



## London Law Firm Assistants Salary and Bonus Trends and Predictions

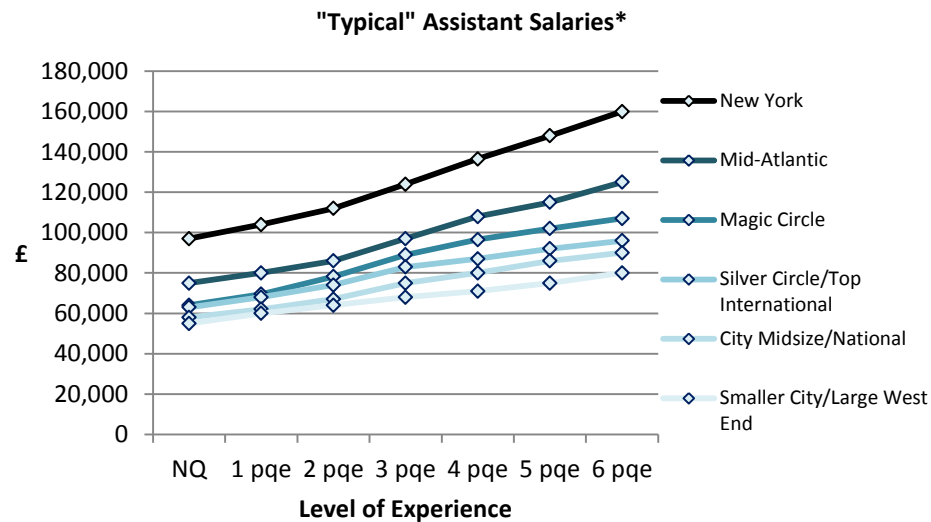
February 2014

## Headlines 2013 to February 2014

- ✦ Below inflation salary rises for assistants at UK headquartered law firms in 2013 salary reviews
- ✦ Frozen assistant level salaries and flat bonuses at US based firms paying “New York Rates” in December 2013/January 2014
- ✦ A sharply improved assistant recruitment market in the third quarter of 2013 and into first quarter of 2014
- ✦ For the first time in six years, above inflation salary rises projected at UK headquartered firms for lawyers above newly qualified level, with double digit increases in some real estate teams in 2014

## Summary of London Law Firm Salaries 2013/14

|       | 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    | 63,000-65,000   | 64,000    | 60,000-63,000                   | 63,000    | 56,000-65,000         | 58,000    | 45,000-56,000               | 55,000    | 94,000-102,000  | 97,000    | 72,000-84,000      | 75,000    |
| 1pqe  | 69,500-70,000   | 69,500    | 65,000-69,000                   | 68,000    | 60,000-67,000         | 62,000    | 50,000-62,000               | 60,000    | 100,000-107,500 | 104,000   | 76,500-88,000      | 80,000    |
| 2pqe  | 78,200-80,000   | 78,250    | 69,000-77,000                   | 74,000    | 63,000-69,000         | 67,000    | 54,000-68,000               | 64,000    | 100,000-117,000 | 112,000   | 84,000-95,000      | 86,000    |
| 3pqe  | 84,000-90,000   | 89,000    | 76,000-87,000                   | 83,000    | 66,000-78,000         | 75,000    | 61,000-72,000               | 68,000    | 110,000-132,000 | 124,000   | 90,000-108,000     | 97,000    |
| 4pqe  | 92,500-100,000  | 96,500    | 83,000-90,000                   | 87,000    | 73,000-86,000         | 80,000    | 66,000-76,000               | 71,000    | 123,000-145,500 | 136,500   | 95,000-118,000     | 108,000   |
| 5pqe  | 98,000-107,500  | 102,000   | 86,000-100,000                  | 92,000    | 76,000-94,000         | 86,000    | 68,000-80,000               | 75,000    | 135,000-158,000 | 148,000   | 105,000-128,000    | 115,000   |
| 6pqe  | 100,000-115,000 | 107,000   | 92,000-108,000                  | 96,000    | 82,500-96,000         | 90,000    | 70,000-90,000               | 80,000    | 140,000-167,000 | 160,000   | 110,000-138,000    | 125,000   |
| 7+pqe | 105,000-132,000 | 120,000+  | 92,000-127,000                  | 105,000+  | 88,000-112,000        | 95,000+   | 70,000-105,000              | 85,000+   | 155,000-195,000 | 170,000+  | 118,000-170,000    | 140,000+  |



\*At law firms in London

### Overview of London Law Firm Recruitment Market in 2013

2013, a year of two halves ....

As 2013 kicked off there were worrying doomsday predictions of a triple dip recession and a currency crisis. Despite anecdotal partner chatter about increased utilisation rates and a rising incidence of “new money” deals emanating from the banks, redundancy programs continued to be the scourge of many a City associate. This continued lack of economic certainty in the first half of the year inhibited recruitment activity and although most Top 100 UK firms continued to periodically hire mid-level assistants in most core commercial law disciplines at the 2-5 post qualified experience (“pqe”) level, demand was often opportunistic rather than driven by significant fee growth and recruitment activity was careful at best.

It was changed terrain though as the year drew to a close; we were encouraged by news that the UK economy was growing faster than predicted with the estimated annual growth rate revised upwards in the final quarter of 2013 and the UK jobless rate at its lowest level since 2009. The second half of 2013, in particular the final quarter, saw recruitment activity in some long dormant sectors return to levels not seen since 2007 and with the more certain pipeline that accompanies a general economic uptick, associate-level recruitment now has a semblance of strategy, planning for the future and optimism about it.

A recuperating economy has brought with it substantial upticks in a number of areas but most notably in real estate and related disciplines such as construction and planning. The fast escalation in openings for real estate associates has been remarkable - possibly the most oft-commented on feature of the last quarter of 2013. For the first time since 2008, we have seen not just multiple vacancies in the area but, even more worthy of comment, multiple vacancies in individual firms. Corporate disciplines (including equity capital markets) have also enjoyed the improving mood with deal makers feeling cheery enough about the value and volume prospects in the M&A tables to consider adding to their associate ranks. Contentious associates have not been wanting for opportunity either as litigation groups look to build their associate bases to cope with a deluge of litigation involving the biggest UK listed companies as bank disputes drive High Court litigation to what some suggest may be its highest level in five years. Similarly, it seems that the appetite for financial services regulatory associates is unlikely to fade.

Despite a vastly different environment in which legal services are offered, there remains the issue that the most profitable law firm model is still pyramid-shaped. As partnership opportunities have dramatically contracted for more senior associates, mirroring the lack of growth opportunities in the broader economy, we are still seeing numbers of these associates, sometimes in core practice areas, made redundant as top heavy law firms grapple to make the numbers work. Add to this a continuing fall in the number of newly qualified lawyers (far fewer

qualifiers in 2013 than 2012 and a dismal comparison to 2008 levels) and a shrinking pool of trainees (there are 23% fewer trainees in 2013 than 2008, with City firms indicating a further fall in numbers of training contracts offered in coming years) and maintaining this shape to ensure profitability and viability really does become a challenge.

Whilst partnership prospects for senior associates in top firms do not look like improving anytime soon, there are, for the first time in a number of years, likely to be some interesting (upward) developments with regard to associate remuneration. Increased recruitment activity/demand across a number of disciplines, combined with the dearth of mid-level associates resulting from a lower proportion of a smaller number of trainees being kept on through the trough of the downturn, may just be the confluence of factors needed to create, if not a full scale war, then at least a tussle for talent. In particular, we expect to see above inflationary rises in salary and an increased incidence of sign on bonuses, in those newly “in demand” areas such as real estate, where differential pay resulting from law firm’s abolition of associate lock step and the wide introduction of merit-based remuneration systems has often seen levels of remuneration for these lawyers fall behind those of their peers in recent years.

### **The Challenge from In-House**

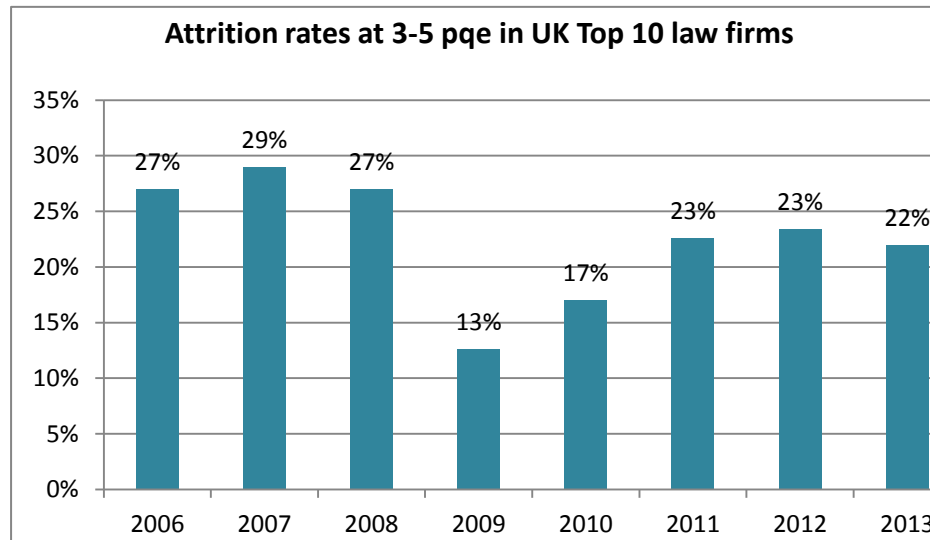
The latest available figures show that the number of solicitors with practising certificates working in commercial roles in-house grew just over 5% in 2012 (*source: The Law Society Annual Statistical Report*); although this was significantly down on the remarkable 12% increase in 2011 it continues a 20 year unbroken trend in which in-house has grown in proportion to law firms. Indeed, making allowances for a technical anomaly in 2012 (arising from the Law Society essentially double counting un-employed solicitors), between 2000 and 2012 the proportion of lawyers in commercial in-house roles grew by 90% with a corresponding fall of 10% in private practice. 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.

In 2012, demand for in-house lawyers continued to remain strong throughout the year. Overall in 2013, average in-house lawyer compensation rose by 2.4% (down from 2.7% in 2012) (*source: IDS Executive Compensation Review*) which, like law firms, was below inflation. However, unlike law firms, individual in-house lawyers rarely benefited from the significant automatic rises in base salaries still enjoyed by many assistants in law firms as they matriculate up the ppe lockstep. (See below).

## Law Firm Attrition Rates

Attrition rates for the most “in demand” sector of the assistant market (3-5 ppe lawyers at Top 10 law firms) has remained relatively constant at around 22-23% over the past three years (a long way off both the peaks and troughs of the market in 2007 and 2009 respectively). However, it is likely that should the elevated demand for associates continue, we will see these push up towards 25% or more in 2014.



(Source: PwC : Law Firms' Survey)

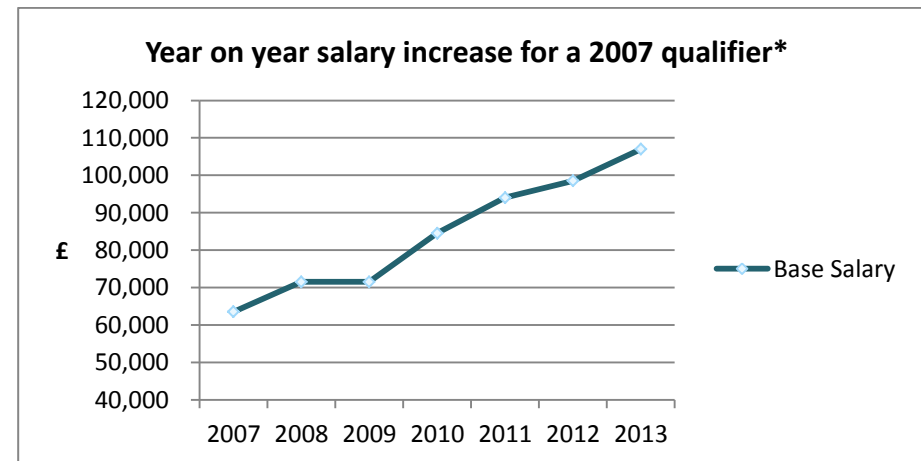
## Assistant Base Salaries at UK headquartered Law Firms

In spite of a weak market in the first half of 2013 most UK law firms increased salaries modestly in the mid-year pay reviews. The most visible jump was at the newly qualified (NQ) level where typical magic circle salaries rose 4 %, from £61,500 to £64,000; although a significant hike on previous years, this was still below the £65,000 offered at the market peak in 2008 and, after inflation, substantially lower in real terms (see below).

With some exceptions most firms below the magic circle kept NQ compensation flat and, above the level of NQ, ppe pay band rises in all firms were typically below inflation - an unbroken trend since 2008.

Nevertheless, because law firms that remunerate on a lockstep or quasi-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% or more (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 ppe pay bands) see graph below.



\* working at a magic circle law firm

Although pioneered by the UK mid-tier, over the past five years, elements of merit based pay systems have crept into nearly all classes of law firms, including some magic circle and those US firms paying Mid-Atlantic Rates; the only class of firm so far completely immune to this trend has been US law firms paying New York Rates.

The adoption of some form of merit-based pay over lockstep means that the range of base 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 3 years pqe) and, for the vast majority of assistants, it still remains a recognisable benchmark up to 6 pqe with fewer than a third 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. In practice for most lawyers beyond 3 pqe, the seniority driven pay model is distorted by some additional form of discretionary promotion or assessment impacting both salaries and career track.

One informal trend increasingly evidenced amongst mid-tier firms has been the use of practice area, rather than an individual's performance, as the start point for merit-based assessment. Hence practice areas where, since 2008, demand for lawyers has been light – such as real estate – have often paid, even objectively high performing individuals, 5-10% below the perceived “market rate” for their pqe level of qualification.

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.

It remains to be seen how well the merit based model will cope should there be a return to another truly candidate short market.

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 firms

| PQE Level | Range £         | Typical £ |
|-----------|-----------------|-----------|
| NQ        | 63,000-65,000   | 64,000    |
| 1         | 69,500-70,000   | 69,500    |
| 2         | 78,200-80,000   | 78,250    |
| 3         | 84,000-90,000   | 89,000    |
| 4         | 92,500-100,000  | 96,500    |
| 5         | 98,000-107,500  | 102,000   |
| 6         | 100,000-115,000 | 107,000   |
| 7+        | 105,000-132,000 | 120,000+  |

#### Silver Circle/Top International firms

| PQE Level | Range £        | Typical £ |
|-----------|----------------|-----------|
| NQ        | 60,000- 63,000 | 63,000    |
| 1         | 65,000-69,000  | 68,000    |
| 2         | 69,000-77,000  | 74,000    |
| 3         | 76,000-87,000  | 83,000    |
| 4         | 83,000-90,000  | 87,000    |
| 5         | 86,000-100,000 | 92,000    |
| 6         | 92,000-108,000 | 96,000    |
| 7+        | 92,000-127,000 | 105,000+  |

#### City Midsize/National firms

| PQE Level | Range £        | Typical £ |
|-----------|----------------|-----------|
| NQ        | 56,000-65,000  | 58,000    |
| 1         | 60,000-67,000  | 62,000    |
| 2         | 63,000-69,000  | 67,000    |
| 3         | 66,000-78,000  | 75,000    |
| 4         | 73,000-86,000  | 80,000    |
| 5         | 76,000-94,000  | 86,000    |
| 6         | 82,500-96,000  | 90,000    |
| 7+        | 88,000-112,000 | 95,000+   |

#### Smaller City/Large West End firms

| PQE Level | Range £        | Typical £ |
|-----------|----------------|-----------|
| NQ        | 45,000-56,000  | 55,000    |
| 1         | 50,000-62,000  | 60,000    |
| 2         | 54,000-68,000  | 64,000    |
| 3         | 61,000-72,000  | 68,000    |
| 4         | 66,000-76,000  | 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 50% 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 1.57 US\$:£Sterling (at the time of writing - February 2014 - the official exchange rate is 1.64). 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            | 94,000-102,000  | 97,000    |
| 1         | 170,000            | 100,000-107,500 | 104,000   |
| 2         | 185,000            | 100,000-117,000 | 112,000   |
| 3         | 210,000            | 110,000-132,000 | 124,000   |
| 4         | 230,000            | 123,000-145,500 | 136,500   |
| 5         | 250,000            | 135,000-158,000 | 148,000   |
| 6         | 265,000            | 140,000-167,000 | 160,000   |
| 7+        | 280,000 +          | 155,000-195,000 | 170,000+  |

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 2014 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, assistants have continued to matriculate through the class year (pqe) bands with the result that individual lawyers still saw typical pay rises of 6-14% in January 2014.

### Mid-Atlantic Rates

| PQE Level | Range £         | Typical £ |
|-----------|-----------------|-----------|
| NQ        | 72,000-84,000   | 75,000    |
| 1         | 76,500-88,000   | 80,000    |
| 2         | 84,000-95,000   | 86,000    |
| 3         | 90,000-108,000  | 97,000    |
| 4         | 95,000-118,000  | 108,000   |
| 5         | 105,000-128,000 | 115,000   |
| 6         | 110,000-138,000 | 125,000   |
| 7+        | 118,000-170,000 | 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.



**2013 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 2013 (or 2014 for New York Rate paying firms):

| <i>Typical London Salaries</i> | <i>Magic Circle firms</i> | <i>Silver Circle/ Top International firms</i> | <i>City Mid-size/ national firms</i> | <i>Mid-Atlantic Rates</i> | <i>New York Rates</i> |
|--------------------------------|---------------------------|---|--------------------------------------|---------------------------|-----------------------|
| NQ 2008                        | £65,000                   | £64,000                                       | £62,000                              | £78,000                   | £94,000               |
| NQ 2013/14                     | £64,000                   | £63,000                                       | £58,000                              | £75,000                   | £97,000               |
| Change                         | -1.5%                     | -1.6%   | -6.5%                                | -3.9%                     | +3.2%                 |
| Change in real terms*          | -16.2%                    | -16.2%  | -20.4%                               | -18.2%                    | -12.2%                |

\*Adjusted for inflation using CPI

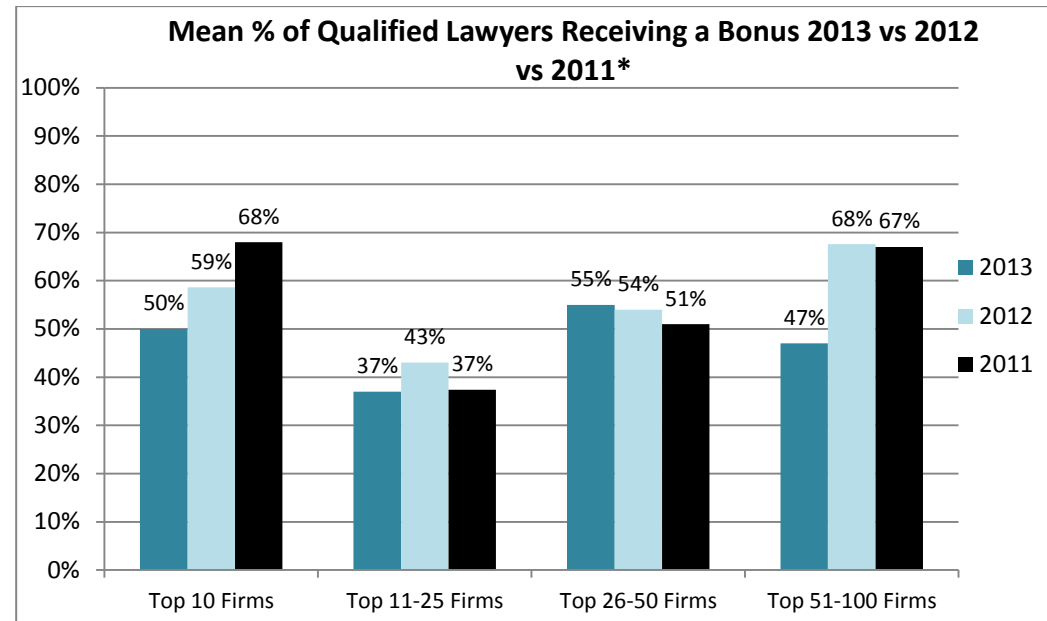
**Retention Bonus Payments**

**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 seniority of lawyer and type of law firm. In 2013 the proportion of lawyers with more than 5 pqe in Top 10 firms receiving bonuses fell sharply from 57% to 37% thereby pulling down the overall mean % of lawyers receiving bonuses to 50% (Source: PricewaterhouseCoopers Law Firms’ Survey). This reduction in bonus payments for senior assistants is consistent with law firms trying to reduce wage bills in top heavy departments due to historically low levels of (voluntary) attrition at the 7+ pqe level.



\* At Top 100 UK headquartered law firms. Excluding partners (source PwC)

#### Top 10 UK firms

| PQE | 2013 | 2012 | 2011 |
|-----|------|------|------|
| >5  | 13%  | 14%  | 17%  |
| 3-5 | 14%  | 13%  | 15%  |
| 1-2 | 12%  | 9%   | 13%  |
| NQ  | 7%   | 5%   | 6%   |

#### Top 11-25 UK firms

| PQE | 2013 | 2012 | 2011 |
|-----|------|------|------|
| >5  | 14%  | 8%   | 8%   |
| 3-5 | 8%   | 9%   | 10%  |
| 1-2 | 8%   | 8%   | 9%   |
| NQ  | 6%   | 5%   | 8%   |

#### Top 26-50 UK firms

| PQE | 2013 | 2012 | 2011 |
|-----|------|------|------|
| >5  | 6%   | 6%   | 8%   |
| 3-5 | 6%   | 5%   | 6%   |
| 1-2 | 5%   | 6%   | 6%   |
| NQ  | 4%   | 3%   | 5%   |

#### Top 51-100 UK firms

| PQE | 2013 | 2012 | 2011 |
|-----|------|------|------|
| >5  | 5%   | 6%   | 7%   |
| 3-5 | 5%   | 5%   | 6%   |
| 1-2 | 5%   | 6%   | 6%   |
| NQ  | 3%   | 5%   | 5%   |

Source: PwC: Law Firms' Survey

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 firms<sup>1</sup>. For those lawyers receiving a bonus, over the past three years the average payment as a percentage of salary appears to have fallen.

<sup>1</sup> Despite 2009/10 law firm revenues being poor, PwC noted 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 2013 and the start of 2014 generally remained flat after increasing between 33% and 40% the previous year<sup>2</sup>.

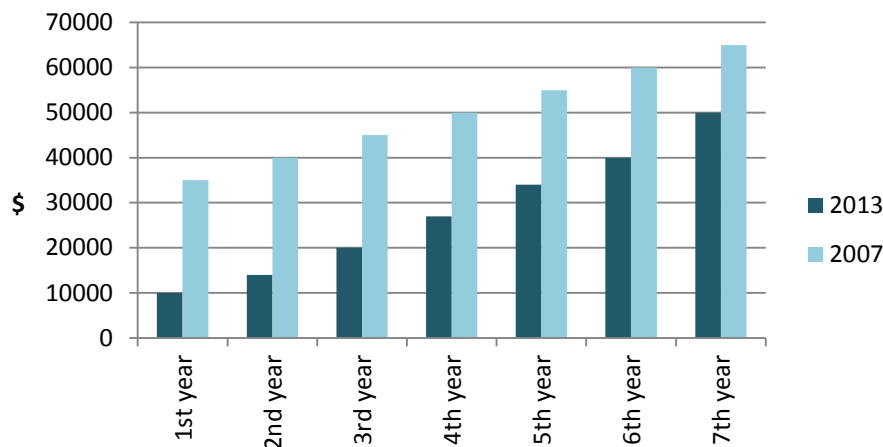
Typical bonus payments announced in December 2013/January 2014 by New York Rate paying US law firms were:

| Level                 | Typical Bonus \$ | Typical after conversion £ |
|-----------------------|------------------|----------------------------|
| Class of 2012 (1 pqe) | 10,000           | 6,200                      |
| Class of 2011 (2 pqe) | 14,000           | 8,600                      |
| Class of 2010 (3 pqe) | 20,000           | 12,300                     |
| Class of 2009 (4 pqe) | 27,000           | 16,500                     |
| Class of 2008 (5 pqe) | 34,000           | 21,000                     |
| Class of 2007 (6 pqe) | 40,000           | 24,500                     |
| Class of 2006 (7 pqe) | 50,000           | 30,500                     |

Nevertheless, year-end bonus payments at US law firms still remain significantly lower than those paid during the market high in 2007.

<sup>2</sup> The situation can be slightly more complex with US law firms which occasionally pay additional spring bonuses. The last time this occurred was in 2011 when 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.

**Typical New York bonuses comparing 2013 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 subsidies. 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.

### Professional Support Lawyers (“PSLs”)

Demand for PSLs or Knowledge Management lawyers almost completely collapsed in 2009 as non-fee earning lawyer roles became something of an expendable luxury. In 2011 the requirement for PSLs returned and has been steadily increasing since - usually, but not always, correlating with fee earner demand.

PSL roles are often compelling to City lawyers because they offer certainty of hours, frequently combined with flexible working. As a result compensation for PSLs has traditionally been about 10-15% below that of equivalent level fee earners. Whilst this rule of thumb still holds true in many City firms (and a few firms even pay PSLs’ base salaries on par with their fee earners) in recent times there has been some downward de-coupling of the fee earner link. This is particularly so where PSLs report into business service functions (as opposed to fee earning departmental heads). Moreover, whilst many PSLs continue to focus on the knowledge precedent drafting/training aspects of the role, the roles themselves have often become more diversified and, particularly at the more senior end, sometimes blur into pitch presentation and practice manager roles.

The result of this is that compensation for PSLs has become stretched and it is less possible to calibrate it simply by reference to practice area and class of law firm. Notwithstanding a general pick-up in fee earner vacancies, supply has generally continued to match demand and there is limited pressure for PSL compensation to rise. Nevertheless, there are some newly active sectors, such as equity capital markets, where expert PSLs will likely attract a sharp premium in a rising market if they are perceived as being able to assist in bringing inexperienced fee earners up-to-speed.

## Outlook & Predictions for 2014

At the time of writing (February 2014) all mainstream economic indicators point to the UK and US economies showing real signs of sustained recovery. City law firms already appear to be benefiting from this - anecdotally, over the past quarter, utilisation rates in corporate and finance teams have climbed sharply and the return to form of commercial real estate in the fourth quarter of 2013 has been nothing short of dramatic.

These increased work levels have, since October 2013, already led to a sharp rise in law firm recruitment activity with permanent lawyer job vacancies up more than a third on the same period of any year since 2008 and, for the first time in six years, external demand for March (2014) qualified solicitors.

Although corporate and finance make a strong contribution to elevated recruitment, much of the headline increase is from multiple single firm vacancies for real estate related lawyers. In this area supply and demand dynamics have already begun to exert upward pressure on salaries; newly in demand assistants in smaller City/West End and mid-tier law firms, whose merit-based pay has often left them off-market in relation to peers, have found themselves courted by higher paying firms. This has, in a very short time period, led to a spate of counter-offers and in many real estate departments, senior level discussions on the wholesale need to re-calibrate assistant level pay. Elsewhere it appears that much existing spare capacity, in the form of quality contractors and high end paralegals, has already started to be absorbed into full time lawyer and even trainee roles.

Against this, it is noteworthy that US based law firms, which include all New York Rate paying US firms in London, pointedly did not raise salaries in their annual reviews on January 2014 (although the preservation of assistant lockstep meant above inflation pay rises of 6-14% for individual assistants as they matriculated up a class year). Moreover, low attrition rates for Senior Associates mean many

departments at large firms remain top heavy and the recent trend of informal low level redundancies will likely continue.

Nevertheless, at present the recruitment market for assistant level commercial lawyers in London can fairly be described as buoyant. Historic precedent would indicate that the re-emergence of multiple single firm vacancies will cause sharp wage inflation and, should this persist, 2014 will see the first above inflation pay rises at UK Headquartered law firms since 2008. In some firms, whose merit based pay structures have seen some departments fall well below market, these could easily be upwards of 10%-15%. More generally we estimate average ppe band rises, above NQ level, of 5% or so. In addition to this, most individual associates in large City firms, up to 5 ppe, will continue to enjoy significant base salary rises (in magic circle firms typically 7-14%) as they matriculate up a class year thanks to the lingering effects of lockstep remuneration.

## **Methodology**

The information in The Edwards Gibson London Law Firm's Salary and Bonus Trends is compiled from over 650 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 June 2013 and January 2014. 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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