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## Associate Pay Cuts Here to Stay, Say Firms, Analysts

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A growing number of managing partners and management consultants say recent cuts to associate compensation aren't a temporary phenomenon. And a few see an even more significant correction to entry-level lawyer salaries coming in the year ahead.

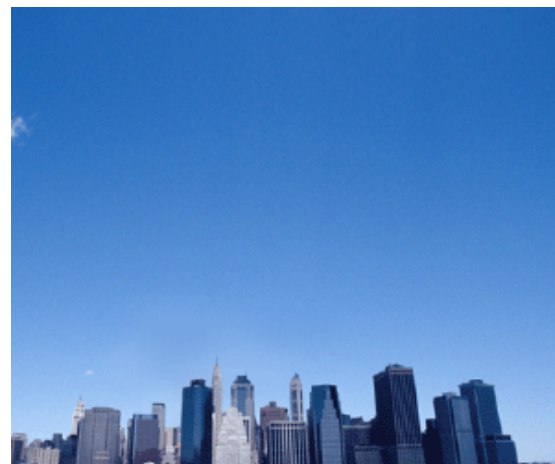
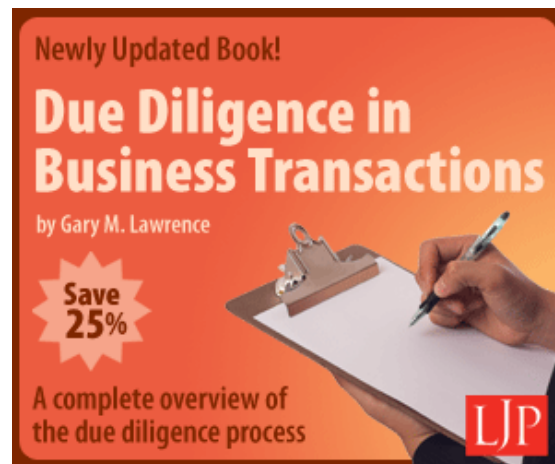
James Cotterman, a consultant at Altman Weil, is one of the pessimists (or realists, depending on your point of view). "We do not see any movement to reinstate the pre-recession pay levels" in the medium term, Cotterman says.

Since February 2009, at least 19 [Am Law 200](#) firms have rolled back entry-level pay. Most have trimmed between \$15,000 and \$30,000 from first-year associate salaries that had reached \$160,000 in New York, Los Angeles and Washington, D.C., beginning in 2007.

The pace of change appears to have picked up in recent months, with some global firms announcing far-reaching changes. [Reed Smith](#) cut incoming first-year salaries by [20 percent in November](#), while at the same time reducing billable-hour expectations and adjusting its training programs. "We don't view this as a temporary adjustment," says Eugene Tillman, the firm's global head of legal personnel. "This is a fundamental reset." And [DLA Piper](#), which [trimmed its associate salaries earlier this year](#), also announced this week that it will [jettison the lockstep model](#) entirely as of Jan. 1.

Other firms that have trimmed compensation by 10 percent to 20 percent this year include Morrison & Foerster, Pillsbury Winthrop Shaw Pittman, Nixon Peabody, Dorsey & Whitney, Baker & McKenzie, Haynes & Boone, Patton Boggs, Wolf Block, Thompson Hine, Squire Sanders & Dempsey, Ballard Spahr, Akerman Senterfitt, MGuireWoods, Katten Muchin, Holland & Knight, and Chadbourne & Parke. A few, such as Kaye Scholer, cut salaries only for junior associates who have not met billable-hour targets. And Chadbourne announced last month that it was [reinstating the salary cuts](#) it made last spring in the form of a special bonus payment.

Not everyone is following the trend. Wall Street firms, for instance, appear to be going against the grain. But even there, change is in the air. "If you do the math," says Steven Davis, chairman of [Dewey & LeBoeuf](#), "associate



compensation is coming down across the board."

Davis notes that most Wall Street firms halved bonuses for the second year in a row this past month; bonuses now stand at roughly a quarter of what they were just two years ago. At firms such as Cravath Swaine & Moore and Sullivan & Cromwell, where they represent a substantial portion of compensation, the end-of-year bonus cuts represent a significant rollback -- in some cases, as much as a third -- in overall compensation from 2007 levels. And that's not counting the hundreds of first-years now earning less than half -- \$60,000 to \$75,000 -- of their expected starting pay while waiting out deferrals this year.

"I lean much more in the direction that this is not a blip," says Dewey's Davis. "In the medium term, we're seeing, and will continue to see, a paradigm shift" in associate compensation. (Dewey, interestingly, hasn't announced cuts in compensation or in bonuses, though it has sent dozens of 2009 first-years on leave with a stipend.)

Davis and three others in firm management who spoke with us say they are closely watching new associate compensation models like the one announced last week by Orrick Herrington & Sutcliffe: a tiered system in which advancement is merit-based. These models, while not explicitly tied to lowering overall associate compensation, are more flexible than lockstep and have the potential to recalibrate firm starting salaries "even lower than the general reductions already in effect," Cotterman notes.

Consider what's happening at Howrey. In 2007, when the firm eliminated lockstep, it was viewed as an extremely bold, even suicidal move. Today, its first- and second-years make \$100,000 plus \$25,000 to pay off loans -- and no bonuses -- but have to bill only 700 hours annually. The balance of their time is meant to be spent taking part in training programs. The system wasn't designed with cost-cutting in mind, but to gauge how much clients are willing to pay for junior associates' work, says firm managing partner and CEO Robert Ruyak. It turns out there are other benefits: "You can really adjust" compensation levels with Howrey's new system to adapt to a changing economy, notes Ruyak. "Under the lockstep system, you can't."

*This article first appeared on The Am Law Daily blog on AmericanLawyer.com.*