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Law firm rates in 2024

As strong rate performance continues, questions continue to grow

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The increases in rates charged to clients by their outside law firms are one of the most closely watched indicators of the direction of the legal market economy. As we reported last year,[1] growth in law firm rates has been one of, if not the key driver of the growth of law firm profitability for the past decade. If anything, 2024 has only doubled down on this premise.

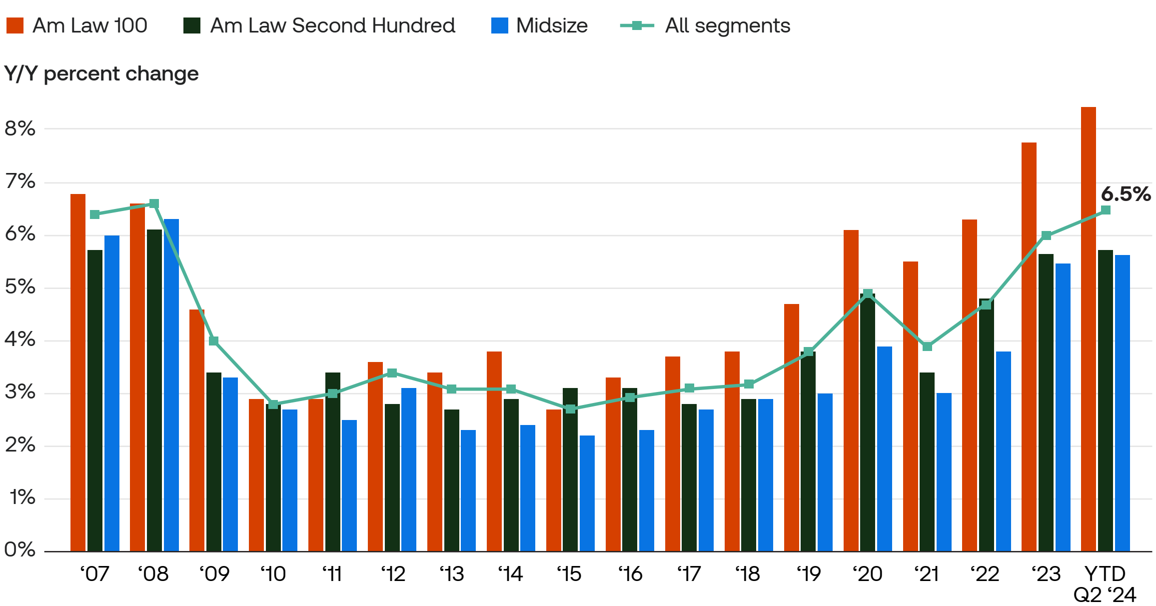
Partnering once again with our friends from the True Value Partnering Institute,[2] the Thomson Reuters Institute's latest law firm rates report explores how rate performance in 2024 has continued not only the long-term trend of strong rate growth on a year-over-year basis, but also the relatively recent phenomenon of steadily increasing rate growth throughout the year instead of just at the beginning of the year. However, there are signals that — while firms should not necessarily rush to restrain rate growth in places where the market is willing to tolerate it — clients may be starting to push back more actively on rates, leading to increasing questions about how long this surge in rates will be sustainable.

Continued strength in rate growth in 2024

As a starting point, it's helpful to remember that, when we discuss rates in this report, we focus on the growth of *worked rates* (sometimes called *agreed-upon rates*) — that is, growth in the rates clients agree to pay their outside law firms to engage in legal matters. Through the mid-year point of 2024, a years-long trend of steadily increasing growth in worked rates has continued, with no real signs of slowing, hitting an average year-over-year growth mark of 6.5%.

FIGURE 1:

Worked rate growth



All timekeepers; billable time type; non-contingent matters. *Source: Thomson Reuters 2024*

1 See *Law firm rates 2023*. Available at: https://www.thomsonreuters.com/en-us/posts/legal/law-firm-rates-report-2023/.

2 https://www.tvp-institute.com/

The acceleration in rate growth is remarkable not only for its height but also its breadth, with all major law firm segments reaching new heights in rate growth. Am Law 100 law firms, for example, continue to lead the market with growth in worked rates of 8.4% year-to-date (YTD), but both Am Law Second Hundred and Midsize law firms have similarly been aggressive in their growth for the past two years as well. The most recent quarterly results found Am Law Second Hundred and Midsize[3] law firms at 5.9% and 5.6% growth in worked rates, respectively.

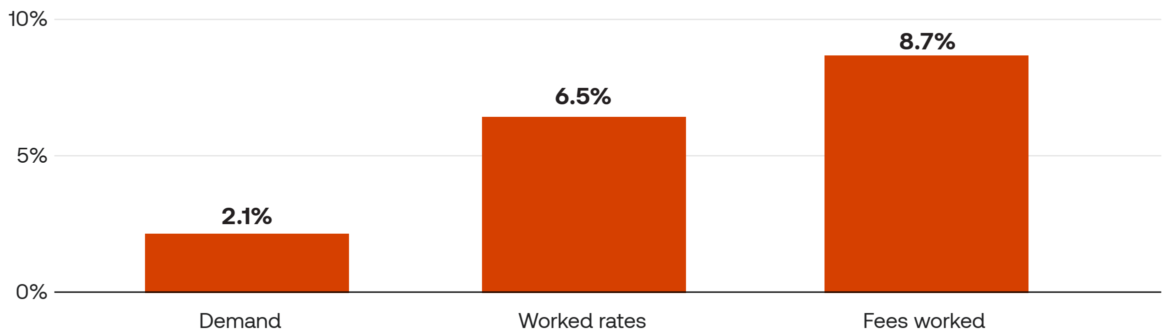
Indeed, as recently as 2022, both of these segments had constrained their rate growth below 5%; and at the end of 2022, the average Midsize law firm's rates grew by only 3.8%. Clearly, both of these segments have seen the increases pushed by their larger Am Law 100 counterparts and are taking steps themselves to strike while the iron is hot.

Moreover, this strong growth in worked rates — coupled with impressive growth in demand,[4] both from counter-cyclical practices[5] like litigation as well as a resurgence in general corporate demand — led to an incredibly strong fees worked[6] result for the mid-point of 2024.

FIGURE 2:

Key performance measures

Y/Y percent change – YTD June 2024 vs. 2023



All timekeepers; billable time type; non-contingent matters.

Source: Thomson Reuters 2024

These mid-year performance measures indicate that law firms could be on their way to strong revenue growth through the end of 2024, with rates continuing to play a leading role in that result.

3 For purposes of this report, Midsize law firms are defined as those firms that participate in the Thomson Reuters Financial Insights program, but which are not listed on the Am Law Second Hundred list.

4 Also for purposes of this report, *demand* is defined as total billable hours worked by the average law firm in the sample.

5 Counter-cyclical practices are those that tend to experience growth during an economic downturn and include litigation, labor & employment, and bankruptcy.

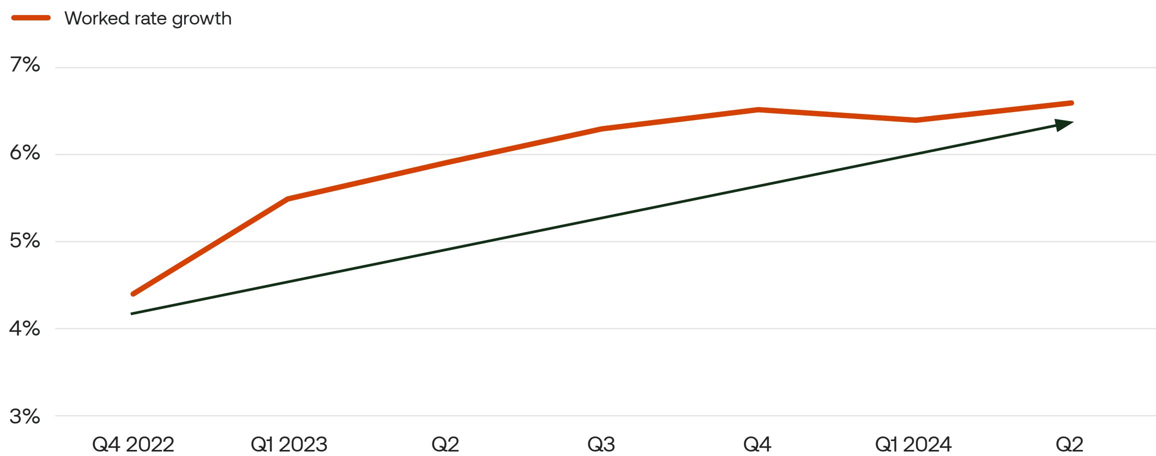
6 Fees worked is an accrual-basis analogue for revenue, calculated as the product of total hours worked multiplied by the worked rates for those hours, and expressed as percentage change in that product compared to the same timeframe the previous year.

Some surprising new behaviors

What is perhaps more remarkable than the pace of growth in worked rates, however, is the relatively consistent upward trajectory quarter-over-quarter for more than a year.

FIGURE 3:

Gradual increase in rate growth



All timekeepers; billable time type; non-contingent matters.

Source: Thomson Reuters 2024

Why does rate growth keep increasing?

Historically, rates grew when new rate schedules went into effect at the beginning of the year, then those rates traditionally would stay consistent throughout the remainder of the year. As recently as 2022, however, worked rates grew by 5.0% in the first quarter, then tended to decline slightly over the ensuing quarters.

For many law firms, 2023 was a year in which they needed to focus on recapturing pricing power they lost in 2022 when, for the first time since we've tracked law firm performance, inflation outpaced law firm rate growth. Consequently, law firms were acutely aware of the need to aggressively push rates higher in 2023. By 2024, much of the inflationary pressure has abated, yet rate growth has not similarly subsided.

Approaching the question from the perspective of law firms, it is important to note that because the rates we are discussing are worked or *agreed-upon* rates, clients are agreeing to these levels of increases. However, we should be clear that this upward trajectory in worked rate growth is *not* indicative of mid-year or rolling rate increases; rather, these increases appear indicative of a combination of a few other behaviors.

The power of negotiations

First, the upward quarterly trajectory of rates over the last six quarters is likely a reflection of law firms' increased focus on negotiation. Agreed rates are a function of the discounts that clients demand or that law firms offer to engage in new matters. If law firms begin offering smaller discounts, worked rates can continue to grow even if published standard rates do not change. Many law firms, particularly larger firms, have adopted a practice of permitting discounts off standard rates up to a certain level — most commonly 10% — without the lead lawyer needing to seek additional approvals up the chain. If law firms amend those guidelines to reduce automatic discounts by even a few tenths of a percentage, the result would be higher average worked rates. Likewise, if law firms became more reticent to approve discounts above the permitted range, higher average agreed rates would similarly result.

Additionally, many firms have begun exploring special rate schedules for certain situations. Often dubbed *national rates* or something similar, these are internal rate structures that partners and pricing teams can utilize in situations in which there is a wider-than-normal gap between the firms' typical rates and the rates that type of work would normally command. To illustrate with an admitted outlier example, imagine a small midwestern law firm bidding to represent a major multi-national corporation in an M&A deal. The firm's typical rates for M&A work would likely fall well below the rates the client is accustomed to paying, so the firm could opt to utilize its national rates in bidding for the work. The rates would still present a competitive price advantage in the eyes of the client but would represent a potential windfall for the firm. This practice, if utilized often enough, could undoubtedly exert positive influence on the firm's average worked rates.

On the other hand, clients may deserve to be seen at least partially responsible for the increase in worked rates. It is entirely possible that the very act of moving legal work to a lower-cost law firm — a phenomenon we have dubbed *demand mobility* and have explored in depth in other reports[7] — may satiate clients' need to reduce their costs. As a results, clients then end up seeking smaller discounts, if any, from the new law firm. The resulting reduction in discount would play to the law firm's advantage in the form of stronger worked rate growth; however, it also would benefit the client because they are paying a lower rate with the new firm than they are accustomed to paying — a win-win situation.

In reality, the explanation for steadily increasing worked rate growth is likely a combination of all of these factors and more. The key result has been a seeming willingness by law firms to push the envelope in their rate structures, spurred on by a seemingly agreeable clientele.

7 See, e.g., *2024 Report on the State of the US Legal Market*, at 20-23. Available at https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-us-legal-market-2024/.

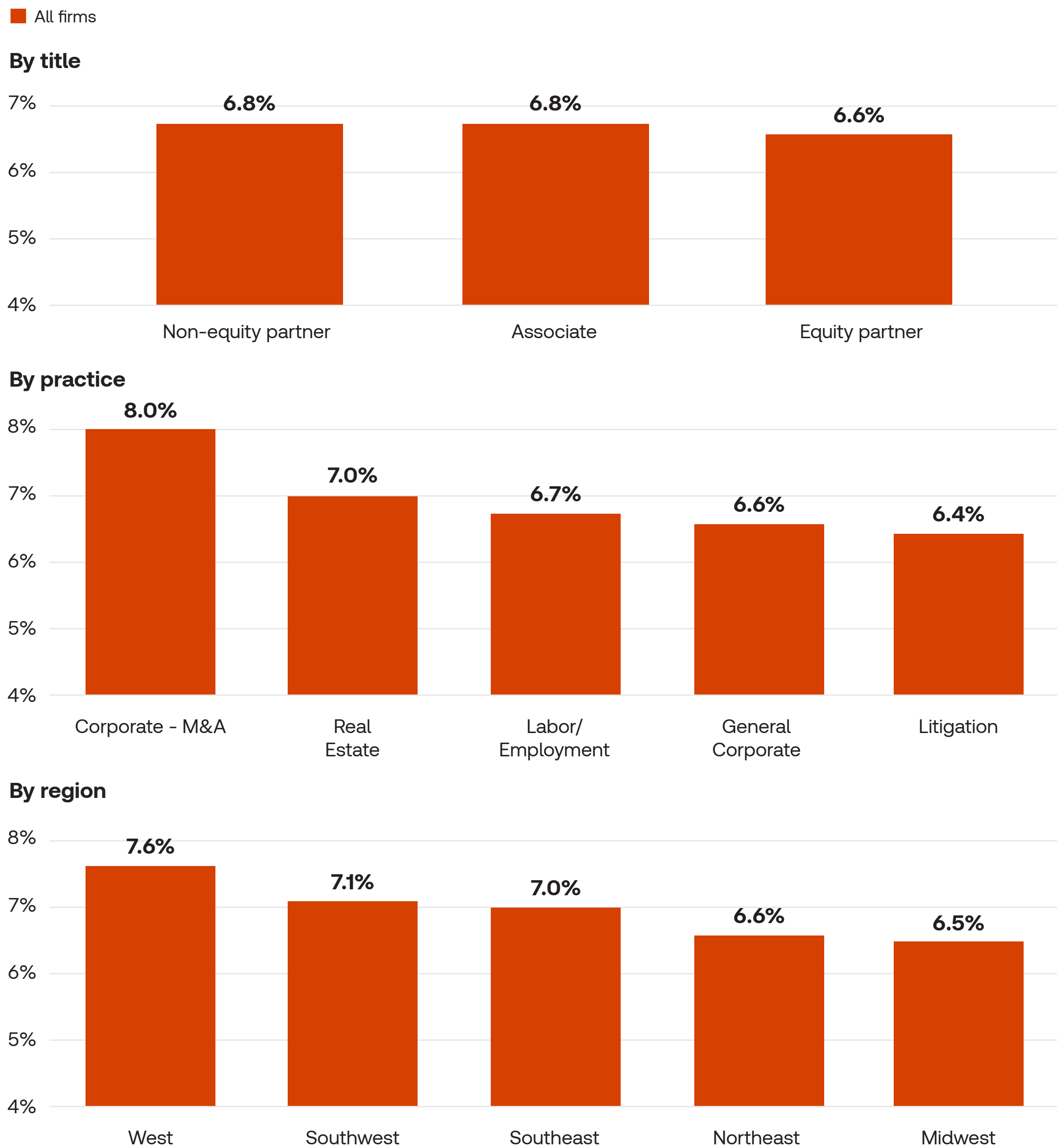
Growth in some surprising areas

In addition to the unusual pattern of consistently increasing rate growth throughout the year, there have also been some surprising new data points emerging in terms of where rates are growing. While not yet evidence of new trends, these data points do provide some interesting additional context to the broader rates discussion.

FIGURE 4:

Worked rate growth by title, practice, and geography

YTD Q2: 2024 vs. 2023



All timekeepers; billable time type; non-contingent matters.

Source: Thomson Reuters 2024

Of initial note is how close the growth rate is among job titles. Since at least Q2 2022, both associates and non-equity partners experienced worked rate growth at a faster average pace than did equity partners. More recently, however, equity partner rate growth has accelerated rapidly to nearly match the other titles at their firms.

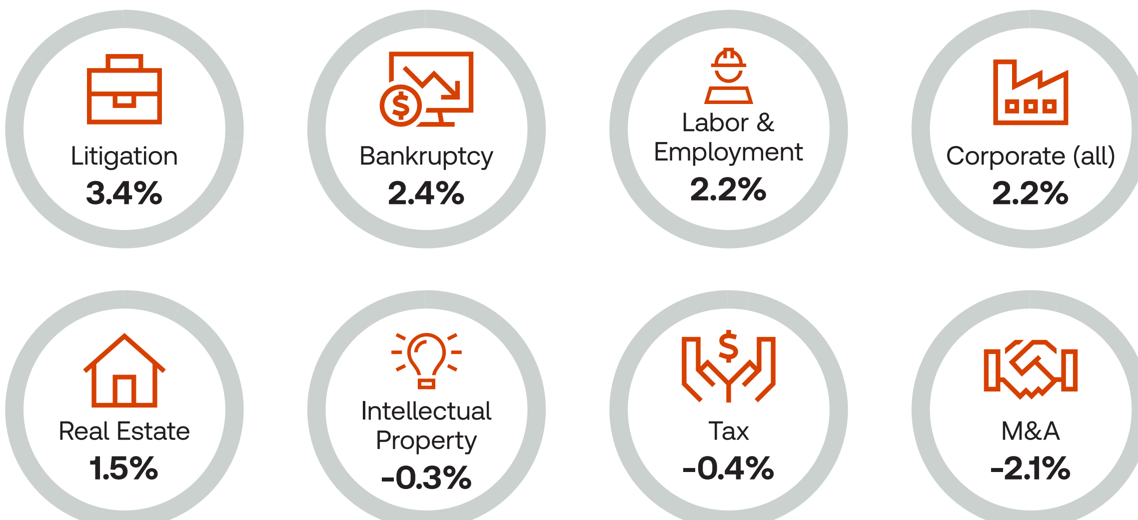
At the same time, the question of *where* rate growth was coming from has been interesting both from a practice and a geographic standpoint.

In terms of practices, M&A and real estate lawyers have seen the fastest growth in their rates this year, while litigation rates have demonstrated strong but far from market-leading growth. This contrasts interestingly with how these practices have performed from a *demand* perspective. When looked at by practice, the highest demand growth practices are not necessarily the highest rate growth practices.

FIGURE 5:

Practice demand growth

Y/Y percent change – Q2 2024 vs. Q2 2023

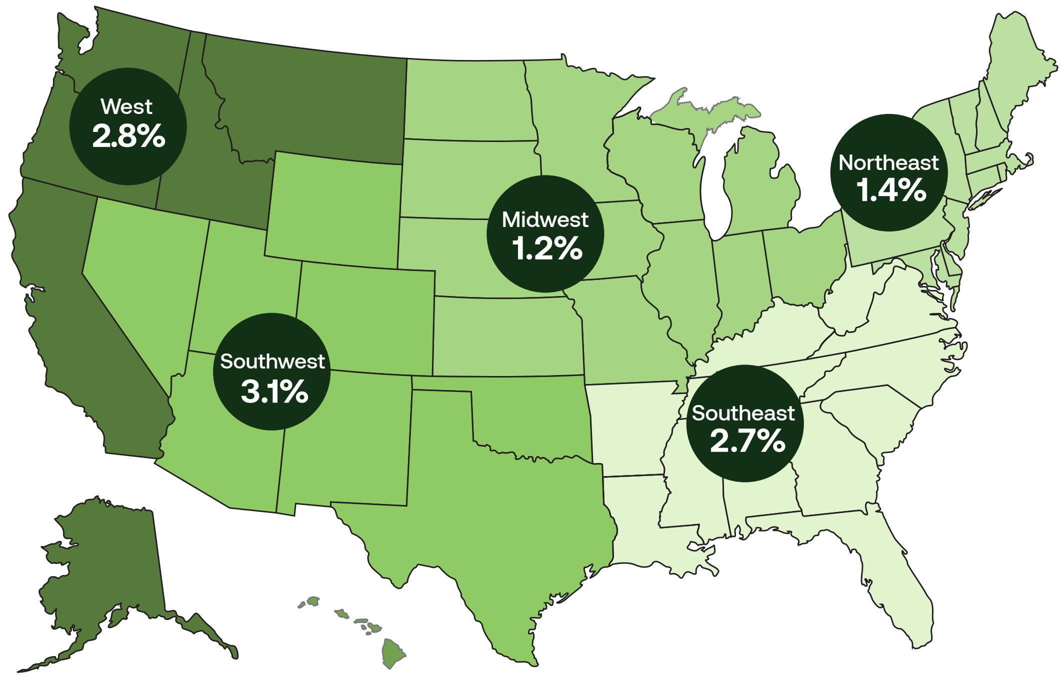


Source: Thomson Reuters 2024

Litigation has maintained its position as the market leader for demand growth, while real estate, and especially M&A, have struggled to produce much in terms of increased work for lawyers. The relatively lower pace of rate growth in these transactional practices could be due to less price sensitivity on the part of clients. However, it could also be due to an increased focus on rates from the lawyers in these practices — they may be trying to make up for lack of hours by pushing higher rates as a way to garner additional revenue.

The inverse relationship of rate growth to practice demand growth stands in contrast to the trend seen in a geographic breakdown. With some slight variations, the regions that have seen the best demand growth thus far this year are also the ones that have seen the strongest growth in rates with the West, Southwest, and Southeast regions experiencing the fastest pace of rate growth to go along with their dominance in demand growth.

FIGURE 6:
Practice demand growth by region



Source: Thomson Reuters 2024

Taken together, it seems that practices are looking to areas of soft demand as a place to push rates more aggressively, while geographic regions that are seeing higher demand growth appear also to be where law firms see an opportunity to double down with higher rate growth.

How long can the current rate growth trends last?

Understandably, most law firms and legal market observers have openly questioned how long this trend of impressively strong rate growth can continue, even as those on the sell-side of the legal market celebrate its effects on their bottom lines. Indeed, there is little indication in the current market that rate growth is likely to subside any time soon.

However, there are a few market factors that can serve as indicators of potential changes in client attitudes around law firm rates beyond the frequent vocalizations of discontent that make their way into legal media coverage.

Rate pressures may be causing clients to shift work

The first of these indicators is the aforementioned shift in demand. The Thomson Reuters Institute has noted a years-long trend of demand mobility,[8] with work seeming to move away from the largest, highest-priced law firms and toward more cost-effective providers. Indeed, nearly half of corporate general counsel openly stated that moving work to lower-cost providers plays a significant part in their cost-control strategies.

FIGURE 7:

Cost control strategies

1. Complete in-house work more efficiently

72%
Efficient processes

52%
Technology/automation

2. Triage and reallocate work

68%
Bring work in-house

48%
Move work to lower cost firms

45%
Triage new matters

22%
Move work to ALSPs

3. Drive greater value from firms

67%
Seeking more discount on rates

52%
Alternative fee arrangements

Proportion of GCs globally indicating each tactic forms a significant part of their cost control strategy.

Source: Thomson Reuters 2024

Without doubt, the desire to shift work to lower-cost firms is due, at least in part, to the long-standing pace of worked rate growth. Interestingly, this seemed to matter less before 2021 when the largest, most expensive firms were getting more expensive faster than their peers, yet were still being rewarded with the highest pace of demand growth. More recently, however, clients have shifted noticeable portions of their outside counsel hours to lower-cost Am Law Second Hundred and Midsize firms, and the data does not indicate any reversal of this flow or redirection of hours back to the largest firms.

8 See, *2024 State of the Corporate Law Department Report*, available at https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-corporate-law-department-2024/.

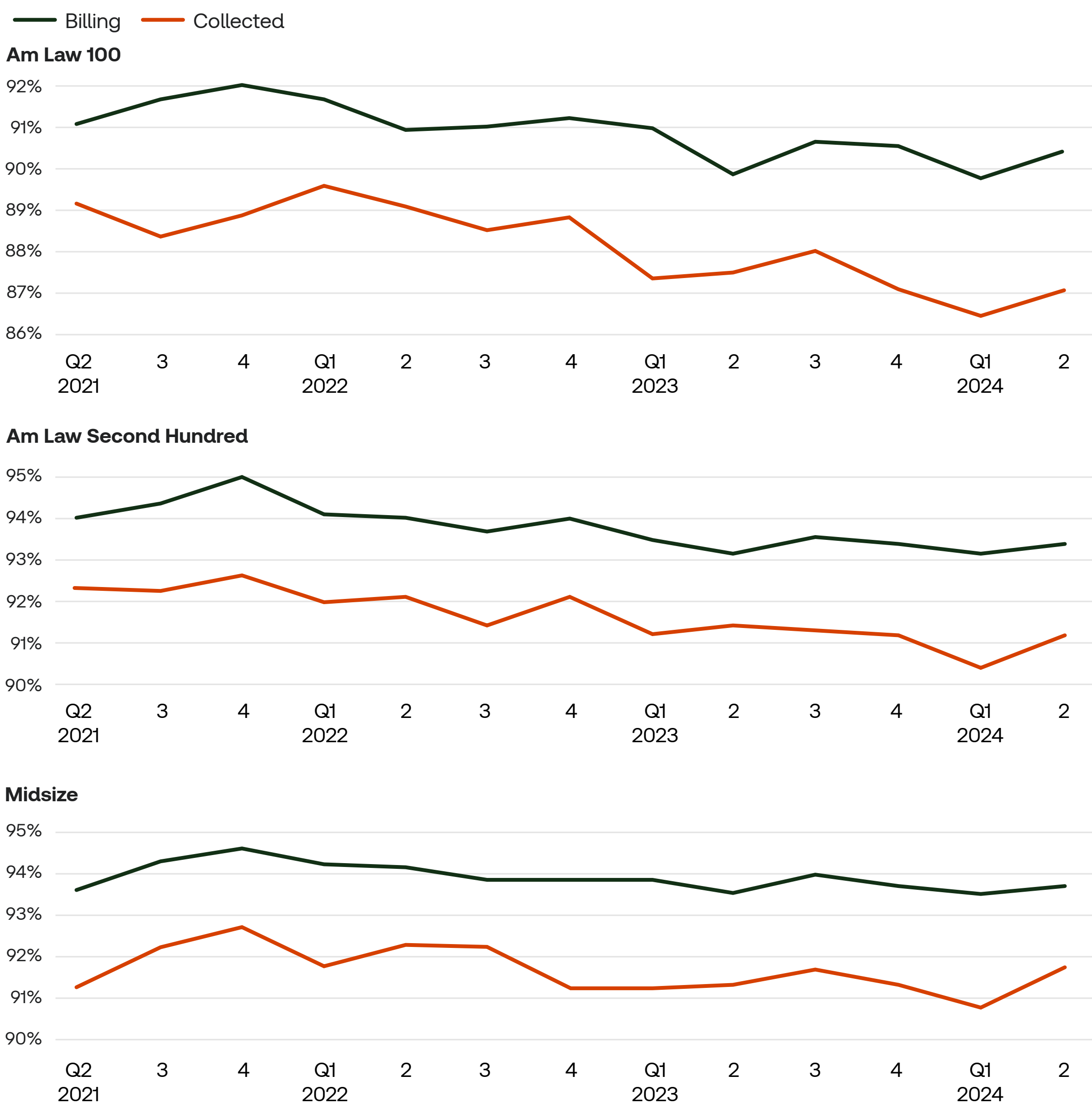
Realization as an indicator of client satisfaction with rates

Realization is another strong indicator of client satisfaction with law firm rates. Interestingly, despite clients' voiced displeasure, realization does not yet show evidence of widespread pushback on law firm rates. Indeed, while overall realization has declined from its high-water mark at the end of 2021, it remains relatively steadfast in a historical context.

To understand what is truly happening with law firms' ability to collect on their new, higher rates, we have to examine realization in two different ways: *collected* realization (the percentage of the worked rate that is collected from the client); and *billing* realization (the percentage of the worked rate that is actually billed to the client). While not perfectly parallel, it is readily apparent that there is not a wide divergence between the trend of billing realization and that of collected realization.

FIGURE 8:

Realization by segment



Lawyers; billable time type; non-contingent matters.

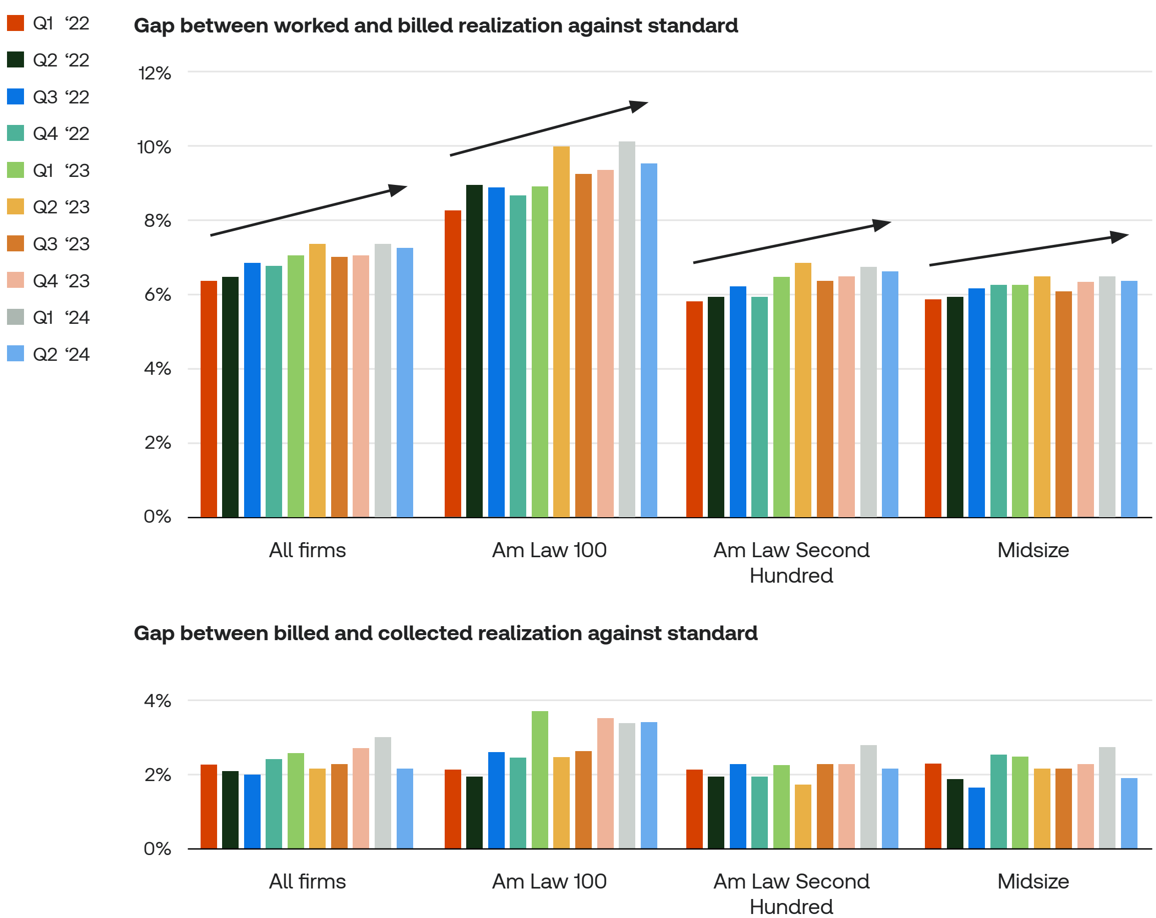
Source: Thomson Reuters 2024

The first quarter of 2024 saw a sharp downturn in collected realization. However, by Q2, both Am Law Second Hundred and Midsize law firms had seen a noticeable uptick as the gap between billing realization and collected realization returned to its more common range of around 2 percentage points.

Thus far in 2024, we are seeing a continuation of a long-term trend in which the majority of the decline in realization — a process we call *fee erosion* — is attributable to the law firm rather than to the client.

FIGURE 9:

Gaps in realization



Lawyers only. Billable time type.

Source: Thomson Reuters 2024

As is clearly illustrated, there is a far wider gap in billing realization — between the rate the client agreed to pay and the effective rate they were actually billed — than there is between what the client was billed and what they paid (collected realization). The latter figure has hovered around 2% since the start of 2022, with the notable exception of Am Law 100 firms. In contrast, the gap between worked and billed rates has continued to grow across the board.

The billing realization gap as a sign of partner unease with rates

The growing gap between worked and billed rates is due to a common behavior on the part of law firm partners: the pre-bill write-down. Clients can do little to impact a bill between the time the work is done and when that work is billed. During that period, any changes to the rate or fee for that matter comes at the discretion of the law firm, or more specifically the firm's billing partner.

That means, that the years-long growing gap between worked rates and billed rates and the resulting decline in billing realization is because law firms continue to do more to negatively impact realization and collections *on their own* than what clients are doing to them.

In many cases, the underlying reason for this increase in write-downs and the resulting gaps in billing realization are the result of partners who are uncomfortable either with the rates they are charging, or the ultimate fees generated under those rate schedules. Partners notoriously adjust invoices to "*make the bill work for the client*" — the end result of which readily translates into declining realization.

As we will see shortly, law firms are still on the upside of the balance between increases in rates and decreases in realization, but the role that rate increases may play in partners' mindsets as they review pre-bill invoices is something firms should be mindful of and consider providing training on.

A potential problem for the Am Law 100

We also note another anomaly in the data, and again it involves the Am Law 100. For three consecutive quarters now and in four of the last six quarters, the gap between billing and collected realization for Am Law 100 law firms has exceeded 3.4%. By contrast, no other segment has seen that gap exceed 2.7% in at least the past 10 quarters.

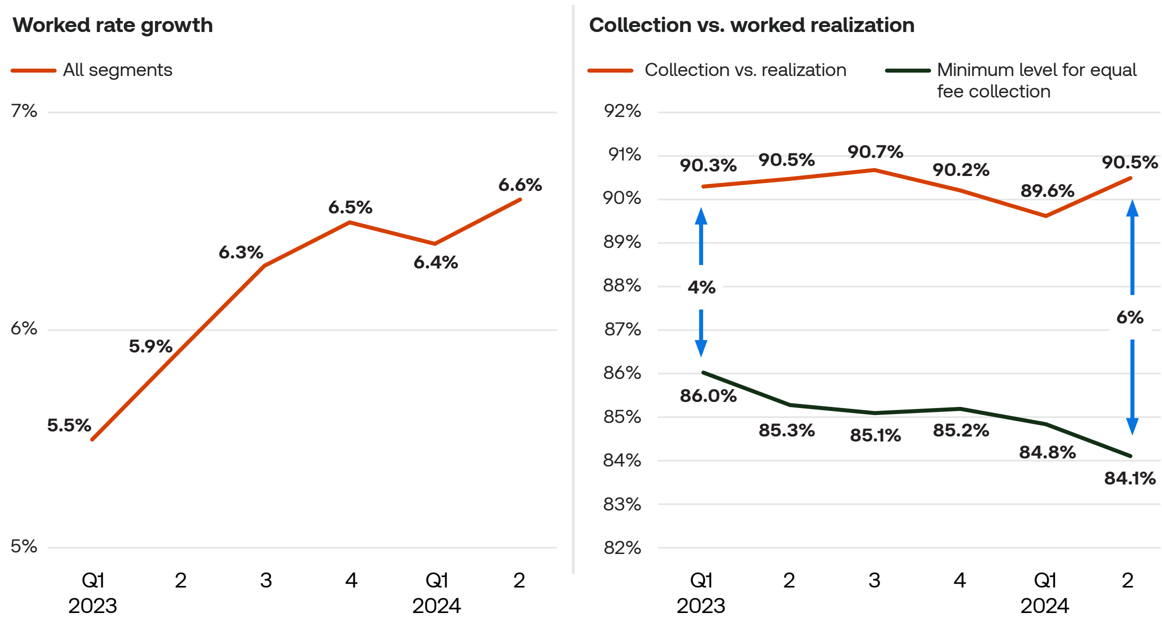
This uptick in client pushback on invoices has been occurring at the same time that Am Law 100 firms have been widening their lead on the market in terms of worked rate growth. Where the average law firm has grown worked rates by 6.5% so far this year, the average Am Law 100 firm has grown rates by 8.4% — and this is on top of the 7.7% growth these firms enjoyed last year. Am Law 100's growing gap between billing and collected realization, coupled with the continued flow of demand toward lower-cost firms, could be indications that clients are finally reaching a tipping point on these market-leading rates and are beginning to push back more aggressively on law firm invoices.

Despite declining realization, firms still seeing the benefit of rate increases

Even as we caution about declining realization, it is unquestionably true that growth in rates has greatly outpaced any concurrent decline in realization.

FIGURE 10:

Equal fee collection



Source: Thomson Reuters 2024

If we look at the interplay of worked rate growth and realization through *equal fee collection*. This is a measure of where realization would *need to be* to cancel out the benefit of worked rate growth – it is the break-even point at which declines in realization would offset rate increases. Any positive gap between collected realization and equal fee collection demonstrates the net benefit of the firm's worked rate growth after accounting for any decline in realization. We have dubbed this gap the *realization margin*.

In Q1 2023, a collected realization of 86.0% would have represented the point at which equal fee collection canceled out worked rate growth. At that time, however, collected realization stood at 90.3%, resulting in a net 4 percentage-point realization margin for the average law firm after taking into account rate increases. By Q2 2024, realization was holding relatively steady while worked rates were on a consistent pattern of increased growth. As a result, the line for equal fee collection dropped all the way to 84.1%, opening a real net rate growth advantage of more than 6 percentage points of realization margin for the average firm.

In short, even as firms struggle with declining realization and a widening gap between worked rates and billed rates due to increasing write-downs, they continue to see a net benefit from the aggressive growth in worked rates.

Exploring the advantages of realization margin

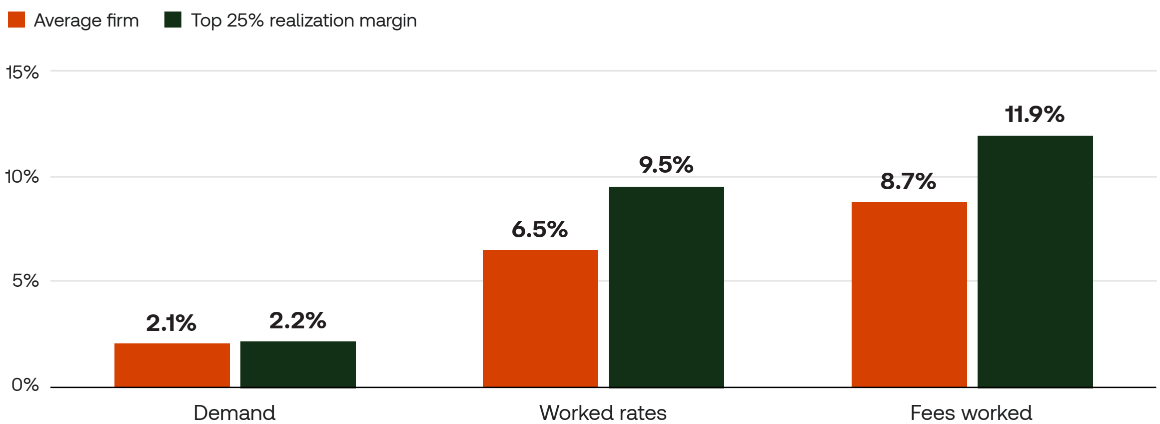
As the rubric of realization margin is not one we have explored in depth before, we undertook a deeper analysis of the potential benefits of realization margin on firms' financial results.

As we have done with other metrics and data samples in the past, our sample of law firms was placed into quartiles, this time based on realization margin. The results for those law firms in the Top 25% of realization margin are quite interesting.

FIGURE 11:

Realization margin KPIs

Y/Y percent change – YTD Q2: '24 vs '23



Lawyers; billable time type; non-contingent matters. *Source: Thomson Reuters 2024*

Top realization margin firms greatly exceeded the market average for growth in worked rates, resulting in higher-than-average growth in fees worked.

It would be tempting to conclude that these high-realization-margin firms simply shot for the moon on their rate growth, but there is actually a deeper level of complexity to the situation.

FIGURE 12:

Rate growth by type

Y/Y percent change – YTD Q2: '24 vs '23

Lawyers; billable time type; non-contingent matters. *Source: Thomson Reuters 2024*

It's true that firms with high realization margin started from a higher-than-average position in terms of their rate growth. What is remarkable, however, is that their rate-growth advantage *widened* throughout the fee erosion cycle.

The average law firm saw definite erosion of their rates through the progression from standard to collected rates, dropping from 6.6% growth in standard rates to only 5.8% growth in collected rates, owing to discounts, write-downs, write-offs, and the like.

The average high-realization-margin firm, however, saw its scale of rate growth actually increase across the progression of rates. Where the average firm shed 0.8 percentage points of growth, high-realization-margin firms actually picked up nearly 3 percentage points. This is only possible through a concerted focus on not only rate growth, but on realization and collection as well.

While the focus on increasing rate growth is readily apparent, the evidence of the focus on stewarding this rate growth throughout the rate lifecycle requires a bit more deduction. However, limiting the amount of discounting, write-downs, write-offs, and other behaviors that have a detrimental effect on collected realization is necessary to yield the type of results that those firms with high realization margins have shown in their rate progression. Further, it must be a relatively recent focus for it to show up so dramatically on a year-over-year basis compared to 2023.

To put it succinctly, to find such impressive growth in their fees worked, these firms had to focus not only on how much their rates grew, but how effectively they converted that rate growth into cash.

Protecting the equal fee collection advantage

While equal fee collection is currently working to law firms' benefit, that success is largely reliant on continued strong rate growth and exerting more discipline over billing and collection. Should firms find themselves in a situation in which rate growth starts to cool, the advantage in equal fee collection likely will quickly disappear.

To guard against this, firms should strongly consider the impact of their own internal billing write-down practices and seek to make necessary course corrections now, while rates are still in their favor — before it becomes an existential necessity.

This may seem like an unnecessary step to take at this point. However, it may actually be the ideal time. In early 2020, law firms had to quickly pivot to improve their realization and cash collections because it appeared that collecting cash was quickly becoming an existential necessity. However, the improvements proved fleeting; and when the pandemic-induced urgency abated, firms resumed their previous billing and collection practices.

Today, law firms should focus on instilling more lasting change in the mindsets of their billing attorneys. Rather than having to rapidly pivot to billing every hour possible during a crisis, firms now have the ability to systematically examine workflows to find wasted effort, help lawyers identify what part of their day-to-day work really delivers the best value to clients, train lawyers to be confident in their rates and pricing, and optimize staffing and assignments so work is more effectively completed at the appropriate level. Indeed, this needs to be a long-term strategy that is consistently applied across the entire firm.

Looking to the future of law firm rates

As we've noted, rate growth has been the key driver of increased profitability for law firms for most of the last decade. Current indications for the direction of the overall economy indicate that this is likely to be the case into 2025 as well. Continued high interest rates, downward revisions to US jobs numbers, a troubling real estate market, and the upcoming US presidential election are all contributing to the uncertainty that many people feel about how the economy will emerge in 2025.

This economic uncertainty paints a potentially foreboding picture for transactional practices into next year, meaning a potentially gloomy legal demand outlook overall. Without the benefit of additional working hours, firms will once again rely on their rate structures to provide the basis for increased revenue and, ultimately, profit.

Globally, we are seeing early signs that the pace of rate growth seen for the last few years may already be slowing as indications from regions such as Australia demonstrate a potentially cooler rates environment there.

Should those early indications prove to be the vanguard of a trend, law firms may well find themselves pivoting in 2025 toward strategies that emphasize not only getting the most out of rate increases through negotiations, but also capturing as much of those increases as possible through aggressively pursuing collections.

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