

# Report to Legal Management

OUR 33RD YEAR

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## The War for Talent and Starting Salaries



Ward Bower

By Ward Bower

**S**tarting salaries for new law graduates are \$160,000 in large firms in some cities, resulting in fully loaded compensation in the range of \$200,000. Combined with the per lawyer overhead in large, big city firms, the total cost of a new associate is approximately \$400,000 per year. How can this be justified? Quite simply, by the intense competition for top graduates of top law schools.

### Consider The Numbers...

There are approximately 40,000 new law school graduates annually, as there have been for the last 20 years. That number is not expected to increase dramatically in the near future. But the top 20 law schools average 340 students per 3L class (according to *US News & World Report*, America's Best Graduate Schools, March 31, 2006).

Thus the top 10% to 20% of the graduating classes of the top 20 law schools equates to 700 to 1,400 students. On the buyer side, the top 20 law firms (AmLaw 100) average 105 new hires per firm (NALP, *Directory of Law Schools*, 2006-2007 Edition) — for a total of 2,100 — 1.5 to two times the cohort of graduates in the targeted range. Supply/demand imbalance is clearly a problem.

On a larger scale, we can compute that the 216 law schools in the US producing the 40,000 new graduates average just under 200 grads per class. If the AmLaw 200 firms

average 50 new grads each (half the class size of the top 20 firms), they are hiring 10,000 new lawyers (25% of the total pool). Thus, even if the targeted law schools are expanded to include the top 100 schools, AmLaw 200 firms will hire approximately 50% of their graduates, hardly the level of selectivity most profess to seek. That is the reason starting salaries have escalated — to attract the better credentialed of that group.

Even without growth in the size of top law firm recruiting classes, starting salary increases can be expected in an attempt to deal with the supply deficiency. But the dramatic growth in the size of large law firms, driven by the current rate of 50 law firm mergers a year, is likely to increase the size of recruiting classes, exacerbating the supply/demand imbalance and adding upward pressures on salaries.

The beneficiaries of this phenomenon are clearly law students at top schools who rank

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lower in their classes, as well as top graduates of law schools not currently ranked in the top dozen or two national schools. Better ranked regional and local schools also can be expected to benefit. Anecdotally, some law firms have been pleasantly surprised by the performance of some experimental new hires from the top of their class at “lesser” ranked law schools.

What will the long term effect of this phenomenon be? Creation of new law schools? Expansion of class sizes in existing institutions? Or, will the law firms continue to react to the pricing implications of the supply/demand equation by pushing starting salaries even higher? Currently there may be no other choice. ♦

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