



# How Much Should Lawyers Charge?

7 Factors to Determine Your Hourly Rate

Jared Correia





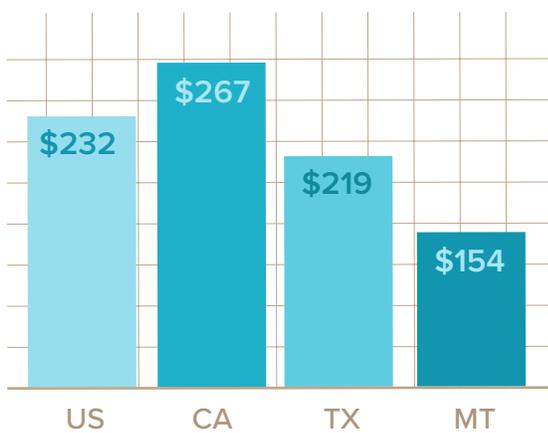
# Many lawyers are hesitant to share their rates out of fear of being undercut.

## Rates that work

How much should you charge for your legal services? It's a difficult question to answer, especially when you consider the range of factors that shape your ability to earn revenue. Ultimately, it's about finding the right middle ground for what's fair. You need to balance your needs as a business with what your clients are able and willing to pay.

As we'll see in this guide, determining what's fair is about more than just setting a fixed price. Fee discussions should consider both your business situation and the value it provides for clients.

### Average billing rates



## Price versus value

When setting a rate for your legal services, it can be tempting to fixate on default market prices. But such a narrow consideration is problematic. If price were the only measure of competition among firms, then we would ultimately sentence ourselves to a quick race to the bottom. That is, if the only way to compete with a \$200/hour lawyer is to charge \$150 per hour, there's good incentive for another firm to charge even less.

Fortunately, you don't have to compete on price. A better solution is to demonstrate the value of your services to your clients, and encourage them to pay accordingly.

That's not to say it's bad practice to benchmark your rates based on your market. In fact, it's a very good place to start. The challenge here is in finding information you can rely on. Many lawyers are hesitant to share their rates out of fear of being undercut. And, many bar associations will avoid the topic due to legitimate concerns over price-fixing accusations. Industry surveys can also be a poor resource, as their scope and frequency are often lacking.

To get a better sense of market trends, the [Legal Trends Report](#) provides insight into actual law firm billing data across the United States. For example, it shows that the average billing rate across the United States was \$232 per hour in 2016. It also shows us the average hourly billing rates for specific states: for example, \$267 for California, \$219 for Texas, and \$154 for Montana. The report also compares cost of living factors for each state and provides average billing rates across different practice areas.



## What goes into setting fees?

Any discussion on legal fees should start with the rules that govern your practice. A good place to begin is with the [American Bar Association's Model Rule 1.5](#), but be sure to follow the rules specific to the jurisdiction in which you practice. From there, we can look at how certain circumstances of your practice can, and should, ultimately affect your rates. Here, we discuss seven factors to consider.

### 1. Products and services you offer

Lawyers tend to cringe when equating their services to anything resembling a product. But it's a fact, even if it is an uncomfortable one. Lawyers who view their services as products can more easily put forward clear value propositions. And, much like the rules of supply and demand affect product pricing, they also affect what you can charge.

Finding a niche for your practice is not just a way of refining your expertise, it's also about making your services more exclusive to your clients' needs. If you're a fashion lawyer in Boise, Idaho, you're

probably special. If you represent medical marijuana dispensaries in a state or province that just legalized them, you're a rare bird. If you're a Second Amendment rights lawyer in Cambridge, Massachusetts, you're an outlier. Just as specialization equals higher rates, so can the right niche; rarity increases cost for services.

Attorneys who think about services as products understand that there are multiple factors that relate to the value that a firm provides. This can include the experience of walking into your law firm office and the level of care your clients receive when they are there. Dealing with a well-organized firm, regardless of whether it's a solo or team environment, ultimately determines whether a client feels cared for. And, technology can play a huge role here, as we'll see below

## 2. Hourly versus flat fees

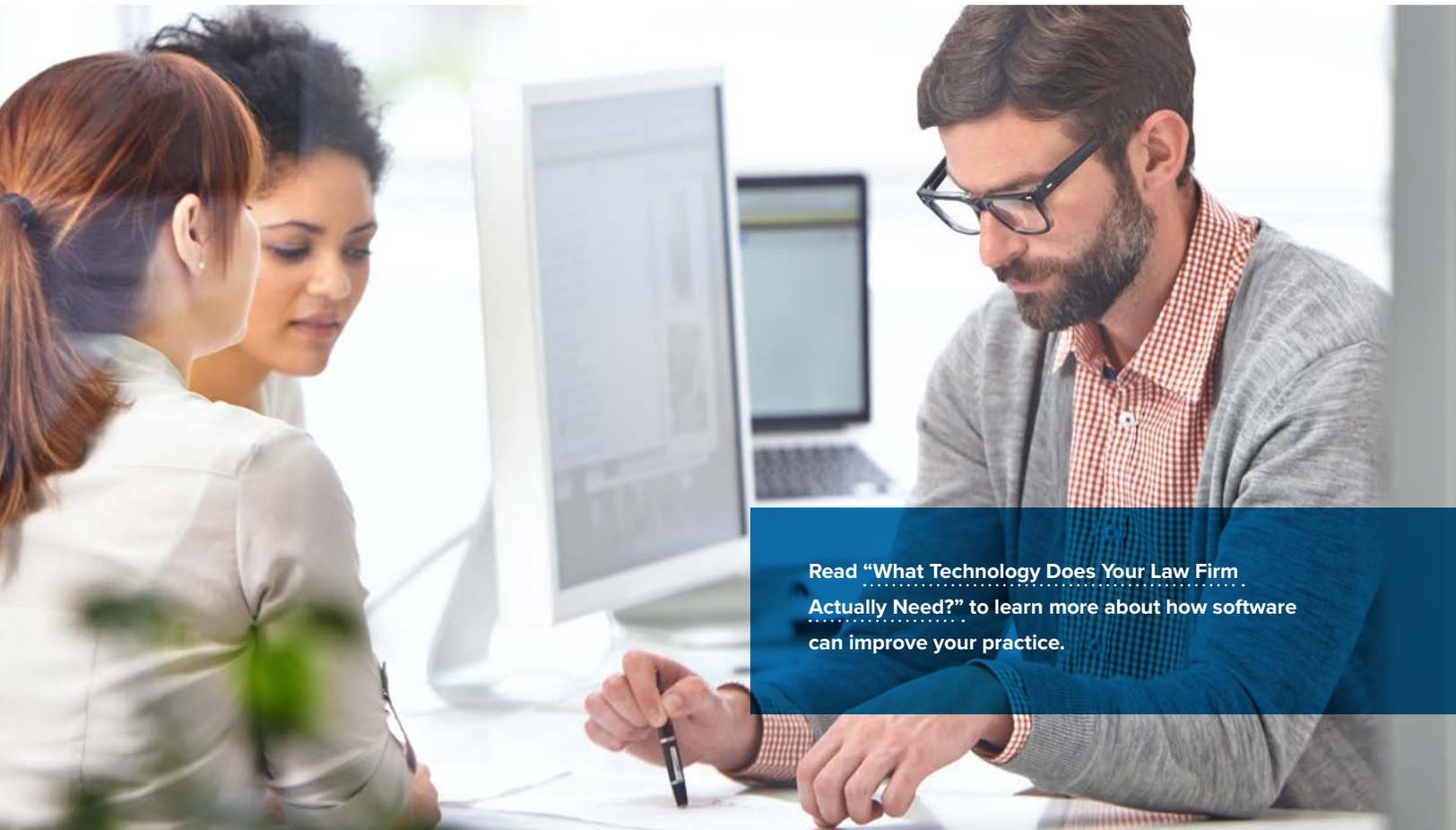
Thinking about your services as a product will also help you put together a more comprehensive vision of what you offer, which can then inform how you bill. For example, do your services fit better into an hourly or flat fee model?

While many law firms, large and small, have talked about moving to alternative billing models, most firms continue to bill on an hourly basis. There are many reasons for this, but the most common is that it's easy to keep track of your work and to issue simple invoices based on hourly rates.

While flat fees may seem like an actual alternative, many tend to be based on an hourly rate. (You can still measure your value by X hours per given task and then quote the client a flat rate based on that calculation.) Granted, if you know a task will take X hours to complete, charging that amount upfront offers clarity

and comfort to the client who wants to know what they're getting and for how much. It also incentivizes you to complete that task in a shorter amount of time. How you package your services will be up to you, but bear in mind the interests of your clients. If you represent small businesses, it may be easier to sell your advice by the hour, or you could consider offering a collection of formal documents (a data protection plan, a company handbook, an employee manual, etc.) that your clients can buy for a fixed fee.

The important thing here is that both parties should be comfortable with the arrangement. If you bill by the hour, your client may need an estimate to determine affordability and to budget accordingly. If you're charging a flat fee, you need to know that the work you commit to will be profitable, and that it won't extend beyond what was initially prescribed.



Read [“What Technology Does Your Law Firm Actually Need?”](#) to learn more about how software can improve your practice.

### 3. Experience

There is a reason why experienced lawyers can charge more than less experienced lawyers: They're better and faster—and clients recognize them for it.

Even for tasks that take the same amount of time, your experience may justify more confidence in your work. Your familiarity with specific court or administrative systems, expertise at predicting outcomes based on prior experience, and ability to spot issues before they become real problems may even result in better overall outcomes for your client. If that experience relates to a valuable niche practice area, that's even better.

Reputation, which often comes along with experience, is also a factor here. If you do good work, others will be more likely to speak to the value you provide. Depending on your practice area, and whether it is effective for clients to speak about their experiences with you, having a few descriptive testimonials on your website can help encourage your would-be clients to reach out and become actual clients.

Depending on your services and experience, you could eventually ratchet your rates up by 50 percent, 100 percent, or more. Much of that fee revision will happen naturally over time; the key here is, if you've been an estate planner for 20 years, you should be able to explain why your higher hourly fee is a better value than the lower fees charged by a novice practitioner.



#### 4. Client acquisition costs

It costs money to find clients. Knowing how much it costs to find a client will help to determine what you ultimately charge for your services.

Client acquisition costs represent the time and effort you put into getting leads and converting those leads into paying clients. Costs differ for practice and geographic areas, but one thing is for certain: Your law firm has an average client acquisition cost. If you know what it is, you know what you have to recover before you can start making money representing each client.

To find a rough estimate of your client acquisition cost, you'll need to record all the costs, including your time, incurred to acquire a certain number of clients over a defined period of time. Divide the total cost by the number of clients acquired, and you'll find the average cost for each client. You should also know how much you earned from each client, so that you can determine your return on investment (ROI), which will ultimately help you decide whether your marketing efforts are paying off, and whether your rates can sustain your acquisition costs. Because costs can add up over time, and take many forms—in terms of marketing, business

development, and networking—it helps to keep a running list of costs that you can review periodically, over time.

[Clio's Campaign Tracker](#) provides a comprehensive dashboard that helps assess your acquisition efforts. For example, if you spend money on paid social media advertisements and targeted mail-outs, segmenting and tracking the two programs will help you determine which is generating a better ROI. Campaign Tracker also links money earned from each client to each campaign, so that you can see exactly how much it cost to earn that client and if the effort was worthwhile.

Keep in mind that if a case you take forces you to turn down other work, you may adjust your rates accordingly. Although it's unlikely ethics counsel would use this particular language, this is sort of like a tax on a client's domination of your time. This notion is reflected in the classic retainer, where a lawyer may deposit a retainer directly into his or her operating account immediately (instead of directly to trust) when a client is paying for a law firm's availability for issues that arise over a specified period of time.





## The art of invoicing

Invoices and billing statements are a key place to communicate process and value to clients. No law firm client in history has ever said: “You know, I just have to pay my lawyer. She’s totally the greatest.” To convince clients of the value of your work, your invoices must be clear and compelling.

Make sure your clients understand what you’re doing for them—especially when you’re not charging them for the work you do. Don’t leave work you won’t be charging for off of the invoice: List it, with a **NO CHARGE** (yes, in **ALL CAPS**) appearing next to the description. Let your clients know that you’re not nickel-and-diming them.

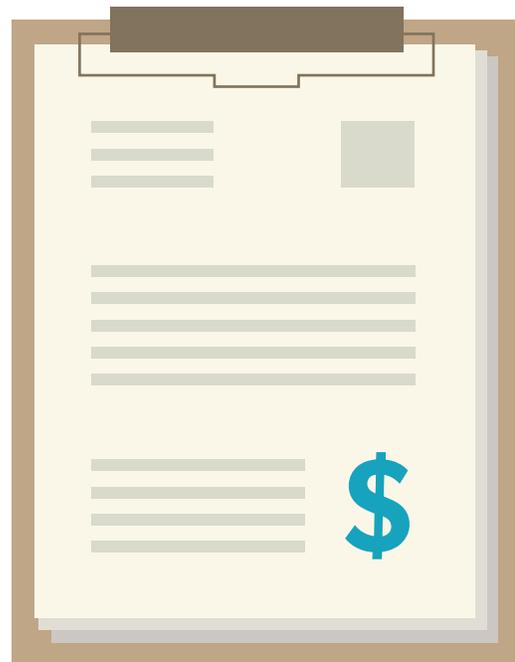
Clio helps structure your invoicing by integrating time and billing data into [automated billing features](#). You can view all of your unbilled work in a single dashboard, sorted by Matters and Contacts, which you can then use to create templated invoices that serve as fresh assurance to your clients of all the things that you have done for them.

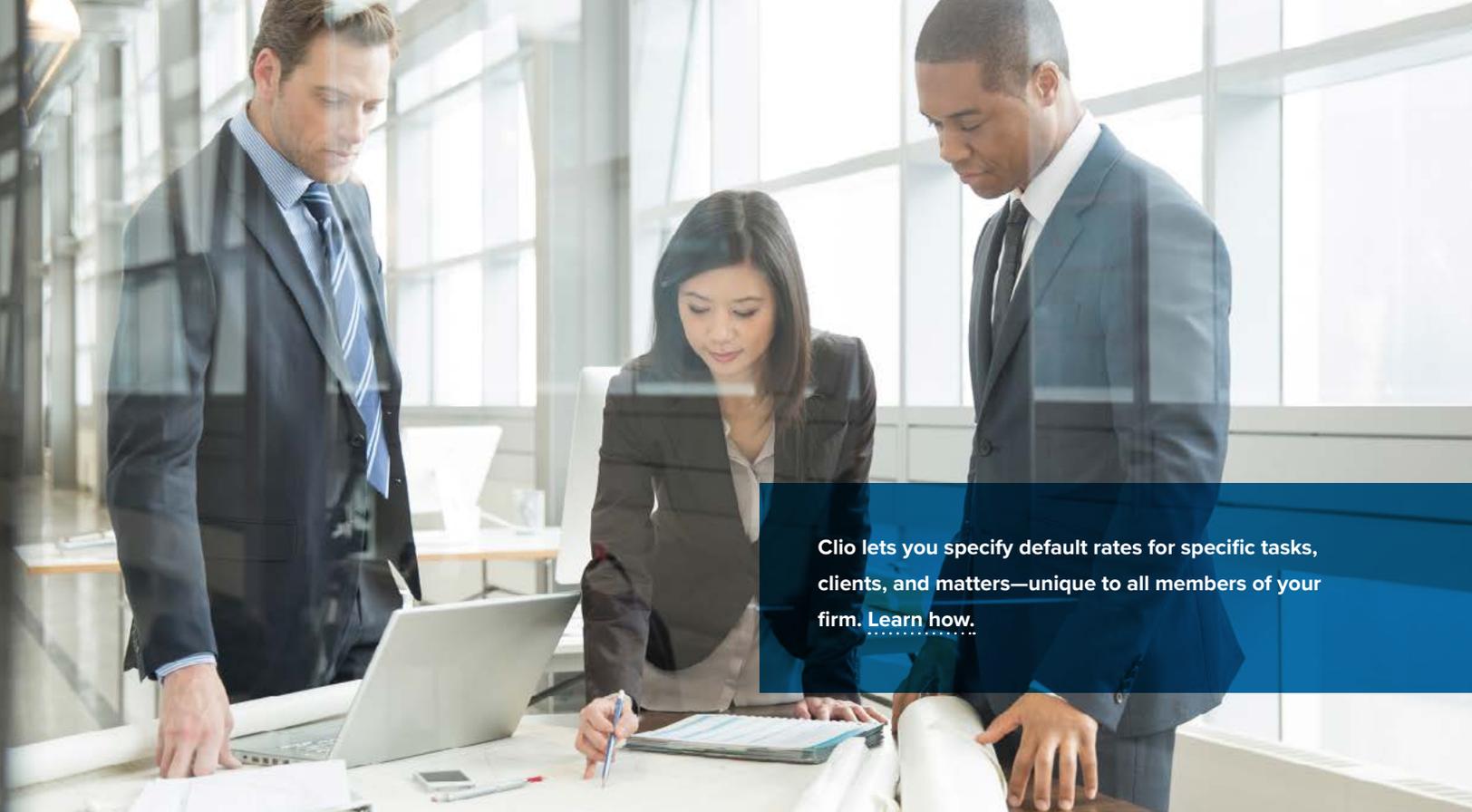
## 5. Expenses

In addition to meeting client acquisition costs, law firms must meet harder office costs. These are non-reimbursable costs that go into the everyday operations of your firm, which include large expenditures like monthly rent and staff salaries, and even smaller ones, like paper and toner. Because they aren’t reimbursable, these costs should be reflected in the fees you charge. We’ll go into more detail as to how this works in the fee calculation section below.

One of the advantages of running a small firm is the reduced overhead compared to medium or large firm settings. When you’re just starting out, working from a home office can be a way to avoid the cost of renting an office, and finding technology solutions can be a way to better manage multiple workflows.

It’s also worth noting that some cases are more expensive to prosecute than others. Medical malpractice claims, for example, should be well-funded because they’re difficult to win, and an award may not pay out for years. It’s okay to ask for a large retainer if the situation warrants it.





Clio lets you specify default rates for specific tasks, clients, and matters—unique to all members of your firm. [Learn how.](#)

## 6. Emergencies

Don't be caught flat-footed if a new or existing client has an immediate need. There is value in providing an immediate response for an immediate need, and it should be reflected in your rate. Imagine if you were a plumber, and were called out under exigent circumstances: that's probably not far off from what you and your client will be dealing with.

If a client is putting significant time pressure on you, that means you need to clear the decks, and put some other things on the back burner in order to focus on their present need. You can adjust your rate upwards for emergency circumstances. If a client needs you to reply to a demand letter in a week, you can charge more than if you had a month's time to reply. Similarly, if a client brings you a claim for which the statute of limitations is about to run, you can charge more for that work than you could if you had three years left on that deadline.

Settle on and apply emergency rates when the need arises. Add those to your existing [fee schedule](#), and be sure to discuss those potential fee shifts with the client before they retain you to avoid billing disputes.

## 7. Revenue projections

Your service rates should reflect revenue projections that address the future of your business. Creating revenue projections, especially the hopeful ones, helps you envision what the law firm of your future will look like.

Whether you're a lawyer working solo or in a small firm, make sure to separate your personal profit goals from those of your firm. Ultimately, your salary should be considered a firm expense that gets paid out before calculating profit. Knowing how much you expect to make from working at your firm is key here. Setting profit goals for your firm as a whole will help you to weather any ups and downs in business; it will also help you plan out goals for potential business improvements and growth in the future—which might include professional development opportunities, access to new tools and resources, or bringing on more staff.

You won't have any idea what you have to make before you know what you need to spend. Create a monthly budget and define monthly revenue projections around it. Figure out how many hours you need to work to meet your projections, and draw up fees that support that number.

## Putting it together: The bigger picture

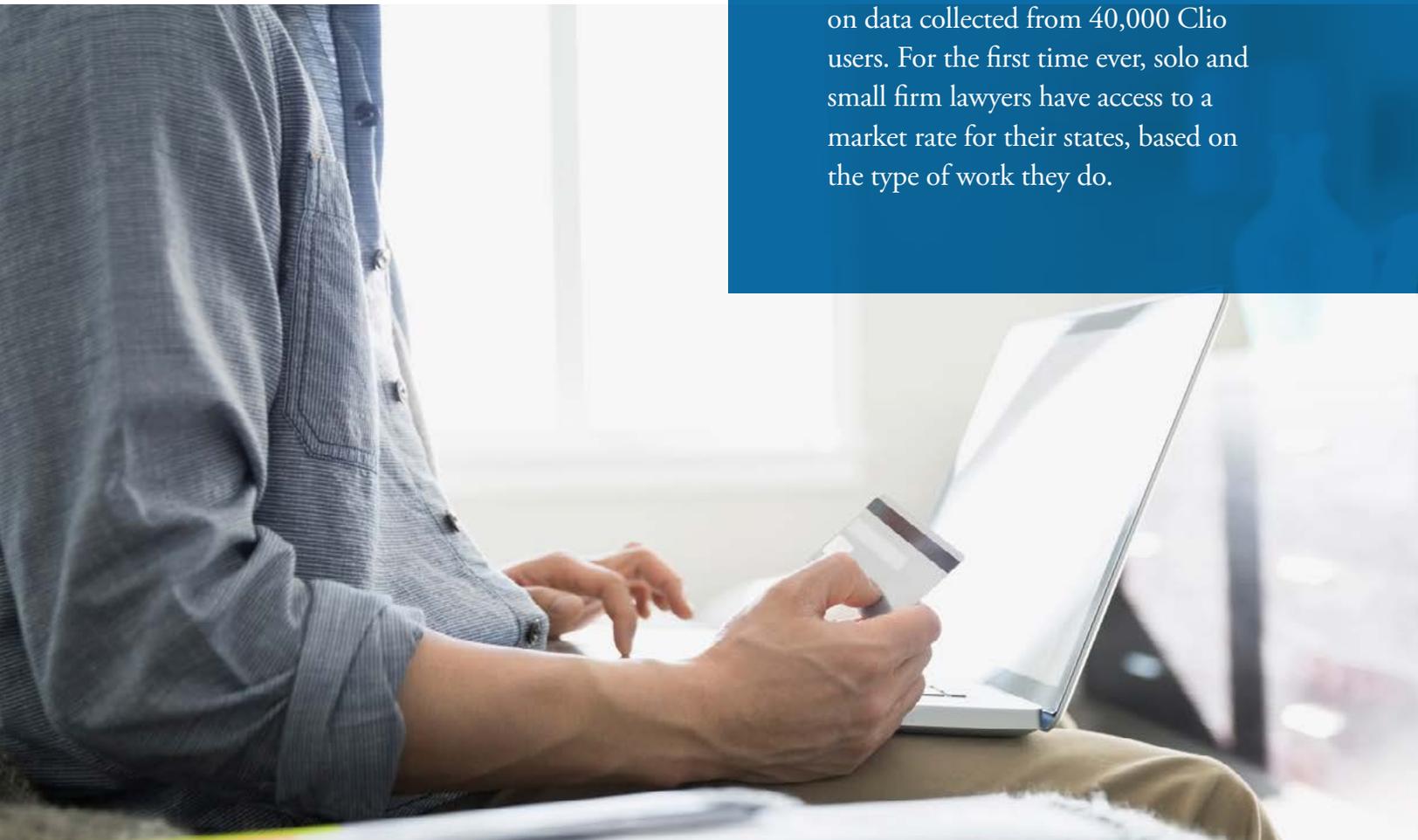
Setting an appropriate rate for your work should depend on a range of factors specific to the actual services you provide, and to whom you offer them. Your fees should also relate back to the bigger picture—i.e. how much you're taking in and how this relates to your personal and professional goals.

[Clio's legal practice management software](#) can help you track your billing activity, so that you get at-a-glance overviews of what's been paid and what tasks have yet to be billed or collected. With Clio, you can also specify default rates for specific tasks, clients, and matters, unique to each member of your firm.



**It's (not as) hard (as it used to be) to get information about other lawyers' rates.**

Clio's landmark [Legal Trends Report](#) is a first-of-its-kind study of lawyer billing habits across the continental United States. The annual report generates average billing rates for jurisdictions and practice areas based on data collected from 40,000 Clio users. For the first time ever, solo and small firm lawyers have access to a market rate for their states, based on the type of work they do.



## Rate calculator: How to determine your hourly rate



### 1. Identify a profit goal.

Profit goal = (Personal salary + Firm expenses) × Profit margin goal (percentage)



### 2. Determine your annual cost of doing business.

Cost of doing business = (Personal salary + Firm expenses + Profit goal)



### 3. Calculate your number of annual billable hours.

(Number of weekdays in a year (~260) – National holidays (10) – Vacation/sick days) × Number of billable hours in a day



### 4. Determine your hourly rate.

Hourly rate = Cost to do business ÷ Number of annual billable hours

total number of regular work days down to 250. If you plan to work eight-hour days, that leaves you with 2,000 potential billable hours.

Chances are, you'll need to take some vacation time to avoid burnout, and it might be good to plan for a few sick days. Let's factor in an additional three weeks, or 15 working days (120 hours), of being out of office, bringing our total office hours down to 1,880 (2,000 – 120 = 1,880).

Now, also consider that not all office time is billable. Say you plan to bill for 60 percent of your office time, that brings your number of billable hours to 1,128 (1,880 × 60 percent = 1,128). Keep in mind, however, that you might not be able to bill for as much as you think. In fact, [utilization rates among law firms often average at about 28 percent of all hours worked.](#)

Once you've figured out and calculated the above, divide your cost to do business by the number of billable hours you expect for the year. In this case: \$182,000 ÷ 1,128 = \$161.35/hour.

Let's say you're looking to take home \$100,000 per year in salary and have annual non-reimbursable business expenses of \$30,000. If you're looking to earn a profit margin of 40 percent, you'll be looking to bring in another \$52,000: (\$100,000 + \$30,000) × 40 percent = \$52,000.

(It's worth noting, this example doesn't take into account any taxes you'll need to pay on this income. Be sure to plan accordingly based on the requirements of your situation.)

To calculate your annual cost of doing business, add your salary, non-reimbursable business expenses, and your profit goal: \$100,000 + \$30,000 + 52,000 = \$182,000.

Next, we'll divide this number by your planned number of billable hours for the year.

Let's say a given year has 260 weekdays (which can range from 259 to 262 days, given the year). With ten national holidays in the United States, that brings your





### About Jared D. Correia

Jared D. Correia, Esq. is the CEO of [Red Cave Law Firm Consulting](#), which offers subscription-based law firm business management consulting and technology services for solo and small law firms. Red Cave also works with legal institutions and legal-facing corporations to develop programming and content. A former practicing attorney, Jared has been advising lawyers and law firms for over a decade. He is a regular presenter at local, regional, and national events, including ABA TECHSHOW. He regularly contributes to legal publications, including his column, [Managing for Attorney at Work](#) and a forthcoming advice column for Lawyerist. Jared is the author of the American Bar Association publication [Twitter in One Hour for Lawyers](#). He is the host of the Legal Toolkit podcast on [Legal Talk Network](#). Jared also teaches for Concord Law School, Suffolk University Law School, and Solo Practice University. He loves James Taylor, but respects Ron Swanson; and, he tries to sneak Rolos when no one is looking.



### About Clio

[Clio](#) is the most comprehensive cloud-based practice management platform for the legal industry. With the help of the cloud, Clio eases the process of time tracking, billing, administration, and collaboration for law firms of all sizes. Based in Vancouver, B.C., and with a European office in Dublin, Clio is used by legal professionals in over 50 countries. Clio has raised \$27 million from investors including Bessemer Venture Partners.

[Try it for free or schedule a demo today!](#)

