

US law firms more aggressive than UK peers in cutting pay

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20 April
2020

A faultline has emerged between US and UK law firms in response to the coronavirus pandemic, with American groups acting faster to cut pay for both junior and senior lawyers.

“Pay cuts for lawyers in the US are pretty standard across the board — going up to as much as 25 per cent,” said Anna Birtwistle, an employment partner at Farrer & Co who advises partnerships.

“Whereas the present trend among UK firms has been limited to salary freezes and bonus deferrals.”

US firms such as Cadwalader, Wickersham & Taft and Reed Smith have come under greater financial pressure than UK peers such as Allen & Overy and DLA Piper because of the timing of their financial years.

US firms with a December year-end paid out profits to partners at the start of the year and have less cash on their balance sheets to weather the impending storm.

“Many US firms are faced with this crisis at a bad point in their annual cycle,” said Robert Weekes, London managing partner of Crowell & Moring. “Therefore one of the best things they can do is cut expenditure to conserve cash.”

By comparison, most groups in the UK pay out to partners in the months after the financial end of the year in April.

US firms have also garnered a reputation for being more aggressive because of their “eat what you kill” remuneration structures. Ms Birtwistle said they tended to be “swifter to take drastic action in a downturn”.

In the US, Baker McKenzie lawyers and other members of staff earning more than \$100,000 are taking a cut of 15 per cent from May on their base compensations.

Baker McKenzie, whose equity partners took home on average \$1.5m last year, said it would rather “adopt temporary reductions” in pay than “lay off our people”.

Cadwalader, one of New York’s oldest law firms, has cut lawyer and senior administrative staff pay by 25 per cent “for the length of the crisis”.

Pittsburgh-based Reed Smith, which turned over \$1.2bn last year, announced a 15 per cent temporary cut to associate pay and a 10 per cent cut for other roles known as counsel.

Other US firms including Bryan Cave Leighton Paisner, Crowell & Moring and Orrick have cut pay for associates. The majority of US firms have also cut payouts to partners.

In the UK, a large number of firms have so far eschewed base compensation cuts in favour of holding back partner payouts of profit, freezing pay for less senior lawyers and furloughing non-lawyer staff.

Allen & Overy, which advises some of the world's largest banks, has asked partners to inject cash into the business and abandoned an annual pay review for other staff.

DLA Piper, the UK's largest firm by turnover, has avoided cuts in base compensation. It has instead put groups of staff on fully-paid leave of absence.

London firms Eversheds Sutherland and Pinsent Masons, both facing a hit from a slowdown in real estate and transactional work, have turned to the government's furlough scheme for non-lawyer staff.

However, a small number of City firms have temporarily cut lawyer pay. Ashurst and Norton Rose Fulbright launched similar schemes in which certain staff work 80 per cent of their hours for a reduced salary.

Some industry figures also forecast UK firms may be forced to take increasingly drastic action in the coming months.