



## Associate Pay: Meet Firm Objectives by Rewarding the Behavior You Wish to Promote

By: Mary Merrell Bailey, JD, CPA, MBA, MST, MSA



**H**ow do you encourage your Associate Attorneys to be billable and also to bring in clients? At the Estate Planning & Legacy Law Center, PLC, we designed our compensation plan to reward Associates for spending their time on activities that ensure we will meet our firm's business objectives.

We use a combination of incentives to focus our Associates' efforts on production, marketing and sales.

### Pay Based on Production

#### **Base Pay:**

Each Associate decides how much is the minimum amount of payroll s/he needs to take home – the Base Pay. We use one-fourth of the Associate's hourly billable rate to calculate the Nut Rate. Dividing the Base Pay by the Nut Rate establishes the minimum billable hours that the Associate is expected to produce – the Nut Hours.

For example, meet our new Associate Pat. Pat desires a Base Pay of \$5,000 per month. Pat has a billable rate of \$200 per hour. Pat's Nut Rate, then, is \$50. Divide \$5,000 by \$50, and Pat's Nut Hours equal 100 per month. In other words, to be considered minimally productive, Pat must bill 100 hours each month to satisfy the \$5,000 Base Pay.

We use Timeslips™ to track all of our activities, but for payroll purposes, only certain kinds of time count. Billable means time spent on client matters, but not time spent on administrative tasks, or marketing and sales, or attending seminars. Associates do get Nut Hours credit for holidays and vacation days. Pat's holiday/vacation credit is five hours per day (100 Nut Hours per month/20 business days per month). The holiday/vacation credit does vary from Associate to Associate based on Nut Hours.

#### **Productivity Bonus:**

Our Associates also are rewarded for productivity in excess of the Nut Hours by being paid a higher amount for the ex-

cess hours. The Bonus Rate is equal to one-third of the Associate's hourly billable rate. Pat's Bonus Rate is \$67. If Pat bills 130 hours in a month, Pat would earn Bonus Rate on 30 hours, which equals a \$2,010 Productivity Bonus for that month.

The Productivity Bonus is a cumulative calculation. Remember, Pat's Base Pay presumes 100 billable hours per month. What if in January, Pat bills only 90 hours? Pat still takes home full Base Pay, earns zero in Productivity Bonus, and the shortfall from Nut Hours carries forward.

Let's assume that in February, Pat bills 130 hours. Pat's Productivity Bonus for February would equal Actual Hours Billed (90 +130) minus Nut Hours (100 +100) = 20 Hours x Bonus Rate (\$67) = \$1,340. Pat is protected because Pat can count on the Base Pay. The firm is protected because Pat earns bonus only on cumulative hours in excess of Nut Hours.

#### **Write-Offs:**

Pat does not get paid if the firm does not get paid. If Pat gets credit for hours that later are written off, Pat's cumulative hours are reduced. This encourages Pat to vigorously track Work-in-Process and pursue Accounts Receivable.

### Pay Based on Marketing

#### **Origination Bonus:**

We want our Associates to bring in new clients. To encourage their marketing efforts, we pay each Associate a bonus based on cash collected from engagements the Associate originated. We also pay certain expenses Associates incur while marketing.

We determine the source of each engagement at the time the matter is set up. Monthly, each attorney reviews the list of cash collected, by originating attorney, by matter. Any conflicts are settled immediately.

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For clients Pat originates this year, Pat may earn a bonus of 10% for the first \$50,000 of cash collected, 15% for the next \$50,000, and 20% for any amount over \$100,000. If Pat originated \$150,000 in collected fees this year, then Pat would earn an Origination Bonus of \$22,500.

### **Summary**

Does your payroll model support your organization's objectives? Our untraditional method rewards self-starters who have entrepreneurial spirit. Capturing the underlying data to calculate our payroll requires a robust technological and procedural infrastructure, but the results have proven worthwhile for the growth of our firm and our Associates.

*Mary Merrell Bailey, Esq., CPA (inactive, Alabama), MBA, MSTax, MSAccounting, is the Managing Attorney at the Estate Planning & Legacy Law Center, PLC in Orlando, Florida. Merrell's typical client has higher wealth and a family limited partnership, often is unmarried, but invariably is brilliant with a great sense of humor.*