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Answers to Your 7 Biggest End of Year Attorney Compensation Questions

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It's already mid-December, and the end of the fiscal year will be here before we know it.

Evaluating end-of-year compensation for your attorneys may be the last thing (or, we'll say it, most dreaded thing) on your to-do list as you work through closing the books for 2021.

There is some good news - you don't have to go it alone. We were lucky enough to be joined on a [webinar](#) by Amanda Koplos, Executive Director, and Stephanie Donaldson, Controller, at Shuffield, Lowman & Wilson, P.A., a 40+ attorney, full-service law firm practicing in the areas of corporate law, estate planning, real estate, and litigation based out of Orlando, Florida.

Amanda and Stephanie have a wealth of experience in law firm operations and leadership, having worked in five firms over the course of their careers. They were gracious enough to share their own theories and best practices surrounding end-of-year compensation for attorneys. Here is what they had to say.

7 Biggest Questions

- Compensation for timekeepers is often made up of many different components. In your experience, what factors drive compensation?
- Most law firms have formulaic compensation systems that they set up at the beginning of the year. From the administrative side, how do you keep it straight?
- How do reports differ based on who they are intended for?
- How do you track origination? How do you handle it when someone leaves the firm? Do originations ever change?
- Where do your roles overlap and how can different roles involved with origination support each other?
- What are the biggest pain points for your firm throughout this process? Do they change every year, and if so, how do you solve them?
- What is your best advice for someone evaluating their law firm compensation model?

Question 1: Compensation for timekeepers is often made up of many different components. In your experience, what factors drive compensation?

Amanda: In my experience, law firms typically divide compensation for timekeepers into multiple

categories. Some are based on production; others are based on intangibles that are harder to measure that take into account the overall profitability of the firm or contributions that timekeepers made such as time spent on business development, mentoring other attorneys, or working on the business in a management capacity.

Stephanie: I have seen the same thing. I basically refer to it as objective compensation and discretionary compensation. Objective compensation is exactly what you think it means: there are a series of goals and if an attorney hits those goals, they receive that objective compensation or a combination of salary and bonuses. Discretionary compensation takes into account all of the things previously mentioned but it can also have components such as “overachieving” on objective goals. For example, if billable hours are a function of your objective bonus, and an attorney were to hit those and go over, some firms might add that into discretionary compensation.

Question 2: It sounds like most law firms have formulaic compensation systems that they set up at the beginning of the year. From the administrative side, how do you keep it straight?

Amanda: Lots and lots of spreadsheets!

Stephanie: While that is true, I recommend a few different methods for gathering information. I rely on our [accounting system](#) to produce reports. However, in specialized circumstances, I am exporting data from our practice management software and manipulating it in Excel. These [reports](#) vary throughout the year and the only way I am able to keep track of them is by running reports on an ongoing basis. For example, I may give each timekeeper one report every month so they can see how they are progressing, while also running a report at the end of each quarter, and finally, at the end of the year.

Amanda: Not to mention, these reports may vary depending on who you are giving the report to. An individual report is going to look significantly different than the one given to firm management or practice group leaders. Those reports are different from the individual attorney reports because leadership needs to see consolidated timekeeping information. My advice here is that you really need to put a procedure in place at the beginning of the year, and prioritize updating and reporting monthly. We know what a time crunch the end of a firm’s fiscal year is and you don’t want to spend hours in December creating standard reports.

Question 3: How do reports differ based on who they are intended for?

Amanda: At the various firms I have worked at your “need” for information differs based on your position. Here’s an example: one firm might track collections based on who worked on the matter or by working timekeeper, meaning collections will become a driving factor for individual attorney compensation. Each attorney is going to want a basic report every month that shows the total collections on the matters they have worked on. Since it is just the collections attributable to them, they don’t need to know (nor do they probably care) what all of the other timekeepers collected on the same matter. So, you want a report that shows you “collections by working timekeeper” and you want to be able to filter it for one attorney with the ability to set date ranges such as a month, quarter, or year. You can pull those reports directly out of a good [time](#) and [billing](#) system. However, that shows only one side. You also need the ability to see how that ties to compensation for individual timekeepers by taking the raw data on collections and combining it into a report that shows the progress toward a bonus goal.

Stephanie: You need to make the report simple, yet functional. I'm a numbers person so I always want to dump a ton of data into one report. But, if the attorney can't understand it, it's a waste of time.

Amanda: I actually had a conversation with an attorney one time. She said, "yeah I get those reports every month but I never look at them or understand them." I was befuddled by that because that report would help her plan how to make more money. So, I simplified the report for her, she finally "got it" and it was much more successful for everyone involved.

And that's just reports for individual timekeepers! Then, we might have more in-depth reports for practice area chairs and for the managing partner that help leadership look at everything going on from a full-firm view. Sure, you need the individual numbers, and firm administrators need access to them, but you need to be constantly benchmarking where you are now and how you're going to fare at the end of the year. A good controller gives you reports that are both historical and include predictions.

Stephanie: Since we're talking about compensation in firms where there is a lot of variable compensation, (in other words: more discretionary than objective) I have to predict how much compensation we will be paying out on a monthly, quarterly, or annual basis, in addition to predicting how much cash we'll need to pay that compensation and how the budget (and thus bottom line) is impacted by those predictions.

Amanda: It's a lot of reports and it's important to have an organization system. We're even developing better systems for that. We are investing in pushing information to people and building reports that are specific to users that they can access easily, ideally within their time and billing system.

Question 4: So we've talked a little bit about paying based on origination. How do you track origination? How do you handle it when someone leaves the firm? Do originations ever change?

Stephanie: When a firm pays based on originations, the larger the firm, the harder it is to track that manually. So, you have to use a system that is sophisticated enough to handle variables. For example, originations can change if a rainmaker leaves the firm and doesn't take the case/client/matter with them for whatever reason. They can also change if an attorney starts as an associate and is then promoted to partner, as those roles are paid differently. There isn't a set way that situations like these are handled; I've seen it done in different ways at different firms.

You also need to be able to do split originations and have origination split changes throughout the year through a combination of an accounting system and a manual system. As of now, we do find that we pull information out of our practice management software to get the raw data but still have to manipulate it a bit to line up with the actual compensation plan.

Question 5: Where do your roles overlap and how can different roles involved with origination support each other?

Amanda: At the end of the day, we're all trying to get to the same outcome, which is getting the numbers where we need them and making sure we can all make educated decisions as a result. Stephanie functionally gets everything we need in terms of origination in place right at the beginning of the year, setting us up for success throughout the year.

Stephanie: Origination is a combination of an automatic and manual workflow. That's why we originated the "two-look" process. Anytime in our compensation program where manual data entry is required we double-check each other's work. It is a team effort.

Question 6: What are the biggest pain points for your firm throughout this process? Do they change every year, and if so, how do you solve them?

Stephanie: Everything changed when COVID hit!

Amanda: It's true. Some firms place a lot of value in business development, so those compensation plans might have a component of needing to produce a certain number of business development hours or needing to attend a certain number of functions throughout the year. When everything was shut down during COVID, that was interesting because those firms had to rewrite compensation plans because they were very heavily based on that origination that wasn't happening as much.

Stephanie: Sometimes that requires us to create a second budget based on what we think might happen because obviously, the last two years were so up in the air. There is a lot more playing it by ear now.

Question 7: What is your best advice for someone evaluating their law firm compensation model?

Amanda: First of all, make sure you can easily measure it and report it before it becomes a component of compensation, even the discretionary portion. And if you're using a third-party system, (hopefully you are) you want to make sure what you want to measure can be reported by that system. While it's not always cut and dry, if you manage expectations early on and keep stakeholders informed throughout the year it's easier for everyone.

I also recently read two books that I highly recommend for anyone evaluating their law firm compensation model: *Compensation Plans for Law Firms* by James Cotterman and *Dividing the Pie: Law Firm Compensation Systems* by John Westcott, Jr.

Compensation is also so personal; I would recommend hiring a consultant or a neutral third party to review it and make recommendations.

The Takeaway

End-of-year compensation is a tough time of year. You're pulling a lot of reports and making changes on the fly in order to deliver the best outcome for all involved. While you're going through the process, (which you may be currently and that's why you're reading this) it is important to think about ways you can prevent yourself from having to reinvent the wheel next year.

Don't lose sight of all the work you did to close out the year. Take a moment to reflect in January to make sure your team is in alignment and ready to go with smoother processes in place for the year ahead with these tips we've provided today.

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