



Winter 2009/2010
Salary Trends and
Predictions

London Private Practice

Hughes-Castell



Overview

Our survey results show that assistant level salaries have “fallen” between 1% and 10%, with an average of approximately 8%¹.

Private practice law firms have implemented widespread redundancies – in some cases as much as 10% of fee-earners.

The first half of 2009 saw assistant level commercial legal recruitment drop by as much as 95% from the highs of 2007.

Many firms introduced a number of alternative cost cutting measures such as: shorter working weeks (26% of respondents), sabbaticals (24% of respondents) and extended unpaid holidays (10% of respondents).

There has been an unprecedented flexibility within law firms, enabling them to reduce salaries countering the more than 25% cumulative rise over the preceding 3 years².

Assistant salaries at the London offices of US headquartered law firms became relatively more competitive than UK City firms.

For the first time since the Woolf reforms, recruitment of litigation lawyers became proportionally higher than transactional lawyers.

At the time of writing, the final quarter of 2009 has seen the first sustained across the board improvement in recruitment levels since 2007.

¹ See section on “Pay Cut or Pay Freeze?” and box section on “PQE vs Merit-Based Remuneration”

² See Hughes-Castell Salary Summaries for 2006, 2007 and 2008 which record overall increases of 10-15% (in 2006 and 2007) and a further 4% 2008

Market Summary

2009 has seen the sharpest reduction in work levels at commercial law firms in decades. The consequent adverse impact on employment within the legal industry has been significant.

London law firms had witnessed a steady trickle of redundancies, or managed performance reductions in headcount, from the start of 2008. By the end of that year official redundancies had become widespread and this trend accelerated into the first quarter of 2009 by which time, with the economy officially in recession and no immediate sign of improvement, nearly every firm in the top 50 had either instigated redundancy consultations or was in the process of doing so.

Whilst some City firms reported reductions in fee-earners of as much as 10%, exact figures in qualified lawyer headcount reduction have been hard to discern due to the desire of many firms to minimise the scale and intensity of this process³. Whilst some estimates have projected that the reduction in qualified lawyer headcount throughout the UK will be as high as 10,000⁴ it is certain that significantly more than 1000 lawyers at London based commercial law firms have been either made redundant or performance managed out of their firms.

Unsurprisingly, assistant level recruitment at City firms has been severely curtailed with demand for transactional lawyers virtually non-existent in the first quarter of 2009⁵. Following the completion of redundancy programmes, assistant level recruitment in City firms started to increase (albeit from a very low base) towards the end of the second quarter. Nevertheless, even though some firms continued to announce redundancy consultations as late as October 2009, from the end of the third quarter, assistant level recruitment once again started to pick up. At the time of writing (late October 2009), new vacancy levels across a range of practice areas indicate the first sustained increase in recruitment since 2007. It is too soon to determine if this hopeful trend will continue.

Retention rates at newly qualified (“NQ”) level have also been at an all time low. In a booming market most firms will compete to retain their expensively trained lawyers and will commonly average retention rates in excess of 85%, whereas, this year we have seen law firm NQ retention rates at an average of 60%, with some firms dropping as low as 10%. Only a handful of firms (who incidentally have posted relatively positive financial results) have retained 100% of their trainees. Whilst the recruitment opportunities for NQs in the last downturn were extremely limited, 2009 has seen significantly more NQ level candidates enter what we would describe as a non-existent recruitment market at this level.

³ See the Legal Business 100 September 2009 page 51

⁴ The Times 15 June 2009

⁵ Over the first quarter of 2009 we recorded the level of new assistant level vacancies to be around 5% of those in 2007

As an alternative to redundancy (or in addition to for many firms) a number of other cost-saving initiatives have been introduced. Although the scale of implementation varies greatly from firm to firm, these initiatives have generally included: 4 day weeks, extended leave and longer term sabbaticals.

Although not directly relevant to this summary, we should not overlook the fact that there has been widespread deferral of training contracts for September 2009 and March and September 2010 intakes, which will have repercussions for staffing levels when the market improves.

Practice Areas

Whilst it is easy to generalise that the downturn has affected law firms across the board, specific pockets of activity have remained relatively robust. Last year we commented that some non-contentious support areas had remained active, in particular commercial technology & outsourcing, employment (both contentious and non-contentious), projects & energy and financial services regulatory, a trend which continued into 2009.

Unsurprisingly, capital markets (debt and equity), banking, corporate M&A and real estate practices remained subdued, and in most cases consolidated and contracted.

Although contentious work on the whole has increased for law firms for the first time since the introduction of the Woolf reforms in 1999, the much anticipated tsunami in litigation has not thus far materialised. Some of our clients remarked that their litigation practices did see an upturn in work in the summer of 2008 (particularly in banking litigation), but the shock at the demise of Lehman Brothers in September 2008 caused an abrupt halt to proceedings as uncertainty arose as to which organisations would still be left standing from which to pursue the recovery of assets. Nevertheless, litigation departments across the City have commented that they are working almost at, or slightly above, 100% capacity, which previously would have been closer to 80-85%. We estimate that recruitment related to litigation has increased by approximately 20% and expect this to increase further in 2010.

Firms with a heavy insurance bias appear to have weathered the market better than most; the Legal Business 100 shows that of the top ten firms that have achieved greater turnover growth in 2008/2009 than at any point in the last five years⁶ seven clearly have an insurance focus. Another observation of our survey is that, whilst not necessarily paying "market busting" salaries, remuneration at these firms has become relatively more competitive vis-à-vis other Mid-Market Rate paying firms.

Notwithstanding these pockets of activity, in the first three quarters of 2009, net level of recruitment remained dramatically lower when compared to previous years, even where the underlying demand may have been present. Partners and HR alike were keen to avoid the legal and PR minefield of trying to recruit externally whilst simultaneously

undertaking large scale redundancies. This led to some internal re-skilling of under-utilised assistants across practice areas, but in many circumstances partners have been left without the necessary assistant level resource.

Counter-Redundancy Measures

Although redundancies have been widespread throughout London private practice (for both fee-earners and support staff), in an effort to stave off even greater permanent headcount reductions many firms introduced alternative cost-cutting measures. According to the results of our survey, the most popular option has been to require some staff to work a 4 day week⁷ (a 20% reduction in hours) with a corresponding pay reduction of between 15% and 20%. Historically, we have heard lawyers expressing concern that working a 4 day week does not in practice necessarily mean a full 20% reduction in hours (the "squeezing five days into four"). However, in the first three quarters of 2009, there was considerable buy-in from assistants keen to avoid the potential alternative of unemployment.

Another noteworthy innovation was the introduction of extended unpaid leave (introduced by 10% of the respondents to the survey) and voluntary sabbaticals. Whilst, historically, sabbaticals had been offered as a reward for long service, in 2009 they were introduced by 24% of the respondents as an alternative method of creating a temporary reduction in headcount.

Together these programmes have been presented by firms as enabling them to reduce expenditure in the short term whilst allowing them to retain expensively trained and talented lawyers "on call" for a future market pick up. Additionally, because the measures were implemented with the consent of the assistants, law firms have reduced the paying out of inflated redundancy packages and, as the market picks up, should reduce the need for expensive recruitment to restaff depleted departments.

Whilst it is impossible to determine just how many jobs such measures have saved, or indeed the exact number of assistants in any given firm or department who have had their contractual hours altered by the above, the medium term reputational benefit to law firms of being perceived as considerate and flexible should not be overlooked when those firms re-enter the recruitment market.

Base Salaries

The exceptional salary reviews of 2006 and 2007 saw assistant base salaries in City-based UK law firms increase by an average of 10-15% in each year. In 2008, even after it had become clear that the market was slowing down, we reported, somewhat surprisingly, that we had again observed increases in base salaries at NQ to 3 years' post qualification experience ("PQE") levels by an average of approximately 4%. At that time we noted that this pattern was similar to that which we observed following the start of the last downturn in 2001. In that year law firms continued to increase their assistant

⁶ See the Legal Business 100 September 2009 page 49

⁷ 26% of the respondents to our survey put in place a programme of reduced hours for at least some fee-earners

salaries but froze them throughout the most part of 2002 to 2004. Whilst we predicted that there would be no increase in firms' salary bands in 2009, we did not anticipate a wholesale pay freeze and a reduction. Comparing the results of our survey from the last 3 years, we have seen that base salaries in 2009 are now at a level lower than 2007 across the board, having fallen by between 1% and 10% (with an average of 8%) since 2008.

Pay cut or Pay freeze?

There has been market-wide discussion as to whether the halting of salaries in the UK legal market on the whole constitutes a pay freeze or a pay cut. To an outsider, the issue is confusing due to law firms' overwhelming propensity to use the lockstep model of remuneration (see box "PQE vs Merit-Based Remuneration"). The general trend in UK firms, most Mid-Atlantic Rate paying firms and a handful of New York

Rate paying firms has been to freeze individual employees' salaries. For example, a 2008 qualifier at a magic circle firm who received a NQ salary of say £65,000 on qualification, will continue to receive £65,000 until at least the 2010 pay reviews, even though they are now 1 year more qualified. In the same vein, a 1 year PQE automatically matriculating to 2 years' PQE will continue to earn the 1 PQE salary set in 2008 of c. £71,000 when theoretically (or at least in any "normal" year) they should have moved up to the 2 PQE salary of c. £84,000. In practice this means that although individual lawyers do not actually take a pay cut, the actual salary for any given PQE level in 2009 is lower than 2008 and hence where the notion of the pay cut arises. Although not directly linked to individual lawyers' level of qualification, we have also observed salary freezes at firms with a merit-based system of compensation.

Lockstep PQE vs Merit-Based Remuneration

The lockstep model of remuneration is designed to increase lawyers' compensation directly in correlation with the number of years' of practice since qualification. For the last few years there has been much speculation that assistant level solicitors in private practice law firms would gradually see their method of compensation shift from this traditional lockstep model to that of one based purely on merit. Whilst we saw some evidence of a push towards this more modern remuneration system with the introduction of the Employment Equality (Age) Regulations (which came into force in October 2006) our 2008 summary showed it was still evident that the vast majority of firms were still (at least up to 3 years' PQE and more often than not 5 years' PQE) using PQE levels as a method of assessing compensation. This year's freezing of salaries, and a drive to cut costs across law firms in the wake of diminished fee income and tumbling PEP, has replanted the issue firmly at the forefront of decision-makers' minds.

Some consider the traditional lockstep model a outdated way of paying salaries and many feel that law firms are more than a decade behind other service industries in this respect; lawyers' compensation should be based on their technical ability and commercial savvy rather than merely the accumulation of "time served". Conversely, many who remain in favour of the PQE-based remuneration system will argue that the drive for partnership will itself ensure that assistants continue to strive to excel and outperform their peers regardless of the commensurate lockstep salary.

For firms that wish to move away from lockstep, decisions have to be made as to what exactly the criteria for individual assessment involves. It is unlikely that firms would rely solely on a billable hours target as some less hours-heavy teams require no less technically skilled and driven individuals than those practice groups that suddenly find themselves in the "all-nighter" limelight. Some critics of the merit-based route suggest that firms will find it hard to develop a sufficiently

transparent system to guide employees through the ranks when, for most firms, the route to partnership has remained distinctly opaque no matter what "progression" policies have been introduced in recent years.

Whilst the idea is greeted with enthusiasm by many, the actual administration of a merit-based remuneration scheme requires significant downtime to canvass partner feedback on assistant performance. This in itself could be significantly flawed as partners undoubtedly have their "favourites" and will want to make sure members of their busiest and in demand teams are sufficiently remunerated to be discouraged from considering alternatives. Perhaps even more of an obstacle to this method of assessment is that partners have little training, experience or indeed time (bearing in mind their overwhelming necessity to bill) to conduct such detailed appraisals.

In a downmarket, as we have recently experienced, a merit-based compensation model may enable firms to cut expenditure by paying their non-performing assistants less, whereas, in a more competitive market there is a high likelihood that firms will have to pay most of their solicitors at the "high achiever" level for fear of losing them. In addition, if recruitment demand approaches anything like that observed in 2007, potential recruits holding several offers are most likely to choose the firm which evidently values them most by paying them at the top end of the scale.

In our 2009 salary questionnaire, we gave respondents the opportunity to classify salaries either by the traditional lockstep model or their own bespoke model. 71% of firms responded that they use a pure PQE-based model and, whilst 29% said that they use a merit-based element to remunerate assistants, only 3% indicated they have completely eliminated the concept of lockstep from their compensation models.

Knowledge-based recruitment delivered in a

The Results

The most straightforward changes in salaries to consider are within UK City firms, both Premier City Rate paying and Mid-Market Rate paying firms. Generally, as to be expected with our observed trend of across the board salary freezes, the typical rates at each level of PQE are almost identical to those of the previous years' 1 year more junior level. We do, however, see an elongating of the range of salaries at any given PQE level compared to previous years, which suggests that some firms are moving away from the traditional lockstep model or are employing a slightly less rigid method of remuneration given the current economic climate.

Premier City Rates

This bracket covers magic circle firms and some of the top 15 UK practices in London. It also includes some merged US/UK firms. Salaries are generally reviewed between April and July.

PQE	Range (£)	Typical (£)
NQ	59,000 – 61,500	60,000
1	64,000 – 68,000	65,500
2	67,900 – 73,000	70,000
3	77,500 – 86,000	82,000
4	86,000 – 92,500	89,500
5	96,000 – 97,250	97,000
6+	Merit	Merit

Mid-Market London Rates

This bracket covers rates paid by most full-service City firms as well as the London offices of most national firms.

PQE	Range (£)	Typical (£)
NQ	52,000 – 62,500	56,000
1	58,000 – 67,000	62,000
2	60,000 – 75,000	66,000
3	63,000 – 83,000	73,000
4	68,500 – 89,000	76,500
5	70,000 – 94,500	82,000
6+	Merit	Merit

Smaller City and Commercial West End Rates (“West End Rates”)

The range of rates in this bracket includes some of the smaller full-service firms which classified themselves in our survey as City firms but were often physically located in the West End. In spite of often having very credible core “City” departments, in all instances the firms retain significant practices (such as family and wealth management) which are no longer mainstream in City firms.

We have found that salaries at West End Rate paying firms have followed a similar trend to UK City firms although there seems to be a greater degree of variation. Interestingly,

whilst the typical salary at any PQE bears close resemblance to that of a 1 year more junior lawyer of 2008, the actual range of salaries are virtually identical to like-for-like PQE between 2008 and 2009. We would suggest that whilst typical salaries have decreased, the size and nature of these firms allows them greater flexibility and more discretion in setting assistant level salaries.

Salaries are generally reviewed between April and July.

PQE	Range (£)	Typical (£)
NQ	42,000 – 52,000	48,000
1	43,000 – 56,200	52,000
2	45,000 – 62,000	55,000
3	50,000 – 67,000	59,000
4	52,500 – 71,000	62,500
5	54,500 – 75,000	68,000
6+	Merit	Merit

Niche and Boutique London Rates

Salaries within this bracket range from niche corporate firms paying premier UK rates through to firms which specialise in litigation/private client work and pay significantly less. Accordingly, average compensation brackets for this group are largely unhelpful but we would be pleased to offer bespoke advice on request.

Full New York Rates

The highest level of assistant compensation is found at US law firms paying New York rates. Traditionally, these have been calculated in US dollars and based on levels paid to assistants in their New York offices. In 2009, the 1st year (NQ equivalent) salary was \$160,000 – a figure that has now remained static for the past two years. Nevertheless, because UK City firms have seen an average 8% drop in NQ salaries in 2009, New York Rate paying firms have become relatively more competitive at the NQ level. Like most UK City firms, New York Rate paying firms have frozen their salary bands. However, unlike most UK City firms very few New York Rate paying firms have failed to matriculate their lawyers up into the next year of lockstep which again makes them relatively more competitive against their UK City firm rivals. Those New York Rate paying firms that neither matriculated lawyers up to the next level of lockstep nor increased their salary bands, are now paying their 1st year and 2nd year (NQ and 1 PQE) assistants the same because, in contrast to most UK City firms, they have not lowered their 1st year/NQ salaries.

In recent years a small number of New York Rate paying firms moved their London assistant rates away from a direct anchor to New York towards a new compensation level intended to match their peer group in London. One of the reasons behind this shift was the continual fall over the preceding years of

the US dollar against the pound sterling and the inherent difficulties of finding a fixed exchange rate which fairly matched the compensation in New York. The continued slump of pound sterling against the US dollar in 2009 has possibly arrested the need for this trend to develop further.

For the majority of New York Rate paying firms which still base their London salaries on those in their New York offices, the level of compensation when converted into £ sterling can still show fairly wide variations due to firms' continued use of different fixed exchange rates (for example the respondents to our 2008 survey quoted base salaries for NQ's after exchange rate conversion ranging from £92,000 and £100,000 in spite of their paying the same underlying base salary).

New York Rate paying firms review their compensation in January rather than the traditional April – July reviews common for most London firms.

PQE	Range (US\$)	Typical (US\$)	(£) after conversion
NQ	160,000	160,000	95,500
1	160,000 – 175,000	170,000	100,000
2	170,000 – 190,000	185,000	107,500
3	185,000 – 210,000	205,000	121,000
4	195,000 – 230,000	225,000	133,000
5	205,000 – 250,000	245,000	145,500

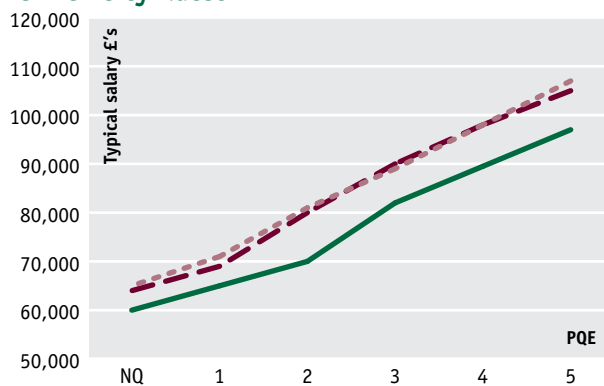
Mid-Atlantic Rates

The Mid-Atlantic Rate is the model adopted by the majority of US firms in London.

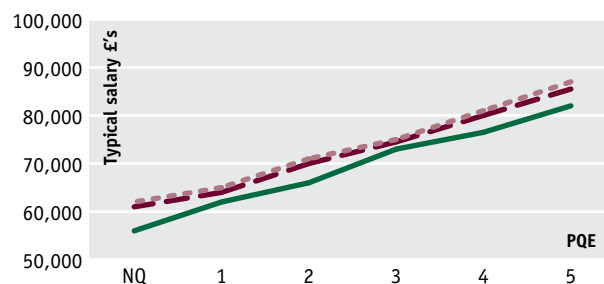
Like most UK City firms, Mid-Atlantic Rate paying firms record an overall reduction in like-for-like salaries compared to 2008. The level of reduction is by no means uniform – for example, at the 2 PQE level the average fall is c. 8%, however, at the more junior 1 PQE and NQ levels it is 5% and 1% respectively. This uneven reduction is likely due to the different time of the year that Mid-Atlantic Rate paying and UK City firms review their salaries; many Mid-Atlantic Rate paying firms review their salaries in January as opposed to between April and June for UK City firms. In January 2009, although many Mid-Atlantic firms froze salaries, it was not until later in the year that the trend for aggressive cuts in NQs' salaries was instigated by UK City firms. In practice, this means that in some Mid-Atlantic Rate paying firms NQ and 1 PQE lawyers are being paid the same rate. Should salary freezes continue in 2010, it is likely that these firms will have to reassess the junior level salaries to avoid NQ, 1 PQE and 2 PQE lawyers receiving the same salary.

PQE	Range (£)	Typical (£)
NQ	65,000 – 90,000	77,000
1	70,000 – 99,000	81,500
2	76,000 – 109,000	87,500
3	83,750 – 120,000	98,000
4	86,000 – 132,000	109,000
5	100,000 – 142,000	119,000

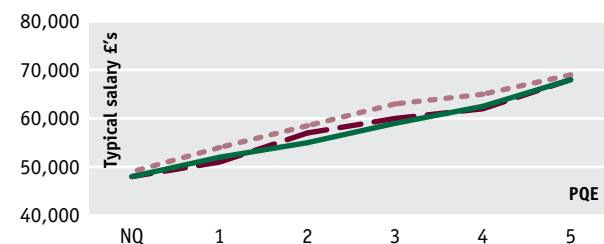
Premier City Rates



Mid-Market London Rates



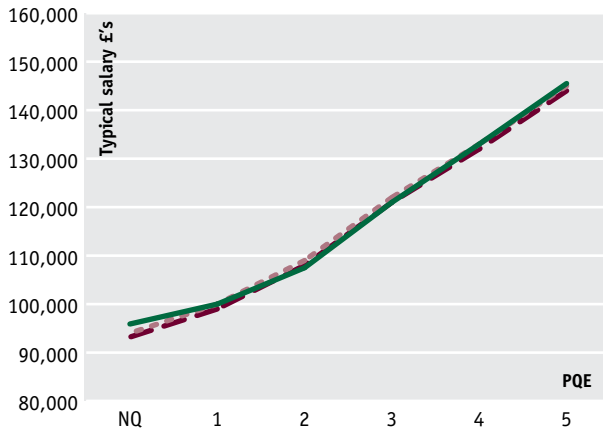
West End Rates



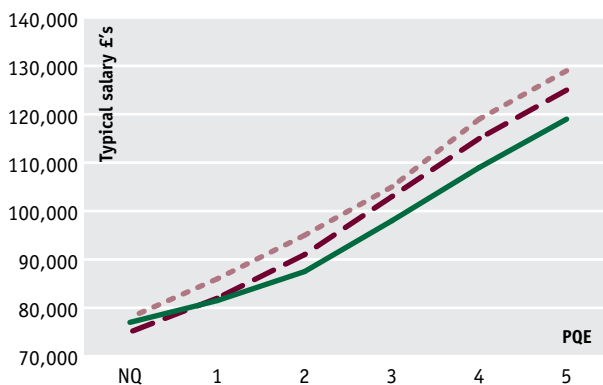
Key

- 2007
- 2008
- 2009

Full New York Rates



Mid-Atlantic Rates



Key

- 2007
- 2008
- 2009

Attrition Rates

Attrition rate is the rate of turnover of assistants in a given year expressed as a percentage of total assistants in the firm. This does not generally include redundancies but does include lawyers who are managed out through performance reviews.

Historically, the issue of attrition has been a hot topic for law firms and substantial resources (both in monetary terms and man hours) have been set aside in a bid to retain experienced fee-earners. Whilst it is fair to say that, on the whole, law firms would still ideally like to keep the absolute cream of their talent, there has been less (or in most cases no) need to keep staffing levels elevated. In fact, attrition became an issue of little or no significance for law firms throughout 2009.

Paradoxically, at a time when employers would have welcomed, or indeed encouraged, higher attrition rates, the lack of options for lawyers at other firms, within in-house organisations or outside of the law completely, led to an overall decrease in attrition. Even where such opportunities did exist, there was often a reluctance to make such a move for fear of falling foul to the “last in first out” principle.

Given the recent economic climate it has been almost impossible to determine bona fide attrition rates due to enhanced performance reviews, which have resulted in some assistants being effectively forced to move on.

Outlook and Predictions for 2010

Although predicting recruitment and compensation levels is never easy, the uncertain economic situation makes 2010 particularly opaque in this respect. Notwithstanding a possible “W” shaped recession, it is highly unlikely we will see another round of across the board mass layoffs in the top City law firms. Indeed, a sharp increase in mid-level assistant recruitment has been evident from the end of the 3rd quarter of 2009 in both City firms and, importantly, large in-house financial institutions.

We project demand for contentious lawyers to continue to remain elevated (at least 20% above historic norms) and the market for mid-senior level non-contentious assistants broadly to continue to improve. Although the improvement in the market is unlikely to be linear (and will probably bypass some practice areas altogether) by the second half of 2010 we would expect to have found a “new equilibrium” some way below the historic highs of 2006/7.

Even assuming a more positive economic outlook than 2009, it is unlikely that demand for very junior lawyers will increase sufficiently for City firms to need to increase NQ salary rates. Indeed, as we have seen, there is scope for some US law firms to reduce this level whilst still remaining very competitive vis a vis their UK City firm rivals. At more senior levels, the fundamental question is whether or not lawyers will matriculate up to the next level of lockstep and, if so, whether or not there will be small salary rises within the given PQE bands. Our guess is that most City firms will at least undertake the former and/or will probably widen the compensation levels within a given PQE band so as to enable them to increase the salaries of those assistants considered to be most in demand. Firms without a formal assistant lockstep should theoretically have the luxury of flexibility, resulting in a much wider spread of pay increases.

Methodology

The Hughes-Castell London Private Practice Salary Survey was sent to 150 commercial law firms in the City and West End in August and September 2009. Information was made available by 67 firms, and was supplemented by face to face meetings with scores of partners and HR professionals and further analysis of salary information provided by 1,100 relevant candidates on the Hughes-Castell database.

About Hughes-Castell

We are one of the UK's leading and longest established legal recruiters with a reputation built up over 20 years for the quality of advice we deliver both to clients and to candidates. At Hughes-Castell we pride ourselves on our knowledge-based personal and ethical approach to recruitment.

Both in law firms and in-house, our specialist knowledge means that our consultants do not just know the market, they help make it.

Further Information and Advice

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

Scott Gibson	Director	scott.gibson@hughescastell.com
Kristi Edwards	Senior Consultant	kristi.edwards@hughescastell.com
Robina Clough	Knowledge Development Manager	robina.clough@hughescastell.com

*Knowledge-based recruitment
delivered in a personal
and ethical way*

LONDON
PARIS
HONG KONG
SINGAPORE
SYDNEY
MELBOURNE
BRISBANE
PERTH
AUCKLAND
WELLINGTON

www.hughescastell.com

Hughes-Castell
a Randstad company



1st Floor
30-31 Funnival Street
London
EC4A 1JQ

Tel +44 (0)20 7242 0303
Fax +44 (0)20 7242 7111
Email london@hughescastell.com

© Hughes-Castell 2009

