

On Rocky Ground

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Human nature dictates that two people—or two groups of people—may perceive the same situation differently and that is certainly the case with private client lawyers and their wealthy clients. Affluent individuals tell us they value their attorneys; in fact, are loathe to make a move without them lest it result in unnecessary costs, exposure or personal risk. According to the attorneys themselves, their role as trusted counselors to the affluent population is in jeopardy due to shrinking fortunes and the associated sensitivity to fees, heightened competition from both expected and unexpected sources, and significant changes to the estate tax.

About The Research

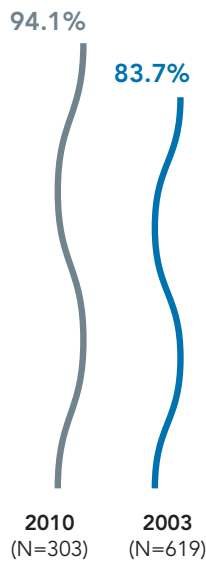
To get a better feel for the challenges and concerns facing private client lawyers, we conducted our first study with 619 such legal professionals in 2003. The research participants all specialized in helping a wealthy client base with an array of advanced planning services such as estate planning, tax advice and asset protection and the related legal documentation. In Q2 2010, we conducted a second study with 303 private client attorneys to gauge whether the previously noted concerns had changed over time and to what degree. The research findings fell into the following four major categories:

- Fewer, more cost-sensitive clients
- Increasing competition
- Unfavorable estate tax conditions
- Questionable earning potential

Clients

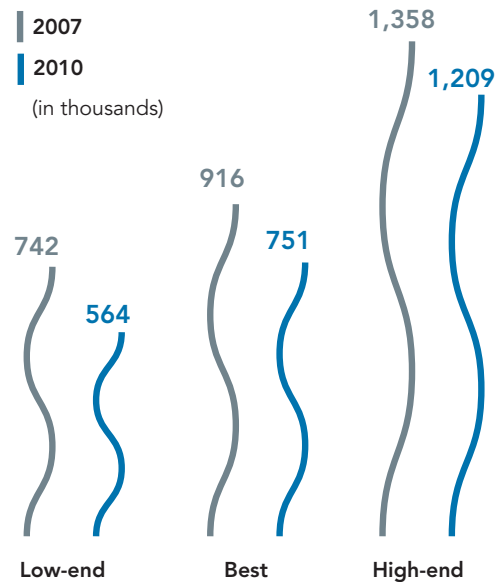
In our first study, almost 85% of respondents felt there were simply not enough wealthy prospects to sustain their practice and that competition for the small number of viable clients would be predictably fierce (Exhibit 1). Seven years later and in the midst of a recession, private client attorneys are even more alarmed about the state of their business with almost 95% registering similar concerns.

EX 1:
Not Enough Wealthy To Go Around



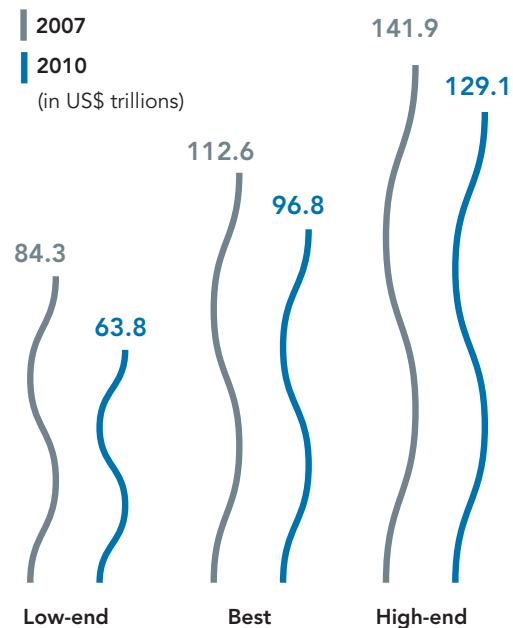
The sustained economic downturn has impacted everyone, including the very rich. The charts below illustrate how the population of individuals or families with a net worth of US\$20 million or more has changed in recent years. Exhibit 2 shows that the number of financial elite in the world decreased from 2007 to present day by 165,000, or 18%, though we calculated the range of decline to fall between 11%-24% depending on certain sensitivities. At the same time, the aggregate wealth controlled by these individuals also decreased by US\$15.8 trillion, or 14%, with a projected loss range of 9%-24% (Exhibit 3). Notably, this is the first time in nearly a decade that the ranks of the high-net-worth have gotten smaller rather than larger year-over-year, which may explain part of the anxiety expressed by private client attorneys. That said, the financial elite is still a sizable population with significant purchasing power whose members both want and need the guidance of professional advisors.

EX 2:
Number of Financial Elite



Source: *The Family Office: Advising the Financial Elite* (2010, Charter Financial Publishing Network)

EX 3:
Aggregate Wealth Controlled by Financial Elite

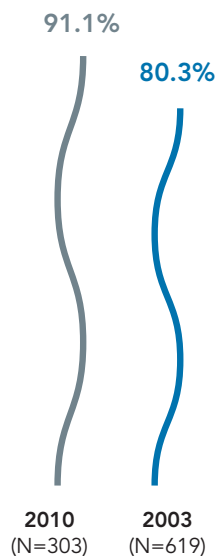


For methodological purposes the amount of private wealth per affluent family was capped at US\$2.4 billion.

Source: *The Family Office: Advising the Financial Elite* (2010, Charter Financial Publishing Network)

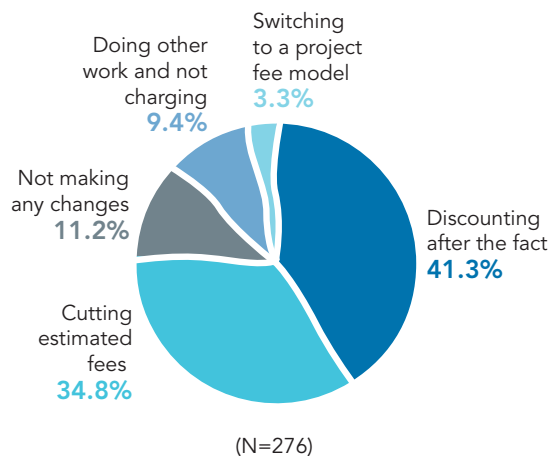
Fewer wealthy prospects with less overall wealth, many of who are still coping with the aftereffects of losses and seeking ways to recapture their wealth, are understandably sensitive to mounting professional fees. Nine in ten private client lawyers see a greater focus on value and results among their clients that has increased in recent years (Exhibit 4).

EX 4:
Increased Cost/Value Sensitivity of Affluent Clients



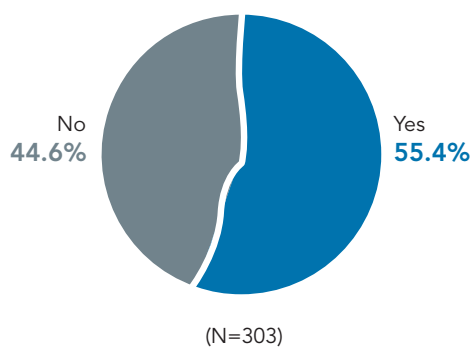
Many attorneys are taking steps often under client pressure to manage the downward pressure on fees. The most common way of dealing with fee pressure is to discount them once the work has been completed, a practice that is used by more than 40% of private client attorneys (Exhibit 5). Another 35% are cutting their estimated fees to make their services more attractive to prospective clients. About 10% are taking a wait-and-see approach before taking additional measures and a similar percentage are doing additional work for their clients without charging. A very small group, just 3%, are planning to migrate from hourly fees to a project fee as a way to address this concern.

EX 5:
Predominant Way To Manage Pricing Pressure



Perhaps most upsetting is that more than half of private client attorneys have had more than five wealthy clients default on a portion of their outstanding bills in the past 24 months, a clear sign that clients are looking at legal fees as elastic. Moreover, it's clear that the wealthy clients didn't get the results they anticipated or felt they were being overcharged (Exhibit 6).

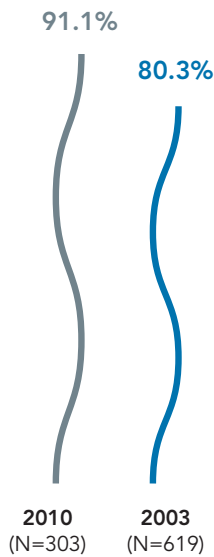
EX 6:
Five or More Affluent Clients Didn't Pay-In-Full Over Previous 2 Years



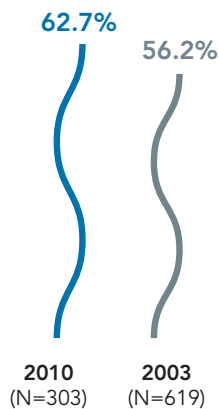
Competition

While the ranks of the wealthy are decreasing, they remain an attractive prospect for many types of service providers. Private client lawyers expect more competition from both legal peers and those outside the legal profession that can provide a specialized expertise (Exhibits 7 and 8). Simultaneously, more than half of the attorneys surveyed believe that legal services are becoming more and more commoditized which places an emphasis on fee reductions while making it harder for them to differentiate themselves from other providers (Exhibit 9).

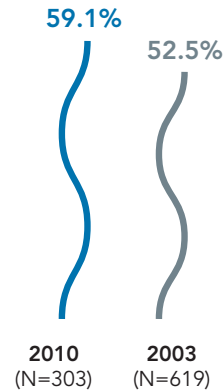
EX 7: Greater Competition from Other Private Client Attorneys



EX 8: Greater Competition from Non-Lawyers



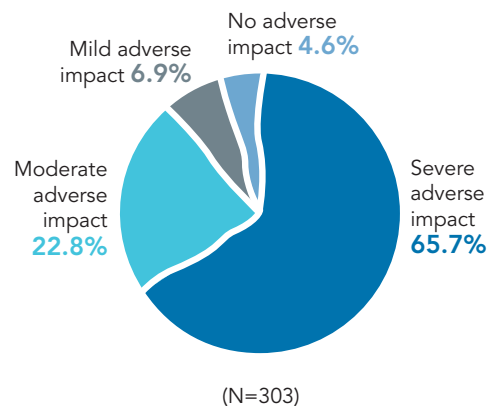
EX 9: Commoditization of Legal Services



Tax Situation

Two-thirds of private client lawyers assert that the non-existence of a federal estate tax has had, and will continue to have, a serious and negative effect on their ability to generate new business since many people are unclear that the tax will be reinstated next year at higher levels and may still change further if Congress takes action (Exhibit 10). Slightly less than one-quarter of attorneys say the impact will be moderate and fewer than 10% say the effect will be mild to negligible.

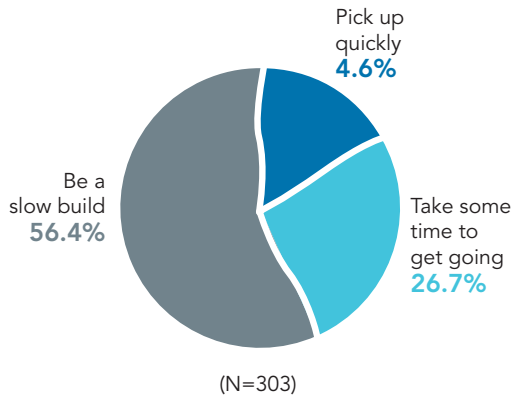
EX 10: Impact of NO Estate Tax on New Business



When queried about a hypothetical 2010 reinstatement of the estate tax that was retroactive to the beginning of the year, more than half of attorneys felt that business would rebound very slowly, while one-quarter said business would take some time to bounce back and less 20% believed it would pick up quickly (Exhibit 11).

EX 11:

If an estate tax was put in place and made retroactive to the beginning of the year, business would...

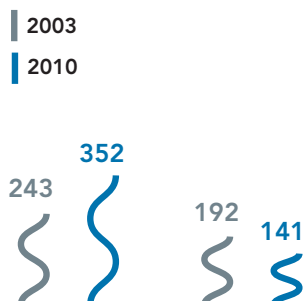


Financial Security

With clients and new business on the downswing, private client attorneys are concerned about their personal finances and their future security. While average annual incomes increased in the period between 2003 and 2010, the median income decreased substantially which is a more accurate barometer of the compensation changes affecting the entire universe of private client attorneys (Exhibit 12).

EX 12:

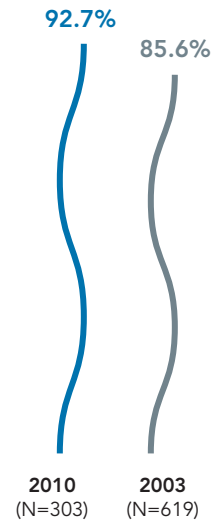
Annual Incomes



More than 85% of lawyers surveyed in 2003 believed there would be downward pressure on incomes, and that percentage increased to almost 93% in our 2010 study (Exhibit 13).

EX 13:

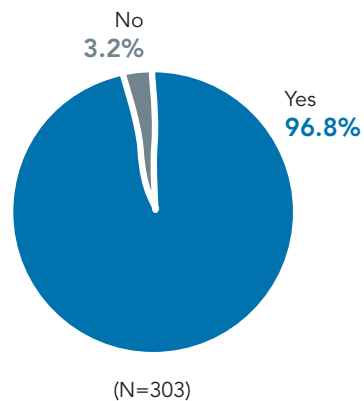
Downward Pressure on Incomes



An even greater percentage of private client attorneys, almost 97%, say there will be continual pressure on their incomes for many years to come, painting a bleak financial picture for themselves and their colleagues (Exhibit 14).

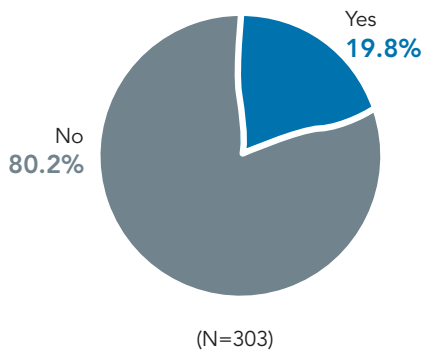
EX 14:

Expect Income To Be Pressured for Years to Come

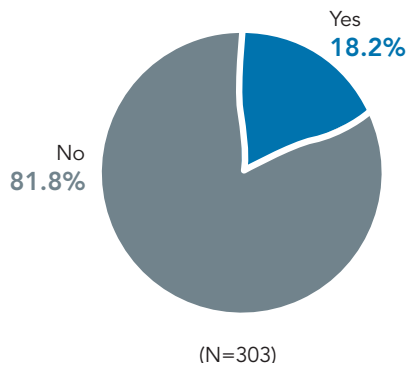


Just 20% of private client lawyers expect 2010 to be a banner year when it comes to compensation (Exhibit 15) and a similarly low percentage say that choosing their profession was a good financial decision (Exhibit 16). Viewed in a different way, 80% of these attorneys expect 2010 to be a disappointing year for overall income, including bonuses and other perquisites, and 82% believe that another career path would be required for a more fiscally rewarding lifestyle.

EX 15:
Expect 2010 To Be a Very Good Year Financially

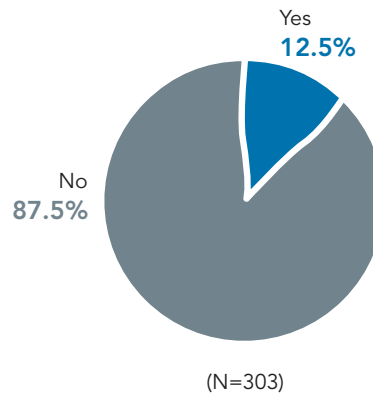



EX 16:
Believe Being a Private Client Lawyer is a Very Good Financial Decision



Perhaps most telling is that nearly 90% of private client attorneys would not recommend their specific field of practice to top law students, revealing a certain degree of dissatisfaction with their day-to-day work and the associated financial rewards (Exhibit 17).

EX 17:
Would Recommend Top Law Students Pursue Private Client Law





Hannah Shaw Grove is a highly-regarded specialist on the mindset, behaviors and finances of the ultra-affluent and consults to a select group of individuals and professionals. More information is available at www.hsgrove.com

Marcia Nelson has 10+ years doing business development in the Estate Planning industry. She is an established resource in the Trust and Estate and Family Office communities, and has coached private client attorneys, wealth advisors and accountants on goals and strategies to increase relationships and build new business. Marcia has an MBA in Finance and Tax from Fordham University, and lives with her family in NYC.

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