

# Considerations in Attorney Compensation

## Wisconsin Solo & Small Firm Conference 2022

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## Common Models

### a. Staff/associate models

- i. Salary
- ii. Salary plus bonus
- iii. Billable hour requirements
- iv. Bonus “bumps” for increased billable hours
- v. Formulas based on billable hours and/or origination

### b. Partner models

- i. Formulas based on:
  - 1. Billable hours
  - 2. Origination
  - 3. File management
  - 4. Seniority
- ii. “Book”
- iii. Salary plus

### c. Of Counsel models

## Common Models

d. Subjective vs objective models

e. Effect of contingency cases and/or flat fee billing on formulas

f. Driving behavior via compensation

g. Timing considerations for bonuses and increases

h. Valuing nonbillable work (management, pro bono, work for the firm, marketing and client development, etc.)

## Key Performance Indicators

a. Revenue per biller (including attorneys and paralegals)

b. Revenue per Full Time Equivalent (including all personnel)

c. Revenue versus wage expense

d. A/R over 120 days as a percentage of revenue

e. Unbilled time versus billed time (utilization)

f. Write-offs (realization)

## Other Considerations

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a. Dollars in the door versus billable hours

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b. Billing rates

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c. Client acceptance process

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d. Firing clients

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e. Setting non-negotiable thresholds for write-offs, unbilled time and collections

## Articles

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- ❖ 2013 Economics of Law Practice
  - ❖ Survey Report – State Bar of Wisconsin
- ❖ Untying the Gordian Knot: Law Firm Compensation
  - ❖ Wisconsin Lawyer – March 8, 2012
- ❖ Wisconsin Lawyer September 2017: News Briefs



## Comparison of Pay Structures at Several Law Firms



### Sample Firm #1

Associate Compensation	Partner Compensation	Non-Monetary Compensation
<ul style="list-style-type: none"><li>• Gross Production Receivables minus out-of-pocket client expense<ul style="list-style-type: none"><li>• 60% to lawyer</li><li>• 40% to firm</li></ul></li><li>• Discretionary bonuses throughout the year when deemed appropriate</li><li>• No origination compensation</li><li>• No distinction between partners and associates (other than distributions)</li></ul>	<ul style="list-style-type: none"><li>• Discretionary bonus to owners based on production percentages of the shareholders.</li><li>• Partners receive a mid-year \$5,000 annual partnership profit distribution</li><li>• Partners also receive an end of year profit distribution based on each partner's percentage of total combined gross receivables.</li></ul>	<ul style="list-style-type: none"><li>• Bar dues</li><li>• Malpractice insurance</li><li>• \$500 monthly toward health insurance</li><li>• CLE's</li><li>• Match up to 4% of monthly SEP contributions</li></ul>

## Sample Firm #2

### Associate Compensation

- New associates, for an initial period, are paid a base salary with no percentage compensation for production or origination.
- Then, Associates are moved to a percentage formula based on amounts collected (not amounts billed).
  - 30% Production
  - 15% Origination

### Of Counsel Compensation

- 25% Production
- 15% Origination

### Partner Compensation

- 35% Production
- 15% Origination
- Distributions are based on ownership %

### Managing Partner Compensation

- Managing Partners receive additional compensation of \$1,250/month for management duties.

### Non-Monetary Compensation

- CLEs
- Malpractice insurance
- Marketing budget
- Attorney cell phone
- Life insurance
- Profit sharing

## Sample Firm #3

### Associate Compensation

- No associates at the Firm.

### Partner Compensation

- No formula. 2 owners are paid as needed based upon mutual agreement.
- Paid as a split of draw, not a distribution.

## Sample Firm #4

Associate Compensation	•Based exclusively on money in the door.
	• Attorney collections up to \$50,000: Firm will receive 30%
	• Attorney collections \$50,001-\$90,000: Firm will receive 25%
	• Attorney collections \$90,001-\$120,000: Firm will receive 20%
	• Attorney collections over \$120,000: Firm will receive 15%
Partner Compensation	•No bonus program and no base pay.
	•No origination percentage.
	Partners split the firm expenses as well as the Associate's percentage.
Non-Monetary Compensation	Partners get a paycheck and a draw depending on collections for each month. We try to maintain income for partners to be 60% wages and 40% draws.
	No management payment.
	Firm pays for all communal expenses, i.e., rent, supplies, internet, phones, computers, software, website, certain marketing, office supplies.
	Associate pays for all of their own individual expenses, i.e. CLEs, their own marketing.

## Sample Firm #5

Associate Compensation	Partner Compensation	Non-Monetary Compensation
<ul style="list-style-type: none"> <li>• Competitive Base Pay. We aim to be in between the 50<sup>th</sup>-75<sup>th</sup> percentile and run annual reports via the "Economic Research Institute Salary Assessor". Base salaries are adjusted annually.</li> <li>• Firm pays 100% for Vision, Dental, Health Insurance</li> <li>• Mandatory Annual Cost of Living Adjustments</li> <li>• Discretionary Bonuses. Based on Firm performance + individual factors</li> <li>• Firm pays \$500/month that Associates can apply towards their car notes or car leases</li> <li>• Firm pays for cell phone bills (up to \$80/month)</li> <li>• Disability/Life Insurance</li> <li>• Simple IRA with a 3% match</li> <li>• All professional dues + CLE</li> </ul>	<ul style="list-style-type: none"> <li>• Base Pay determined annually</li> <li>• Distributions based on ownership %</li> </ul>	<ul style="list-style-type: none"> <li>• No Billable Hour Requirements</li> <li>• PTO starting at 4 weeks for all attorneys</li> <li>• 12 paid holidays + Floating Holiday</li> <li>• 2 weeks of paid bereavement leave (for immediate family) + 4 days of paid bereavement leave for (extended family)</li> <li>• 8 weeks of Paid Parental Leave</li> <li>• 10 days special PTO for child-care emergencies.</li> <li>• Attorneys are given work flexibility but we are not a work-from home Firm.</li> </ul>

## Sample Firm #6

WA = time actually billed and collected\* across all matters

OA = time billed and collected for all matters a particular partner originated or brought into the firm

RA = time billed and collected for all matters a particular partner manages (typically the RA attorney has most of the WA for these matters, but not always – particularly if associates are heavily involved).

\*Collected income is still credited even if collected in a subsequent two-year period even if it was billed in a previous period; it is credited during the period in which it is collected.

- Associate Compensation:

Base Salary plus 10% of billed and collected work for OA (origination)

- Partner Compensation:

Compensation is reworked every two years (ideally) based on a formula that takes into account working attorney, originating attorney, and responsible attorney credit. The breakdown is 2/3 WA, 10% RA, and the remainder (23.33%) OA.