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Financial Contributions and A Career in Law

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There is a view that lawyers become more productive as they mature. Let's examine, primarily from readily available statistics[1], the productivity of a career as a practitioner in a private law firm.

Billable Hours As a Measure of Productivity

One measure of productivity is the number of billable hours a practitioner records each year. Unfortunately, the national median billable hours for lawyers peaks in the third and sixth full years of practice at just over 1,900. From that early point, billable hours begin a long and gentle tumble to just under 1,300 some 42 years of experience later. (See Table One on page 3.)

There are many reasons for this. As practitioners gain experience, they also take on other roles in the firm. They become teachers, mentors, managers, business developers, writers and speakers. They also are likely to become parents and take on additional roles in their communities. Finally, they age, and with advancing age comes a desire to slow down and an interest in other aspects of life and society that generally place the billable hour in a less important role than it had at the beginning of their careers.

Standard Billing Rate As a Measure of Productivity

Another measure of productivity might be the standard billing rate of the lawyer. Certainly one's ability to offer greater value per unit of time represents a metric of increasing productivity. National median standard billing rates for lawyers tend to climb over an entire career. In 2003, a newly minted lawyer began at a national median of $130 per hour. Some 43 years of experience later, the national median rate peaks at just over $290 per hour. Don't panic, we have not factored in inflation, as those numbers are all in 2003 dollars. But in terms of real growth, it does depict that over a career, billing rates climb a gentle 1.89% per year. (See Table Two on page 3.)

If one factors inflation at even a modest 2.0% per year, the associate in 2002 that began at $130 per hour will likely end his or her career as a partner some 43 years later billing around $670 per hour. That prospect will probably ease the concern raised in the preceding paragraph. But do not forget that a quart of milk, a loaf of bread, your car, your home, a ticket to the movies, and a slice of pizza all will increase in price in a similar fashion.

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Time Value As a Measure of Productivity

The next logical examination of productivity is to combine the two metrics above (billable hours and billing rates) into time value, and then examine that over a career. For simplicity, we will ignore realization (the discounts that occur from the value of time at standard billing rates to bills rendered and fees collected — such discounts representing price and efficiency variances at time of billing, and clients ability and willingness to pay at time of collection). The national median value of time recorded at standard rates climbs until about two-thirds of the way through a career. In 2002 dollars, a new associate may begin with a modest contribution of just over $210,000. Twenty-three to 29 years later, the median time value (in 2002 dollars) reaches $440,000 and peaks at just over $450,000. This is when the lawyer is in his or her late-40s to mid-50s. From then to a lawyer's late-60s, the median time value (in 2002 dollars) recedes to under $350,000 as a national median time value. (See Table Three.)

Remuneration As a Measure of Productivity

A fourth metric of productivity might be the remuneration of a lawyer. This assumes that profession-wide pay programs generally reflect the relative contributions lawyers make within their law firms. We will use national median total compensation as our metric. In 2002 the national median total compensation of a new US lawyer was just under $80,000. Some 29 to 34 years of experience later, lawyers reach their highest median earnings at over $280,000. This is when a lawyer is in his or her mid- to late-50s. From the peak, remuneration decreases to approximately $255,000 around age 67. Remember that these figures are all in

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Table One

Median Billable Hours By Year Admitted to Bar

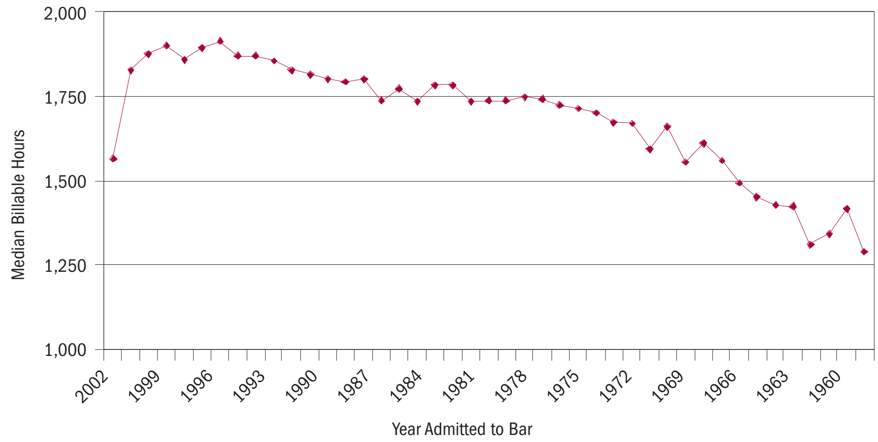


Table Two

Median Standard Billing Rates By Year Admitted to Bar

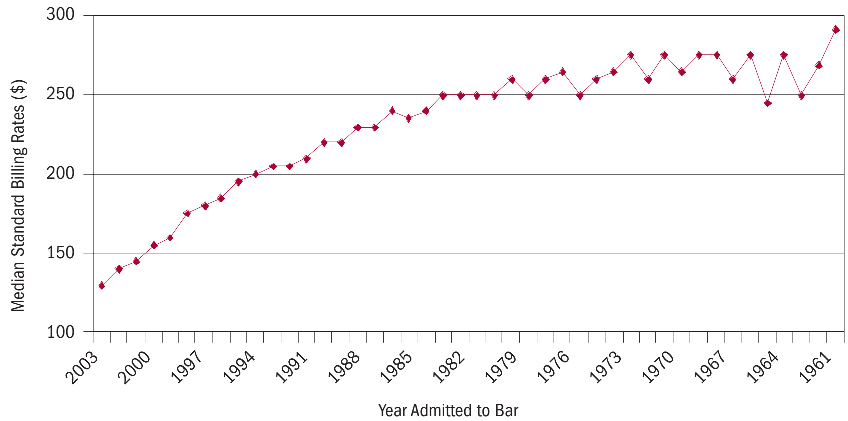
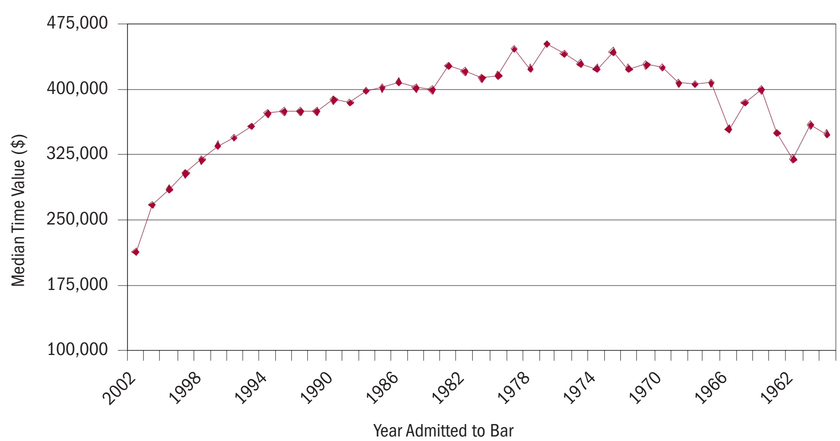


Table Three

Median Time Value By Year Admitted to Bar



Contributions ... *continued from 3*

Table Four

Median Total Compensation By Year Admitted to Bar

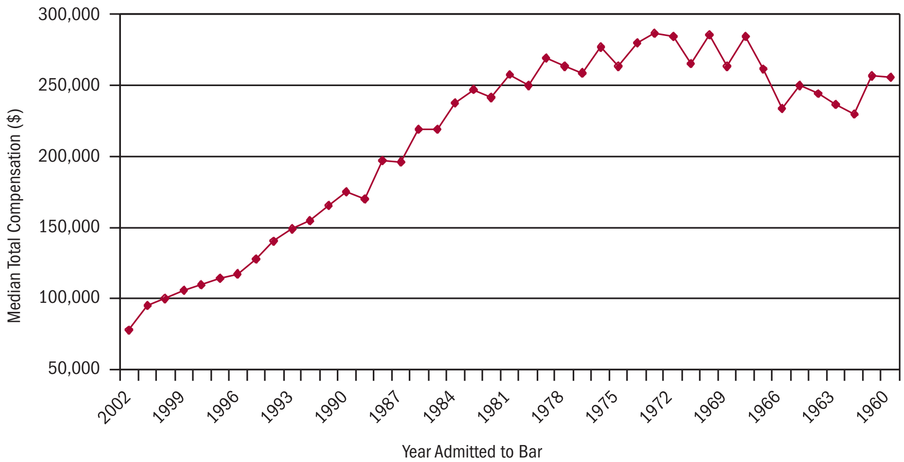
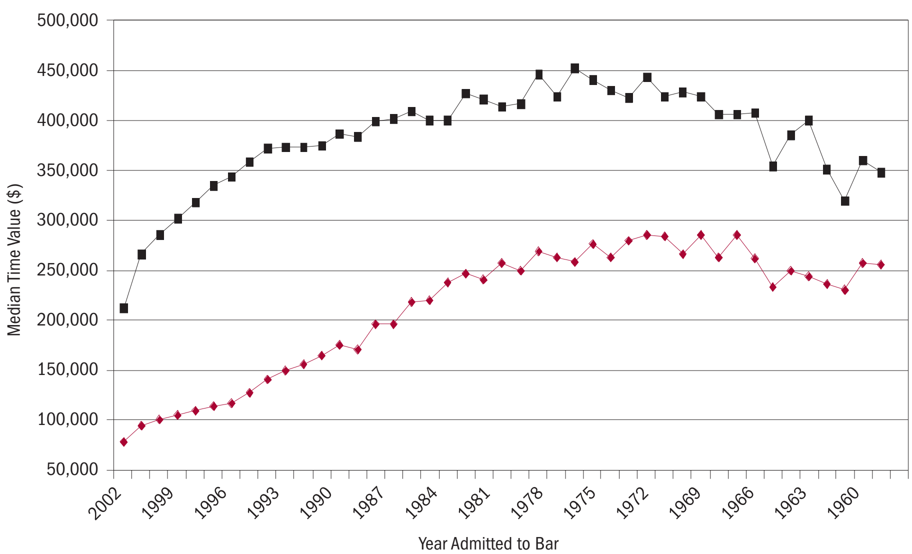


Table Five

Median Time Value and Total Compensation By Year Admitted to Bar



2002 dollars. They reflect real pay growth of about 4.6% from entry to 29 years later at the peak earning years. (See Table Four on page 8.)

As we did with billing rates, let's add in inflation at 2.0% per year. The associate in 2002 that began at a pay package of nearly $80,000 would likely reach just under $500,000 in 29 years. The $255,000 earned at around age 67 will likely be just under $590,000 in 2044 dollars. So one can see that in total dollars, the pay package does not decrease from its peak; rather, it continues to grow. The decrease occurs only in real purchasing power terms.

When we examine Tables Three and Four, an interesting picture emerges. The career time value graph and the career earnings graph have a somewhat similar shape. Table Five puts them together so that we can better see the comparison. Although the earnings graph trails the time value graph, they share a remarkable similarity.

How strong is this relationship? We next correlate the two variables to determine how much of a change in one variable can be explained by a change in the other. Table Six illustrates that there is a strong (64%) correlation between the two variables (time value and total compensation). It also shows, however, that other factors must exist to account for the remaining 36% of variation. This is a very important concept.

There is a fundamental attribute of law firms, and generally of all professional services firms, that pay cannot in the main ignore productivity. Productivity in those activities that feed revenues into the firm is a prerequisite. Without that, all else is rendered meaningless. Too often, we hear individuals in less successful firms say that they cannot manage and generate business and train associates and market *and* be productive as working practitioners. They choose to do one *or* the other, while successful firms understand the imperative of the *and*.

When a firm takes a practitioner out of a direct fee-producing role, the cost of that decision must be absorbed across the remaining timekeepers. This can be justified in larger firms where a senior leader can contribute to the earnings in an indirect manner that is sufficient to incur the cost of doing so.

With a very strong correlation between working time value and pay, however, and the absolute necessity for such productivity, one might ask, does anything else matter? It does, and it is part of the concept illustrated by the 64% correlation in Table Six (on page 9) Other factors are vitally important, and without those other factors that explain the remaining 36% of pay variation, it is quite likely that the original 64% would not occur.

Let's view this a bit differently. Table Seven (on page 9) is the dollar difference between time value and total compensation for each year admitted. Table Eight is total compensation divided by time value for each year admitted.

Let's examine Table Seven more closely. The first eight to ten years in one's career are likely to be years as an associate. Here it suggests that the firms are building the profit model of the associates. The difference in time value and compensation represents profit to the extent that the difference exceeds the overhead threshold on a per-fee-earner basis. If one provides for overhead at $122,000 (about the national average per-fee-earner in 2002) it clarifies this concept in the reader's mind.

The partner years should represent profit-taking, but profession-wide, this is not the case. Profit-taking, appears only in the later years — a consequence of rising overhead and the staggering cost of associates.

Table Eight views the relationship between compensation and time value, expressed as a percentage. The numerator is compensation. The denominator is time value. Early in a career the percentage declines marginally. After about eight years the percentage rises consistently over the remaining career of a practitioner. Again the early years most likely reflect time as an associate, while the rising percentage occurs when associates are rapidly coming into the ownership ranks.

Productivity can be viewed in various ways. No one view represents the absolute measure.[3] ◆

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1 Data in this article, including the charts, are from the *2003 Survey of Law Firm Economics*, a study of US private law firms, Altman Weil® Publications, Inc.

2 Defined for law firm *shareholders* as W-2 compensation plus the value of fringe benefits (generally programs to provide medical insurance and benefits, life insurance, disability insurance and the like), employer contributions to retirement plans and employer-paid payroll taxes, and defined for law firm *partners* as their K-1 income.

3 This article did not examine the non-quantifiable contributions that productive practitioners make to their careers, their firms, their profession or their communities.

Table Six

Median Time Value and Total Compensation By Year Admitted to Bar

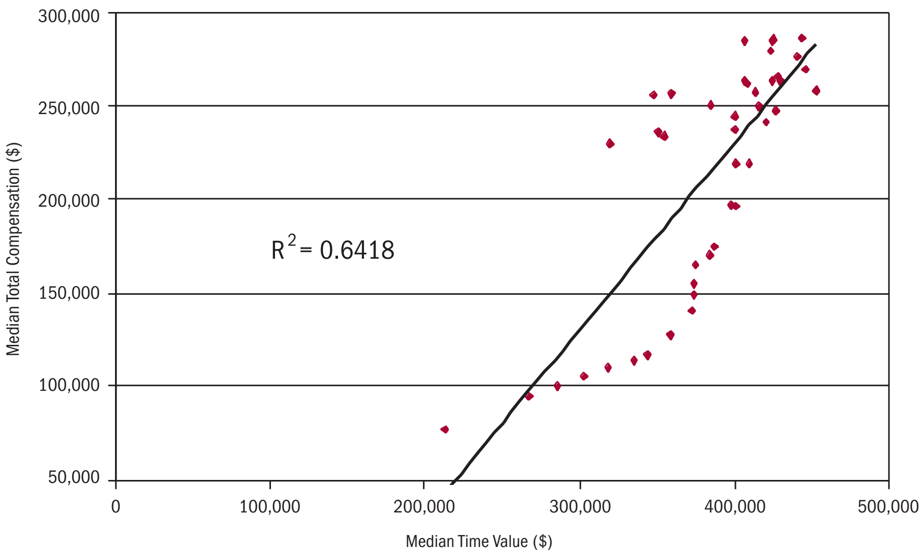

Table Seven

Difference Between Median Time Value and Total Compensation By Year Admitted to Bar

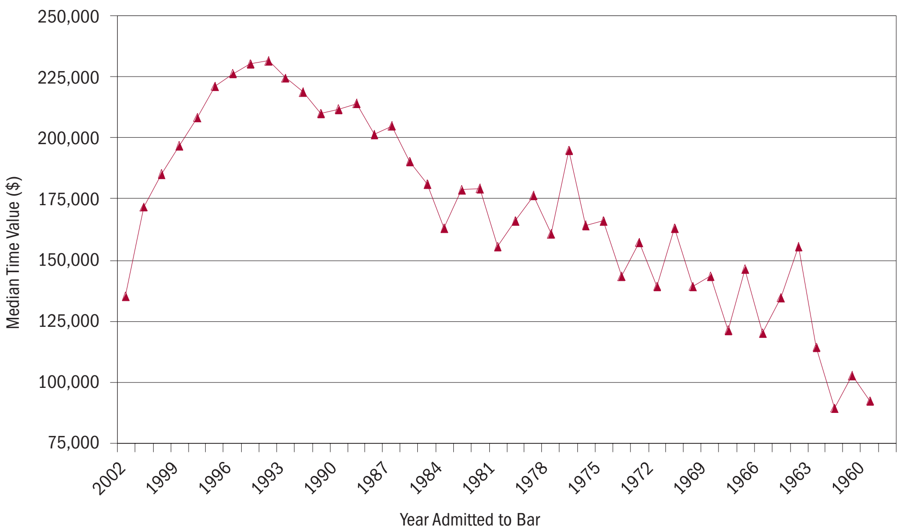

Table Eight

Total Compensation As A Percentage of Median Time Value By Year Admitted To Bar