2026 Report on State of the US Legal Market

Law firm leaders looking ahead to 2026 are balancing cautious optimism with a growing sense that market rules are shifting. Rates are rising, demand is moving, clients are more cost-conscious, and technology (especially AI) is no longer theoretical. The Managing Partner Forum's January webinar, "2026 Report on State of the US Legal Market," combined data and perspective with candid discussion about what is actually driving profitability today.

This latest webinar in our popular series, "The Law Firm of the Future," explored where opportunity still exists and where firms are letting money slip away. Firm leaders today are facing big questions: how bold to be on rates, where demand is shifting, how billing discipline affects margins, and why waiting on AI is becoming a competitive risk.

Panelist:

- **Bill Josten:** Director of Client Value and Commercial Strategy, Honigman, and Legal Marketplace Innovations Strategist, Thomson Reuters Institute

Moderators:

- **John Remsen Jr:** President of TheRemsenGroup and President & CEO of Managing Partner Forum
- **Uri Gutfreund:** Senior Vice President and Managing Principal at Ames & Gough

Key takeaways:

- **Rate increases remain a primary profit driver,** but only when firms are willing to ask. Data shows that clients continue to accept meaningful rate increases, sometimes more readily than firm leaders expect, so rate strategy is a powerful lever for 2026 planning.
- **Demand is no longer concentrated at the top of the market.** Clients are reallocating work to midsize and specialized firms, creating opportunities for those that can clearly articulate value and compete on more than just price.
- **Billing discipline matters as much as revenue growth.** Profitability is eroded through discounts, write-downs, and prebill adjustments that go largely unexamined, even in otherwise successful firms.
- **AI adoption is going from exploration to execution.** Technology reduces the time required to deliver legal work, so firms that rely solely on the billable hour risk margin pressure unless pricing and delivery models evolve in parallel.

Bringing on the Data!

MPF registrant polling showed that most firm leaders expect 2026 profitability to be either better than or comparable to 2025. Bill Josten noted that this outlook reflects how firms approach planning, saying that "we don't necessarily set our strategic plans going into the coming year,

[with] intention that we're going to do worse than we did the year before.” John Remsen Jr. added that managing partners tend to be “eternal optimists,” a pattern seen consistently in MPF polling.

The panel emphasized that this sentiment is tied to concrete drivers. Josten pointed to **rate performance** as a primary factor, while also noting opportunities tied to demand and practice-area growth.

A second polling question asked which practices firms expect to perform best in 2026. **Business litigation** and **corporate/transactional** work led responses. Josten highlighted that this mix is notable because transactional and counter-cyclical practices do not typically strengthen at the same time.

The panel cautioned that these projections largely reflect business-focused practices, with consumer-oriented areas less represented in the underlying data.

Highlights of Thompson Reuter's 2026 Report

The Thomson Reuters 2026 State of the Legal Market Report points to a period of strong overall demand, paired with meaningful redistribution of work across the market. Demand reached some of its highest levels in more than a decade, but growth has shifted away from the most expensive firms, creating expanded opportunities for midsize and lower-cost firms.

Josten pointed out that this shift is visible in segment-level demand data. Historically, Am Law 100 firms led demand growth, but that pattern has changed over the past several years. Midsize and Second Hundred firms have consistently outperformed their larger counterparts, which Josten described as "historically anomalous" and indicative of sustained demand mobility.

The report also highlighted an unusual alignment across practice areas. In 2025, both transactional and counter-cyclical practices posted positive demand growth at the same time, which is an uncommon pattern that contrasts with typical market cycles.

The panel cautioned that strong demand alone may not be enough to sustain profitability. Worked rates have continued to rise above inflation, but client-side sentiment suggests growing caution around future legal spend, so firms will need to manage pricing and costs carefully.

Profit Levers

When MPF participants were asked which profit levers they expect to rely on most in 2026, the most common response was **higher rates**. Nearly 70 percent of respondents identified rate increases as their primary lever, far exceeding improvements in timekeeping, collections, billable hour expectations, or AI integration.

Most firms reported implementing rate increases in 2025, commonly in the mid-single-digit range, and the majority indicated they were successful in achieving those increases. Panelists noted that client resistance has been lower than firms usually anticipate.

Increasing billable hour expectations appears to offer limited upside. Audience polling showed that while associate targets typically fall between 1,600 and 1,999 hours, relatively few firms report that associates consistently meet those expectations.

Stop the Leakage!

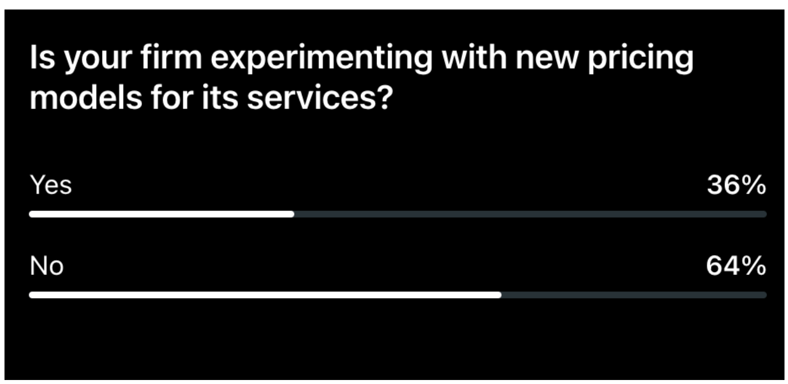
Rate increases dominated the profitability discussion, but the panel stressed that many firms continue to lose margin through **preventable billing gaps**. Josten identified the prebill phase as the point where “most money disappears,” saying that once work is complete, any reductions directly erode profit instead of advancing client relationships.

He cautioned that, “[a] 10% reduction on the revenue of a matter equates to a 30% reduction in profitability” – in other words, how quickly discounts compound. The panel also discussed the need for **clearer guardrails around write-downs and write-offs**, warning that layered concessions at multiple stages can significantly weaken margins without leadership realizing it.

Timekeeping discipline is another high-priority control. Remsen emphasized that contemporaneous time entry protects value before invoices reach clients and reduces the risk of unnecessary self-discounting.

Pricing Models

Most firms have yet to move meaningfully beyond the billable hour despite growing discussion around alternative pricing. Audience polling showed that nearly two-thirds of firms are not currently experimenting with new pricing models, showing how entrenched time-based billing remains across the profession.



Panelists acknowledged that hesitation is understandable. As long as firms can raise rates and maintain demand, the billable hour continues to be a familiar and predictable model. Remsen said that for many firms, “if it ain’t broke, don’t fix it” still governs pricing decisions, even as pressures mount.

The discussion made clear that this comfort may be temporary. Josten emphasized that advances in technology, particularly AI, are compressing the amount of time required to complete many legal tasks. Under ethical rules, firms can only bill for time actually spent, which creates a gap between effort and revenue. Firms that rely exclusively on hours risk seeing margins shrink unless pricing models evolve alongside delivery methods as technological efficiency continues to improve.

The panelists pointed to **task-based**, **menu-style**, or **value-oriented pricing** as practical starting points for firms trying to avoid wholesale overhauls. Firms don't necessarily have to abandon the billable hour overnight, but experimenting now allows leadership to stay ahead of client expectations and avoid being forced into reactive pricing changes later.

What's a Managing Partner to Do?

Panelists re-emphasized that managing partners are key players in helping firms respond to these market dynamics. They encouraged leaders to pursue education and transparency, to share market data and external research, and to build alignment across partners and associates along with staff.

Instead of imposing change unilaterally, the panel suggested using **data-driven conversations** to reduce resistance and encourage informed decision-making. **Experimentation** is the practical next step, especially with value-based or task-based pricing in targeted areas where efficiency gains are already becoming apparent.

The panelists also emphasized the importance of **sequencing change thoughtfully**. Don't pursue multiple initiatives at once: prioritize a small number of high-impact efforts and align leadership around clear goals, then revisit progress regularly to assess. This way, firms sustain momentum without overwhelming partners or staff.

As a final point, the panel stressed that **AI adoption is no longer optional or theoretical**.They agreed that firms should move beyond observation and into implementation by establishing policies and governance structures that support responsible use, and implementing firm-wide training accordingly. Firms that delay risk falling behind competitors who are already integrating AI into both legal work and business operations.
