't view the cuts as problematic as others have. He said it was an obvious step that would most likely occur at some point this year.

"I don't think it is cataclysmic," he said. "It's just a market correction. It's just the way, in merit-based compensation systems, some partners' [compensation goes] down even when the firm is doing well."

Salary cuts should be viewed as part of a general transition to merit-based pay for associates and "connecting the dots" between their compensation and the demand for their services, the firm leader said. They should not be done as an effort, for example, to go from \$160,000 to \$145,000 while maintaining a lock-step compensation system, he said.

Law firms are becoming more of a diamond shape rather than a pyramid and the cost of mid- to senior-level associates and junior partners is easier to justify to clients, the firm leader said. Paying "substantial salaries" to new associates will "be a thing of the past," he said.

Lisa R. Smith, a consultant with [Hildebrandt International](#), said firms are looking at a variety of options regarding salaries, though only a few have acted in a significant way.

One camp has looked to cut back incoming associates' salaries and then keep all existing associates at their current levels. She said that is in essence a pay cut for existing lawyers because they aren't moving to the next level.

A few firms have cut salaries at all associate levels, but have increased the bonus pool to compensate for those reductions, all in an effort to move toward a more merit-based compensation system, Smith said. That was what Wolf Block attempted to do when it cut salaries.

In that vein, other firms have been looking toward revamping the associate compensation model altogether to move away from the lockstep system and focus instead on a merit-based structure, she said. Such a step takes a long time and many firms have been looking to move in that direction since well before the market took such a turn for the worse. Smith said she has seen many more firms become interested in that type of change, however, given what has happened with the economy in the last few months.

"This is an opportunity for some firms to rethink the salary structure, which has potentially gotten a little out of taste with the value" of certain attorney levels, Smith said.

When asked about whether firms should fear the effect salary cuts would have on their standing with law schools and the lateral community, she questioned where else those attorneys would go in this market.

Smith did say that it's tough to gauge the true impact when so few firms have made salary cuts in a substantial way. She said, however, that the delaying of start dates by a few months or a year -- something many firms have done -- is viewed as more negative than salary cuts because it can potentially have a bigger impact.

On the whole, Smith said it is important to keep all of these changes in perspective. She said firms aren't just taking the bad economy out on the associates. Partner compensation has been noticeably affected as well.

"It's really widespread," Smith said.

Talk of salary cuts was enlivened last week when Los Angeles-based [Allen Matkins Leck Gamble Mallory & Natsis](#) said that all incoming first-year associates would be brought in at the lower salary of \$145,000 and current first-years would be paid the same. The firm said some other associate levels would see pay cuts as well, according to a report by *The Legal Intelligencer's* sister paper in California, *The Recorder*. Virginia-based [McGuire Woods](#) also announced that it would be cutting starting salaries for incoming associates, dropping from \$160,000 to \$144,000 in its major markets.

A firm in the top 10 to 15 will likely never do it, consultant Peter Zeughauser told *The Recorder*. It's the firms in the top 30 or 40 that may move the market, and they will do it only if they've "exhausted all other options," he said.