



✓ **London Law Firm Assistants Salary and Bonus
Trends and Predictions**

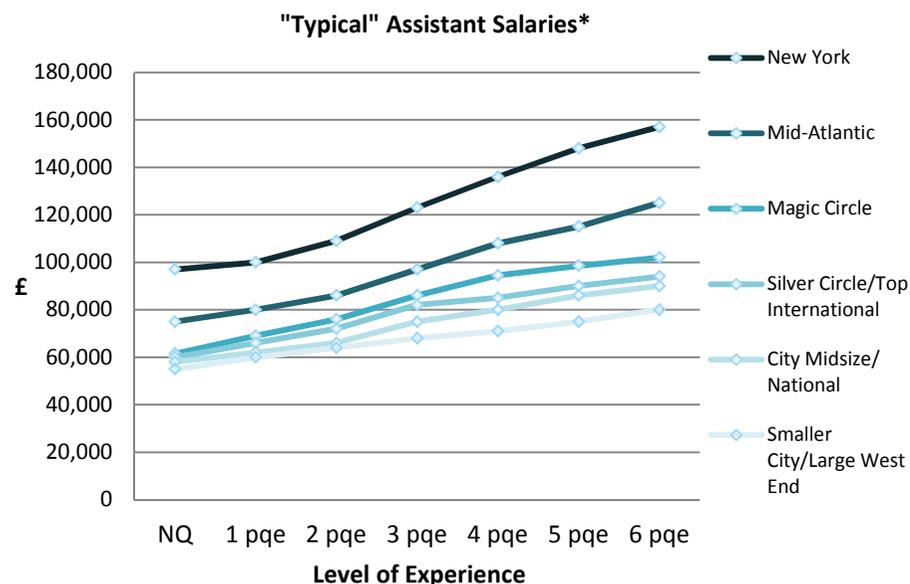
January 2013

Headlines 2012 to January 2013

- ✦ Below inflation salary rises for assistants at UK headquartered law firms for the fourth year running.
- ✦ A fall in the bonus % payments at UK headquartered firms for the second year running.
- ✦ For the first time in five years an increase in the end of year bonus payments at US based law firms paying “New York Rates”.
- ✦ In January 2013, frozen assistant level salaries at US based firms paying “New York Rates”.
- ✦ Projected fifth consecutive year of below inflation salary increases at UK headquartered law firms in 2013.

Summary of Assistant Salaries in London

	Magic Circle		Silver Circle/Top International		City Midsize/National		Smaller City/Large West End		New York Rates		Mid-Atlantic Rates	
	Range £	Typical £	Range £	Typical £	Range £	Typical £	Range £	Typical £	Range £	Typical £	Range £	Typical £
NQ	61,500-65,000	61,500	60,000-61,000	60,000	56,000-60,000	58,000	50,000-56,000	55,000	94,000-104,000	97,000	70,000-90,000	75,000
1pqe	67,000-70,000	69,000	63,000-68,000	66,000	62,000-65,000	62,000	52,000-60,000	60,000	94,000-110,000	100,000	76,500-95,000	80,000
2pqe	72,000-76,500	76,000	68,500-75,000	72,000	64,500-69,000	66,000	54,000-66,000	64,000	100,000-120,000	109,000	84,000-100,000	86,000
3pqe	83,000-88,000	86,000	76,000-86,000	82,000	70,000-78,000	75,000	61,000-71,000	68,000	110,000-136,000	123,000	90,000-108,000	97,000
4pqe	92,000-98,000	94,500	83,000-89,000	85,000	74,000-86,000	80,000	61,000-71,000	71,000	123,000-149,000	136,000	95,000-118,000	108,000
5pqe	94,000-106,000	98,500	86,000-96,000	90,000	76,000-94,000	86,000	68,000-80,000	75,000	135,000-162,000	148,000	100,000-128,000	115,000
6pqe	94,000-115,000	102,000	92,000-102,000	94,000	82,500-96,000	90,000	70,000-90,000	80,000	140,000-172,000	157,000	110,000-136,000	125,000
7+pqe	98,000-130,000	115,000	92,000-115,000	100,000+	88,000-110,000	92,000+	70,000-105,000	85,000+	155,000-195,000	165,000+	115,000-182,000	140,000+



* At law firms in London

Overview of London Law Firm Recruitment Market in 2012

Despite continued economic uncertainty, the first half of 2012 saw continued demand by most firms for mid-level assistants in most core commercial law disciplines at the 2-5 post qualified experience ("pqe") level. Although demand for mid-levels was still only 70% of its 2006/7 peak, it continued a steady trend evident since the first quarter of 2010. Outside of this reasonably narrow pqe band, demand was significantly more limited. A combination of London's hosting of the Olympic Games in July and August, together with the UK being embroiled in a double-dip recession, resulted in a long, quiet summer with sharply reduced recruitment at all levels. The final quarter of 2012 saw a sharp rise in activity on the third quarter although again this was focused on mid-level assistants with the overall level of recruitment probably down 15-20% on the same period last year.

Unlike 2011, there was almost no external newly qualified ("NQ") market for 2012 August/September qualifiers. Although NQ retention rates at most firms were above 70%, it appeared that many firms had fewer lawyers qualifying on account of a reduction in trainee places being offered – likely indicative of a continued overall reduction in lawyers at the NQ level in commercial law firms.

At the other end of the scale, there were some redundancies at the 7+ pqe level in some of the larger City and Magic Circle firms in traditional core areas such as corporate and banking. These redundancies were the result of historically low senior associate voluntary attrition rates¹ combined with a perceived need by law firm management to make space for more junior lawyers to grow and develop. Unfortunately, if the market remains flat, this alarming trend is likely to continue in 2013 as three of the most significant traditional alternatives for these lawyers (partnership in their own firm, partnership or partner-designate roles at smaller firms and senior roles in-house in banks or financial service companies) are likely to remain largely closed.

Of note in 2012 was the re-emergence of demand for "neat" commercial property lawyers following the almost complete collapse in demand since 2008. Whilst the number of roles in commercial property remained at a fraction of its pre-recession levels, the second half of 2012 saw a steady stream of commercial property roles. Last year we noted the return in demand for professional support lawyers ("PSLs") for the first time since 2008. PSLs are often considered something of an expendable luxury by law firm management in tough economic times, yet the demand for these specialists continued to increase throughout 2012.

The Challenge from In-House

The latest available figures show that between January 2010 and July 2011 there was a remarkable 12% increase in the number of solicitors with practising certificates working in commercial roles in-house (*source: The Law Society*

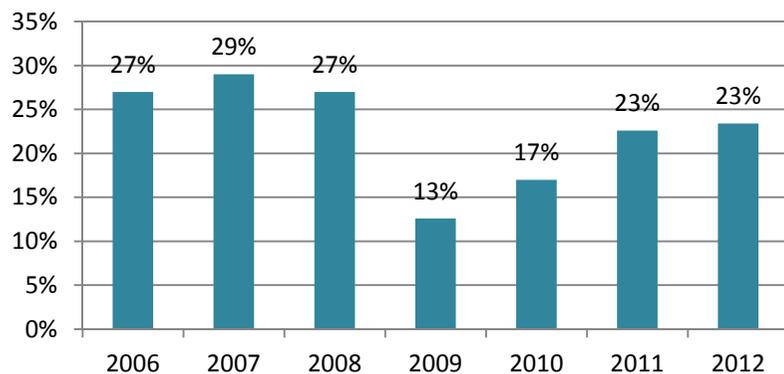
¹ Legal Week 25 May 2012: "City deal teams reminded that as the going gets tough, the tough... sit still"

Annual Statistical Report). Bearing in mind that only 3% of all solicitors train in commercial in-house organisations and virtually all the lawyers moving in-house are sourced from law firms, it is clear that in-house continues to constitute the greatest on-going competition to law firms for legal talent. With the exception of investment banks, and some other financial institutions which all but froze lawyer recruitment in 2012, demand for in-house lawyers continued to remain strong throughout the year. Overall in 2012 average in-house lawyer compensation rose by 2.7% in (*source: IDS Executive Compensation Review*) which was markedly higher than that of law firms, however, unlike law firms individual in-house lawyers rarely benefit from the significant automatic rises in base salaries enjoyed by assistants in law firms as they matriculate up the pqe lockstep. (See below).

Law Firm Attrition Rates

Even before the sharp slowdown in the third quarter, evidence of a softening in the growth of demand for lawyers can perhaps be gleaned by looking at attrition rates of lawyers in the 3-5 pqe band in top 10 law firms. These lawyers are generally the most “in demand” specialists in the market. As can be seen, after two years of sharp increases in attrition, 2012 saw attrition rates flatten at around 23% (significantly below the pre-Lehman market peak of 29%).

Attrition rates at 3-5 pqe in UK Top 10 law firms



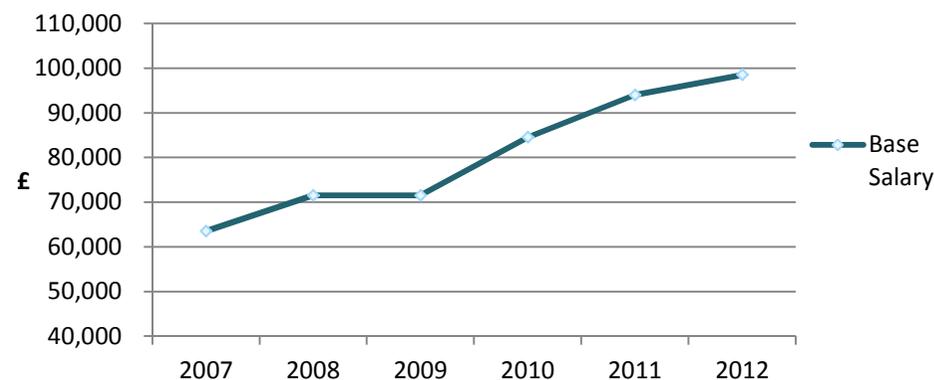
(Source PwC: Law Firms’ Survey)

Assistant Base Salaries at UK Headquartered Law Firms

There was very little movement in assistant base salaries at UK law firms in 2012 with below inflation increases of less than 1% in most pqe pay bands. Nevertheless, because law firms which remunerate on a lockstep basis continued to matriculate lawyers through the pay bands, in most cases individual lawyers in leading firms still saw pay increases of at least 10% and in some firms, at the 3 pqe level, as much as 15%-20% (for a fuller explanation of this phenomenon see Edwards Gibson market update [“The real meaning of ‘frozen’ salaries in law firms”](#)). This counter-intuitive state of affairs is unique to the lock-step law firm model. There has only been one occasion in recent history where the lockstep model has not adhered to this pattern – in 2009 when salaries *were out and out frozen*, meaning that from one September to the next, an individual’s take home pay did not increase and the newly qualified salary dropped from c.£65,000 to £60,000.

For an illustration of how “lockstep” compensation has enabled a typical Magic Circle lawyer qualifying in 2007 to benefit from significantly above inflation annual pay rises (despite law firms announcing “below inflation” rises in pqe pay bands) see graph below.

Year on year salary increase for a 2007 qualifier*



*Working at a typical Magic Circle law firm

As previously observed, firms choosing to use a merit-based compensation model were able to cut expenditure by paying their lower-performing assistants less whilst still paying “market rate” to higher-performing individuals. One result of the more widespread introduction of merit-based pay over the last four years is that the range of salaries paid to individual lawyers of a given level of pqe has become stretched, making pqe a much less certain method of determining an individual lawyer’s base salary than it once was.

Nevertheless, it is our observation that in firms adopting merit-based pay, compensation is still very closely tied to pqe level (up to about 6 years) for the vast majority of assistants, with less than a tenth of lawyers at these firms deviating markedly from the norm for their qualification level. For this reason Edwards Gibson has continued to report its base salary information on the basis of pqe.

A Note on Lockstep vs. Merit-Based Pay

Lockstep is the traditional method used by both UK and US law firms to remunerate their assistant level lawyers. Essentially, it is designed to increase a lawyer’s salary directly in line with the number of years of experience they have accumulated. The major advantage of this system is that it is totally transparent and saves significant partner and HR administrative downtime. The major disadvantage, however, is that it does not take into account the quality of an individual’s performance.

Merit-based pay systems are, by definition, more bespoke and are designed to recognise an individual’s contribution to their firm. Where merit-based pay has been adopted, the criteria for assessment, and the extent to which they have been implemented across all levels of qualification, varies hugely. Law firms who have adopted this model informally report that it has enabled significant savings on compensation whilst enabling them to be more flexible in their recruitment offers. However many firms, including most of the elite US and UK names, have shied away from implementing such a system due to significant reservations about the levels of partner downtime required to properly administer it.

Over the last five years, we have seen an increasing number of UK headquartered firms move to (or at least purport to move to) a merit-based pay structure. We expect to see this trend continue.

The base salary figures below are intended as a general guide to assistant remuneration in City law firms and therefore include representative amounts from merit-based paying law firms as well as those using a lockstep model. UK headquartered law firms generally review assistant salaries between April and July.

Magic Circle

PQE Level	Range £	Typical £
NQ	61,500-65,000	61,500
1	67,000-70,000	69,000
2	72,000-76,500	76,000
3	83,000-88,000	86,000
4	92,000-98,000	94,500
5	94,000-106,000	98,500
6	94,000-115,000	102,000
7+	98,000-130,000+	115,000+

Silver Circle/Top International

PQE Level	Range £	Typical £
NQ	60,000-61,000	60,000
1	63,000-68,000	66,000
2	68,500-75,000	72,000
3	76,000-86,000	82,000
4	83,000-89,000	85,000
5	86,000-96,000	90,000
6	92,000-102,000	94,000
7+	92,000-115,000+	100,000+

City Midsize/National Firms

PQE Level	Range £	Typical £
NQ	56,000-60,000	58,000
1	62,000-65,000	62,000
2	64,500-69,000	66,000
3	70,000-78,000	75,000
4	74,000-86,000	80,000
5	76,000-94,000	86,000
6	82,500-96,000	90,000
7+	88,000-110,000+	92,000+

Smaller City/Large West End firms

PQE Level	Range £	Typical £
NQ	50,000-56,000	55,000
1	52,000-60,000	60,000
2	54,000-66,000	64,000
3	61,000-71,000	68,000
4	63,000-76,000	71,000
5	68,000-80,000	75,000
6	70,000-90,000	80,000
7+	70,000-105,000+	85,000+

US Firms in London

For compensation purposes US headquartered law firms in London are commonly divided into two types: those paying “New York Rates” and those paying “Mid-Atlantic Rates” to their London-based UK qualified assistants. Confusingly, many New York headquartered firms pay Mid-Atlantic Rates and a number of non-New York headquartered US firms pay New York Rates to their UK qualified London assistants.

The highest level of assistant compensation paid to UK qualified lawyers in London is found at firms paying New York Rates. The differential is significant - for example, newly qualified lawyers are paid a base salary which is on average 58% more than at Magic Circle law firms. However, unlike most UK law firms, they do not make pension contributions (typically worth between 5-8%). Salaries at these firms are generally reviewed in January.

Traditionally, base salary compensation at these firms has been calculated in US dollars based on levels paid to associate lawyers in their New York offices. In London, these figures are converted using a fixed exchange rate which varies from year to year and firm to firm. Over the last few years this has tended to be between 1.7 to 1.55 US\$:£Sterling (at the time of writing (January 2013) the official exchange rate is 1.61). New York Rate paying firms invariably retain assistant lockstep but, depending on the exchange rate level set in the UK, base salaries for lawyers in London can vary significantly between firms even when the underlying salaries in US\$ are the same. In recent years most New York Rate paying firms appear to have moved their London assistant rates away from a direct anchor to New York, however, in practice they generally pay on par with their New York offices after conversion.

New York Rates

PQE Level	Headline \$US Rate	Range £	Typical £
NQ	160,000	94,000-104,000	97,000
1	170,000	94,000-110,000	100,000
2	185,000	100,000-120,000	109,000
3	210,000	110,000-136,000	123,000
4	230,000	123,000-149,000	136,000
5	250,000	135,000-162,000	148,000
6	265,000	140,000-172,000	157,000
7+	280,000+	155,000-195,000	165,000+

There has been little or no change in attorney compensation in the US since 2008, with the First Year salary (NQ equivalent) remaining at \$160,000 for New York firms. In 2013 those US firms in London paying New York Rates to their UK associates saw their salaries remain static (aside from small variations arising from exchange rate fluctuations); however, associates have continued to matriculate through the class year (pqe) bands.

Mid-Atlantic Rates

PQE Level	Range £	Typical £
NQ	70,000-90,000	75,000
1	76,500-95,000	80,000
2	84,000-100,000	86,000
3	90,000-108,000	97,000
4	95,000-118,000	108,000
5	100,000-128,000	115,000
6	110,000-136,000	125,000
7+	115,000-182,000	140,000+

The Mid-Atlantic Rate is the basic pay model adopted by the majority of US firms in London. These salaries tend to be set in London with little or no direct relationship to the salaries paid in the US by those firms. Mid-Atlantic Rates are generally higher than UK headquartered law firm salaries and lower than full New York Rates.

Unlike New York Rate paying firms, some firms paying Mid-Atlantic Rates have adopted merit-based pay structures. The class of firm paying Mid-Atlantic Rates in London varies enormously and ranges from elite “White Shoe” New York law firms to US headquartered global, national, regional and niche firms. Because the mix of firms is so eclectic, so too are the salary ranges. Salaries at these firms are generally reviewed between April and July although a significant minority review in January.

2012 Saw Continued Falling Assistant Level Compensation in Real Terms

Edwards Gibson has previously noted that “real” assistant level compensation has fallen since 2008. Below inflation pay increases have been the norm on both sides of the Atlantic since 2008 and it is true to say that in all types of commercial law firms, City lawyers of equivalent class level are earning less *in real* terms than they were in 2008. With New York Rate paying firms this is easy to demonstrate, thanks to the almost universal preservation of assistant level lockstep (where an individual lawyer’s compensation increases each year they matriculate up a class (pqe) year). The widespread adoption of “merit-based pay” by UK headquartered City firms makes this assertion a little harder to prove mathematically but does not make it any less correct – indeed most firms using merit-based pay admit that it has enabled significant wage savings. Indisputable evidence of real - and in some instances absolute - pay reductions can be shown by comparing newly qualified (NQ) lawyer salaries in 2008 with those in 2012 (or 2013 for New York Rate paying firms):

Typical London Salaries	Magic Circle Firms	Silver Circle/ Top International Firms	City Mid-Size/ National Firms	Mid-Atlantic Rates	New York Rates
NQ 2008	£65,000	£64,000	£62,000	£78,000	£94,000
NQ 2012	£61,500	£60,000	£58,000	£75,000	£97,000
Change	-5.4%	-6.3%	-6.5%	-3.9%	+3.2%
Change in real terms*	-17.2%	-18%	-18.1%	-15.8%	-9.7%

*Adjusted for inflation using CPI

Retention Bonus Payments

Bonuses in City Law Firms

Nearly all law firms include a bonus element in their assistant remuneration packages, however, the criteria for receiving a payment vary widely from firm to firm. UK-headquartered City firms rarely pay universal fixed percentage payments to assistants based on the performance of the firm as a whole; instead, they increasingly use bonus payments to differentially reward lawyers in “hot” areas or on the basis of an individual’s exceptional performance, client winning skills or chargeable hours. Often a combination of all these is used.

Bonus payments are by no means universal and the overall proportion of lawyers receiving them at UK headquartered law firms has varied significantly depending on the type of law firm.



*At top 100 UK headquartered law firms. Excluding partners. (Source: PwC)

It is commonly assumed that the amount set aside for bonus payments in any given year is related to the financial performance of a firm, but this has not necessarily been the case at UK headquartered law firms². For those lawyers receiving a bonus, over the past three years the average payment as a percentage of salary appears to have fallen.

Top 10 UK Firms

PQE	2012	2011	2010
>5	14%	17%	21%
3-5	13%	15%	17%
1-2	9%	13%	10%
NQ	5%	6%	8%

Top 26-50 UK Firms

PQE	2012	2011	2010
>5	6%	8%	8%
3-5	5%	6%	7%
1-2	6%	6%	7%
NQ	3%	5%	5%

Top 11-25 UK Firms

PQE	2012	2011	2010
>5	8%	8%	9%
3-5	9%	10%	10%
1-2	8%	9%	9%
NQ	5%	8%	6%

Top 51-100 UK Firms

PQE	2012	2011	2010
>5	6%	7%	12%
3-5	5%	6%	8%
1-2	6%	6%	9%
NQ	5%	5%	1%

(Source: PwC)

² Despite 2009/10 law firm revenues being poor, PwC note in their Law Firm Reports that UK headquartered firms' bonus payments, as a percentage of base salary, actually increased on 2008/09 which again had been higher than in 2007/08 despite the continuing slow-down in the market between those years. Conversely, in 2010/11 and 2011/12, when the majority of firms in the UK top 100 showed improved revenue and profit per partner, the actual percentage of bonus payments decreased at virtually every level of seniority.

Bonuses in US Law Firms Paying New York Rates

US law firms in New York generally pay fixed universal bonuses on a lock-step basis, dependent on years of experience with or without additional qualifying criteria. Firms paying New York Rates in London broadly follow this. In the US the bonuses announced at the end of 2012 and the start of 2013 increased by between 33% and 40% depending upon class year. This was significant in that it was the first time in five years that end of year bonus payments have increased in New York Rate paying firms³.

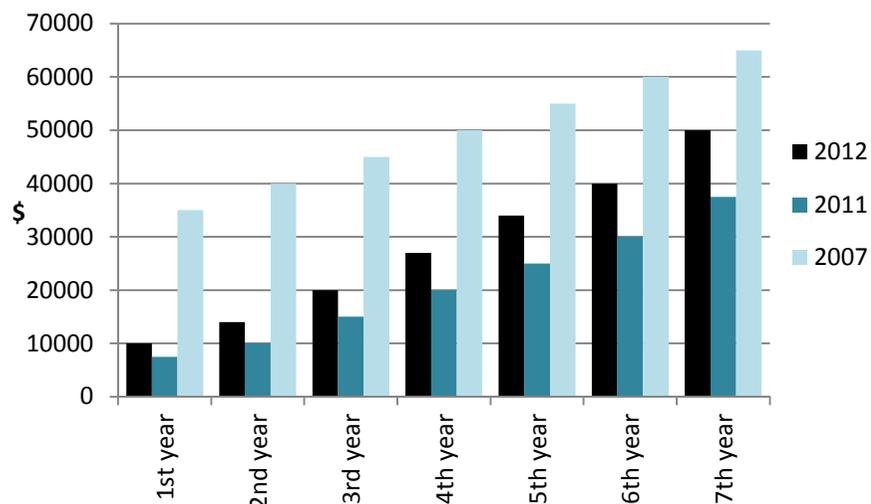
Typical bonus payments announced in December 2012/January 2013 by New York Rate paying US law firms were:

Level	Typical Bonus \$	Typical after conversion £
Class of 2011 (1 pqe)	10,000	6,200
Class of 2010 (2 pqe)	14,000	8,600
Class of 2009 (3 pqe)	20,000	12,300
Class of 2008 (4 pqe)	27,000	17,000
Class of 2007 (5 pqe)	34,000	21,000
Class of 2006 (6 pqe)	40,000	24,700
Class of 2005 (7 pqe)	50,000	30,900

³ The situation is slightly more complex because in 2011 confidence in a market recovery at the start of that year led many firms in the US to pay an additional spring bonus to top up the 2010 amounts, in some instances nearly doubling the original pay out. A small number of US firms (both those paying New York Rates and Mid-Atlantic Rates) paid these spring bonus payments in London. As a result of these one-off spring bonus payments total bonus payments in 2011 were higher than those in 2012 at some levels of pqe.

Nevertheless, in spite of end of year bonus payments increasing by upwards of a third in 2012, they remain significantly lower than those paid during the market high in 2007.

Typical end of year New York bonuses comparing 2012, 2011 and 2007



Benefits

Additional benefits are widely offered to assistant lawyers at commercial UK law firms. Generally these would include a group pension scheme (either contributory or non-contributory – typically 5-8%), life assurance, private medical and dental care, travel loans and gym subsidiaries. Most US firms in London also offer similar benefits packages, although it is uncommon for New York Rate paying firms to contribute to lawyers’ individual pension schemes.

Outlook & Predictions for 2013

At the time of writing (January 2013) the economic outlook remains uncertain. Although 2013 will likely see some firms grow revenue through mergers, whilst others will doubtless gain market share by outperforming competitor firms, overall London-generated revenue is likely to remain flat in real terms as is profit per lawyer (indeed the last available figures show London revenue and overall profit per lawyer to be lower in real terms than 2008⁴). Further, a report published by Royal Bank of Scotland (RBS) in March 2012 stated that, as a result of “*permanent structural change in market forces in the UK*” commercial law firms were probably over-lawyered by as much as 5%.

In view of this, in the absence of high attrition rates, we see no inflationary pressure on law firm base salaries. The lack of an external newly qualified market in September 2012 would indicate that there is no need for law firms to raise newly qualified rates and the available evidence is that any increases in the pay bands above the NQ level will not be significant – in January 2013 New York Rate paying firms in London froze salaries (although they continued to matriculate assistants up their lockstep).

Unless the economy takes a sharp turn for the worse, we do not expect to see a repeat of the absolute pay freezes of 2009 (when assistants for the first time in 20 years failed to matriculate up the pqe pay band). This means that most individual lawyers (up to 3 pqe) will still benefit from c. 10% pay rises as they ascend the lockstep. Beyond 3 pqe the picture is likely to be blurred as, in a weak market, those firms that have adopted assistant merit-based pay will likely use these new structures to reduce overall compensation rises to no more than inflation for the majority of their assistants, whilst maintaining the flexibility to differentially reward higher performers. Beyond 5 pqe the picture is likely to be even less uniform because even those firms that remain true to associate lockstep tend to use an element of merit based pay. Nonetheless it is our prediction that 2013 will see compensation levels at any given class year remain remarkably similar to those of 2012 with, at best, 1-2% rises for each pay band.

⁴ See “[City and US Law firm fundamentals, their impact on the recruitment market and why “real” assistant level compensation should not rise in 2012](#)” (Edwards Gibson April 2012).

Methodology

The information in The Edwards Gibson London Law Firm's Salary and Bonus Trends is compiled from over 600 relevant candidates registered with Edwards Gibson as well as published and non-published information made available by more than 50 law firms supplemented with telephone interviews and face-to-face meetings by Edwards Gibson with scores of law firm partners and HR professionals between July 2012 and December 2012. In addition Edwards Gibson used a range of third party statistical sources referenced in the text.

About Edwards Gibson

Based in the City of London, Edwards Gibson is a dedicated Legal Recruitment Consultancy specialising in private practice lateral partner hires, team moves and associate level recruitment.

At Edwards Gibson we pride ourselves on the depth and clarity of information we provide and have an unrivalled knowledge of the markets in which we work. Our team of ex-lawyers and vastly experienced legal recruitment consultants are ideally placed to advise you on all your legal recruitment needs.

Further Information

Clients, candidates and other parties interested in discussing the figures and methodology in more depth are invited to contact us.

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