



 **London Law Firm Partner Compensation**

January 2013

## Partner Compensation in UK and US Law Firms in London

The term "partner" is a relatively well understood term when dealing with a law firm - it denotes a senior lawyer, usually an expert in a certain field, having the authority to represent and bind his or her law firm. Matters can become a little more complex from within a law firm as, in particular with respect to remuneration, not all partners are the same. There is no single model of law firm partnership as law firms are constituted under a bespoke Deed of Partnership or, in the case of a limited liability partnership, Members' Agreement. Such constitutions are likely to have been developed and amended over the years as the management of such firms structure their respective partnership models on an ongoing basis to balance the reasonable (and occasionally not so reasonable) remuneration requirements of individual partners against the needs of the partnership as a whole whilst also seeking to ensure the allocation of profit is fair and partners are appropriately incentivised.

Nevertheless, there are certain general classifications of partner that can reasonably be made and which can be helpful in assessing and comparing remuneration. These are:

**"Equity Partner"** denotes a partner whose entitlement to income is wholly dependent on the profits of the firm. Usually, this will either be structured in such a way that each Equity partner receives a pre-determined proportion of profit depending on their level of financial seniority within their firm (often described as a "lockstep" partnership) or a mixture of such a pre-determined proportion plus an assessment of their contribution based on performance in the year just ended of which the performance element will amount to a further share in profit (such partnership arrangements are typically called a "modified lockstep"). Typically, an equity partner will also be required to provide working capital for his or her firm, the amounts and arrangements for which can vary materially from firm to firm but examples include: providing a direct cash contribution or entering into a preferred loan or co-signing a bank guarantee. Equity partners are sometimes also called a "Full Equity Partner" or an "A Equity Partner" usually in circumstances where the partnership model of their firm includes other types of partner, such as those described below.

**"Fixed Share Partner"** denotes another classification of partner, increasingly seen in recent years, which is, in essence, a reduced form of Equity partner in that such fixed equity partners' income will normally be dependent on the profits of the firm but their proportional entitlements to share in profit will be less than the lower levels of the full equity partners. Such partners will often be subject to "underpinning" or guaranteed minimum payments in case the profits of the firm in any year should fall and their limited rights to share in total profit would result in an unusually low outcome. Fixed equity partners can also be called "Fixed Share Partners" or "B Equity Partners". Again, the arrangements of the relevant partnership could include bonus or commission arrangements for fixed equity partners.

**"Salaried Partner" or "Income Partner"** denotes, as the name suggest, a partner who is in fact employed by the firm under an employment contract and paid a salary subject to PAYE in the UK. Such partners' incomes are accordingly not determined by the profits of the firm but will be paid out as a contractual amount ahead of the firm's profits. Like any employment contract, the remuneration paid under it can include bonus or commission element.

For the purpose of this guide we have, rather simplistically, divided our summary into *full* equity **"equity partner"** and *non-full* equity **"non-equity partner"** (which includes fixed share and salaried partner) compensation.

## Non-Equity Partner Compensation in Law Firms in London

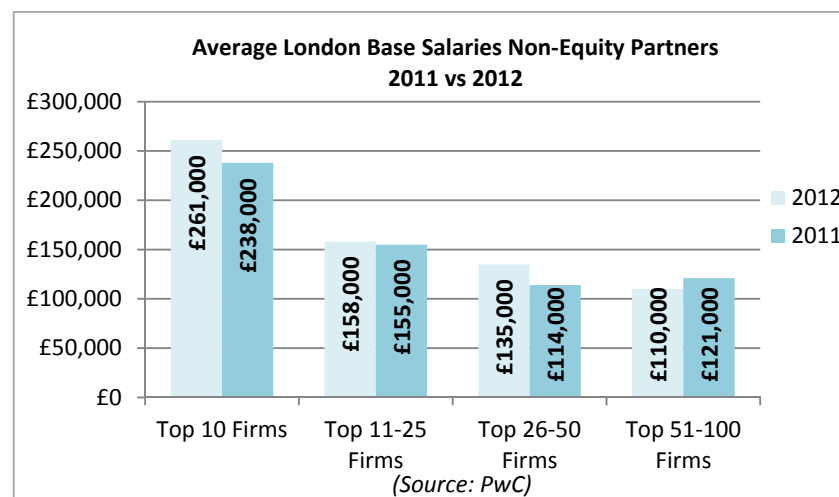
Top 100 UK law firms' non-equity partner compensation varies widely as does the method by which firms pay their non-equity partners - sometimes even within the same firm. Generally, there will be a defined base compensation with an additional, smaller, variable share or bonus element which can be in the form of actual or shadow partnership points (as with equity partners the value of these will rise and fall with the overall profitability of the firm), and/or a commission/ bonus arrangement dependent upon qualifying criteria (such as work introduced or fees collected). Bespoke commission arrangements, in particular, occasionally result in non-equity partners at some firms having compensation in excess of that of many equity partners.

US law firms in London usually pay more to their UK qualified assistant level lawyers than those at UK headquartered firms (see our [Assistant Salary Summary](#)). At partner level, this differential is reduced or eliminated, particularly in relation to elite UK law firms. For some US firms the title "Counsel", with its various semantic variations, is synonymous with salaried partner. Whilst this remains the case at a number of US firms (with some Counsel even having voting rights) the recent proliferation of similarly styled titles in UK or merged UK/US firms has made this title much harder for candidate lawyers to value. It is of course a gross oversimplification to bunch, as we have, all US firms operating in the UK into one banding as there is a huge differential between them.

Over the past five years the trend among commercial law firms has been to have decreased or abolished salaried partnership in favour of fixed-share equity partnership for their non-equity partners. In the UK this has enabled firms to benefit from a more favourable tax position as well as significantly reducing their employer/employee legal liabilities. Fixed Share Partners have self-employed status for taxation purposes and are taxed under Schedule D (employees, including salaried partners, are taxed under Schedule E). Because fixed share partners are deemed to be self-employed, they are liable for Class 2 and

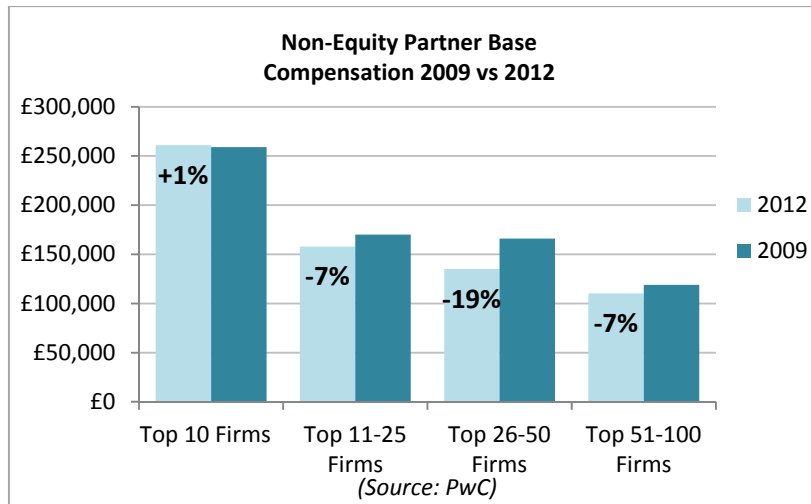
Class 4 National Insurance Contributions<sup>1</sup> (and they also forgo any rights to National Insurance sickness benefits, statutory redundancy pay and payments for unfair dismissal). By providing some equity, law firms have alleviated their future legal obligations to make pension provisions to "employees" so, unlike salaried partners, very few fixed-share partners are provided with pension contributions by their firms. Furthermore, unlike salaried partners, fixed-share partners are often required to make a capital contribution to their firm. Such contributions are, however, usually modest.

Following sharp decreases in non-equity partner base salary compensation at UK headquartered law firms in between financial years 2009/10 and 2010/11, the average London based non-equity partner base compensation increased at top 50 firms in 2012.



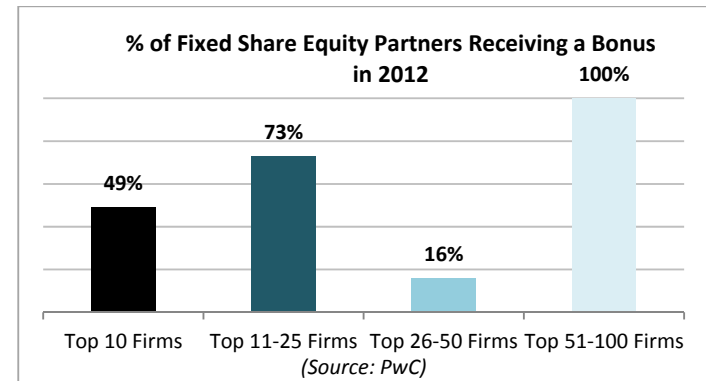
<sup>1</sup> Individuals who are self-employed are liable to pay National Insurance Contributions under Classes 2 and 4. Class 2 Contributions are payable by every "self-employed earner" at the prescribed rate which, for the current tax year ending 5 April 2013, is £2.65 weekly. Class 4 Contributions are earnings related and are collected with the tax payable on an individual's earnings under the self-assessment rules. Class 4 Contributions are payable for the tax year ending 5 April 2013 at a rate of 9% on the difference between £7,605 and £42,475 and at 2% on earnings above £42,475.

In top 10 law firms the 2012 rises mean that average non-equity partner base compensation is now slightly higher than it was in the financial year 2008/2009 (albeit still significantly less in real terms after inflation). Outside the top 10, base compensation continues to remain between 7% and 19% lower than in 2009.

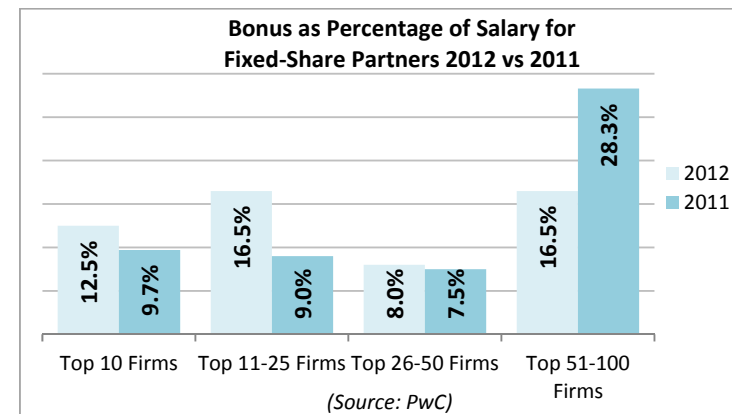


### Non-Equity Partner Bonus Payments

In addition to the base compensation above, most UK headquartered law firms have a bonus element for a proportion of their partners:



In contrast to non-partner lawyers (see our [Assistant Salary Summary](#)), the average bonus payments for fixed-share partners *increased* in the top 50 law firms in 2012:



## Equity Partner Compensation in UK and US Law Firms in London

### *Equity Partnership UK Law Firms*

In the UK, the legal trade publications such as *Legal Business* and *The Lawyer* publish detailed information on equity partner compensation for each of the top 100 UK headquartered law firms every September. They include figures for the equity spread (the range between the bottom and top of Equity Partners' entitlements) and the headline average figure of profit per equity partner (PEP) for each firm.

### *The Problem with Using PEP as a Guide*

Because partnership structures and equity spreads vary so significantly from firm to firm, knowing a firm's PEP is not usually that helpful in determining the *actual* compensation paid to a given equity partner in London; moreover, it is rare to find an equity partner whose compensation corresponds closely with their firm's reported PEP. This issue is further complicated by an increasing number of merged law firms that have adopted a Swiss Verein structure (where two or more distinct partnerships using the same name are constituted separately - for example in Europe and the US - but linked by an overarching contractual arrangement between them). Typically the financial performance between the separate parts of a verein structure will differ materially; indeed differing financial performance is one of the main drivers for putting such a structure in place. Because these firms do not fully share profits, published PEP figures for the firm as a whole are less reliable and partner remuneration often subject to wider variation. An example of this could be a high performing partner, within the financially less successful part of the overall firm, benefiting from a balancing payment from a central profit pool created for that purpose.

In recent times, law firm commentators have begun to move away from PEP as a benchmark for the true profitability of a law firm, stressing that it does not take into account the structure of the partnership and, in particular, how tightly the equity is held. Instead there has been an increasing focus towards earning per partner (EPP) which takes into account compensation for all partners and is seen as a statistic which is less easy for law firms to manipulate. Nevertheless, as

imperfect as PEP is, it still remains the best guide to equity partner take-home compensation and law firms with higher PEPs will generally pay their equivalent equity partners proportionally more. Further, because PEP is a helpful indicator as to the financial firepower of a given law firm, it continues to be regarded as something of a *Gold Standard* by top lateral partner candidates.

### *Equity Partnership US Law Firms*

The *AmLaw 200* provides the PEP of the top 200 US law firms but, unlike its UK equivalents, it does not provide the equity spread for individual law firms. For the UK offices of US law firms the situation is further complicated by the fact that a US firm will often operate a separate equity partnership in the US to that which it operates in the UK. In such cases UK "equity" partners may be entitled to share in the profits of the US entity (sharing in the worldwide profit pool) as well as the UK entity, or they may be equity partners in just the UK entity (thus limited to sharing in the profits of the UK partnership alone). If the UK-based partners are *not* entitled to share in the profits of the US LLP, then knowing the US firm's published *AmLaw* PEP is a particularly blunt and accordingly unreliable method of determining UK-based partner compensation, as the PEP between the UK and US entity of the same firm can vary significantly.

Because of the above, and because the compensation and partnership structures of US law firms in London are even more varied than their UK headquartered equivalents, it is almost meaningless to attempt to classify their London equity partner compensation. Generally, a small number of truly elite US law firms will compensate their UK based equity partners at least as well as their Magic Circle equivalents. Beyond this, most US headquartered law firms appear to pay UK equity partners at levels akin to their equivalent class of UK headquartered law firm.

In determining the actual net monetary value of equity partnership, partners should take into account: partner capital requirements, drawing policies (the manner in which profit is paid out, for example, monthly drawings against profit plus periodic balancing distributions), the firm's history of paying distributions on time and - potentially most importantly of all - the level of debt the law firm chooses to carry, how that debt is managed and what it is used for. After all, if

distributions are funded by significant debt, for which equity partners are ultimately liable, then, as partners at the defunct Dewey LeBoeuf and Halliwells discovered to their cost, the true profit share may be somewhat less.

### Summary London Partner Compensation in London\*

#### Non-Equity Partners

Class of Law Firm	Typical Range (£)	Guide “all-in” Compensation (£)
Magic Circle	N/A as largely moved to all equity in the UK	300,000 + (historic)
Silver Circle/Top International	160,000–350,000	260,000
City Midsize/National	130,000–300,000	185,000
Smaller City & Large West End	100,000–210,000	155,000
US Firms	150,000–450,000	260,000
“Counsel” – UK Firms	130,000–185,000	150,000
“Counsel” – US Firms	150,000–360,000	175,000

As with UK Magic Circle firms, many elite US law firms are constituted as all equity partnerships. In some instances the Counsel title can be viewed as a form of salaried partnership at these firms.

#### Equity Partners at UK Headquartered Firms

Class of Law Firm	Bottom of Equity (£)	Top of Equity (£)	Average PEP Range (£)
Magic Circle	499,000	2,550,000	1,059,000–1,833,000
Silver Circle/ Top International	260,000	1,650,000	635,000–903,000
City Midsize/ National	139,000	1,500,000	299,000–700,000
Smaller City and Large West End	110,000	699,000	138,000–448,000

(Equity figures taken from Legal Business)

*\*Within most firms a given partner’s compensation will vary according to practice area and seniority. As ever with salary summaries there will be examples of compensation which do not fit into the categories above. Where such figures overtly distort the average we have excluded them. In relation to equity partners, some Anglo/US law firms constituted as Swiss Vereins have been excluded where the figures do not portray an accurate reflection of London-based partner compensation.*

## 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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