Carrot & Stick Used to Motivate Retirement-Age Partners to Hand Off Clients

Firms are finding that many baby boomer partners nearing retirement are reluctant to relinquish client relationships.

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Law firms are reluctant to talk about it, but as more and more baby boomers approach retirement, many firms are grappling with how to get their more senior partners to relinquish client relationships and hand them off to younger lawyers, according to law firm consultants.

"It's really a challenge in law firms," said Susan Saltonstall Duncan, who is president of the legal management consulting firm Rainmaking Oasis and coaches firms and their partners about these transitions.

"Some firms are better than others about this," said Kent Zimmermann, a principal at the Zeughauser Group. "A common thread that runs through firms that are effective is that they tie compensation to effective transitions. Different firms do that differently," he added.

The law firms use money—in some cases as a carrot, others, as a stick, and sometimes, they pair both tactics—to motivate partners nearing retirement to give up clients, Duncan said.

The age demographics of law business highlight why such client transitions rank high in significance. According to numbers previously compiled by The American Lawyer, the average age of equity and nonequity partners at the nation's top 200 law firms in 2016 was about 52 years. The percentage of partners aged 71 to 88 years accounted for about 3 percent of partners in the Am Law 200. Those partners often hold most of the key rainmaking relationships for firms, Duncan said.

Duncan declined to name her clients, but she said she coaches individual senior partners about "getting them to hand off" their clients and counsels management about how to structure incentives to get them to do so. Many veteran lawyers initially prefer to hold on to their clients and the related origination credits, which typically boost their compensation, rather than share those with younger partners, Duncan said.

Some firms double up origination credits and resulting compensation. For a few years before partners retire, when they start working fewer hours and pulling back, these firms give origination credits and compensation for the same clients, at the same time, to both the more senior partners and the younger partners who start assuming responsibility for the client relationships, Duncan said.

Other firms, however, reject that relatively costly approach. “They don’t want to double pay,” Duncan said.

Their resistance has caused problems. Sometimes, partners nearing retirement who are under pressure to share clients but are not being given any financial incentive to do so have bolted from firms and taken their clients with them, Duncan said.

Despite the risk of that scenario, some firms have adopted a more aggressive approach. They inform partners nearing retirement that management will dock their compensation if they fail to help, willingly and gracefully, to move their client relationships to younger lawyers, Duncan said. Those firms “are not giving their partners a choice,” she said.

Other firms have inconsistent policies. They may take a partner-by-partner approach, since each individual lawyer’s income needs may differ depending on how many marriages and children they have had, Duncan said. “It’s been amazing to me how difficult a subject this is for a lot of firms to even tackle. I have yet to find someone who says, ‘We have this really figured out.’”

No matter what strategy they choose, Duncan recommends that firms strive for transparency. Firms need to inform partners long in advance of their retiring years how their cooperative spirit in transitioning clients to younger lawyers will be rewarded and how their uncooperative spirit will be penalized, she said.

At one firm, each partner’s dashboard displayed by the firm’s software platform ranks veteran partners by the extent to which they engage in client-sharing and transitioning. The strategy celebrates cooperation from partners nearing retirement with more than just money, but also with recognition.

“That’s not going to work for every culture and might feel very invasive at some firms,” Duncan said. “But it works there.”