How Top US Law Firms are Protecting Profits and Defining Success During COVID-19

The economic challenges of COVID-19 have impacted the entire legal industry. Even leaders of the country's top law firms have found themselves seeking ways to protect their profits, mitigate losses, and redefine what success looks like in 2020. This post will explore some of the steps being taken by big-law firms across America in response to the coronavirus pandemic.

Partner Compensation Modifications

Many top law firms are looking to their partners for financial assistance during COVID-19. Partners typically earn the most compensation within a law firm setting. In addition, the partner designation may come with financial responsibilities to the firm.

In response to the pandemic, some top firms have chosen to reduce partner draws, with some law firm partners seeing their percentage of firm profits cut by as much as 50% annually. Lower partner salaries and the temporary elimination of some costly perks are also occurring.

Other firm leaders have decided to issue cash calls in preparation for difficult financial times ahead. A cash call occurs when operating partners call on non-operating partners to contribute capital to the firm. Their arrangements are generally governed by partnership agreements, which spell out the payment terms and expectations.

Salary Reductions

Associate compensation is also at risk. One top US law firm reported that staff members with an annual salary of $150,000 or more would see a 7.5% reduction in their pay. Staff making less than $150,000 annually will see a 5% reduction.

Another top firm announced that pay for staff and salaried lawyers making between $75,000 and $250,000 annually will be cut by 10%. Those making more than $250,000 will see their pay cut by 15%. Staff and lawyers earning less than $75,000 will not see pay cuts.

For firm members not experiencing reductions, their salaries are being frozen. Many firms have canceled annual salary reviews in response to the financial hit of the pandemic. They are also deferring payment of bonuses until later in the year, with hopes that profit margins will bounce back.

Recruitment Changes

COVID-19 has turned the entire law firm recruitment process on its head. Systems that have been in place for generations have been made virtually impossible by social distancing and health concerns.

Law students and laterally moving attorneys are feeling the sting as more and more firms announce delay or cancellation of their recruitment activities and events. Many summer associate programs have canceled or altered significantly. One top firm plans to hold off on making employment offers until May of 2021. However, they have pledged to pay current summer associates in full for the summer months. They are also offering chances for new associates to work remotely with the firm's pro bono efforts.

Lay-Offs and Furloughs

While many big law firms have been able to resist layoffs thus far, some industry experts predict that this trend won't last if the pandemic continues

for an extended period of time. Salary cuts may have offered some short-term financial relief, but they don't address the problem of too many lawyers in relation to the amount of work coming into the firm.

Depending on their areas of practice, many firms are experiencing fewer client matters coming through the doors. If there isn't enough work to keep their staff busy, a larger workforce creates a detriment to firm profits. Layoffs and furloughs may become a necessary business solution.

Benefit Changes

Some employee benefits are also taking a hit during these financially challenging times. One Am Law 200 firm announced the suspension of a 4% employer 401(k) match until next year. With an 80% participation rate among firm members, this change will bring some financial relief for the firm.

While most top law firm leaders are trying to maintain employee health benefits, many staff members worry that these valuable benefits may be impacted if the pandemic continues.

Voluntary Options

A few top firms have sought out less traditional ways to cut costs while maintaining staff numbers and salaries. Instead of cutting pay and making furloughs, they offer firm members increased flexibility in their work schedules.

For example, some employees may choose to reduce their work hours to better handle their personal family needs. These options help them better navigate the challenges of closed schools and at-risk family members.

Some firms also offer the choice of taking accrued leave or annual leave. Others are asking staff to "buy" COVID leave using a pay cut percentage.

What Success Looks Like

A recent survey of large law firms taken by Wells Fargo Private Bank's legal specialty group found that many big law firms appear to be successfully surviving the obstacles of COVID-19. For example:

- Demand during the first five months of 2020 dipped only 1.4%, though that percentage increased significantly during the month of May
- Cash collections increased by more than 3% through May
- Expenses flattened, mostly due to firms dramatically reducing their discretionary spending
- Layoffs have been moderate, with the associate number dropping by a little less than 1%. Most of the industry's layoffs have affected workers in positions that don't lend themselves to remote work.

These survey results suggest that the legal industry will survive this latest crisis. However, many law firm leaders and industry experts worry about the potential impact of prolonged disruptions or a possible second wave.

About Erika Winston:

Erika Winston is a freelance writer with a passion for law. Through her business, Personal Touch Edits, she helps legal professionals deliver effective written messages. Erika is a regular contributor to TimeSolv and a variety of other publications.