

How to Set Your Billing Rates

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Introduction

Today's market and the increased client sophistication when selecting legal services, are making it necessary to carefully evaluate billing practices. Whether you prefer task based billing, value billing, hourly billing or other alternative billing methods, it is crucial to know the actual cost of each billable hour. Only after you have determined the cost of each billable hour, will you be able to structure your fee arrangements. The calculations below show you where the break-even point is, as well as your profit margin.

Following is a sample calculation based on a solo practitioner with a monthly salary of \$8000 and an assistant's monthly salary of \$2500. The office rent is estimated at \$2500, a part-time runner/clerk at \$500 and taxes, insurance, supplies, etc. at a total of \$2600 per month.

Formula for Solo Practitioners (May be Adjusted for Groups)

Example:

Total monthly expenses:	\$16,100.00
less attorney's salary:	\$8,000.00
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Overhead costs:	\$8,100.00
divided by billable hours:	160 hours
Overhead cost per billable hour	\$50.63
plus attorney's rate (8000:160)	\$50.00
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Total cost per billable hour:	\$100.63
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Conclusion

This calculation results in a cost of \$100.63 per billable hour. If you billed your time at \$100.63 and your fixed and variable expenses were the same as in the above example, you would be at break-even. Any billing above \$100.63 would result in profit.

The danger in this analysis is that it makes no allowance for billing adjustments, such as write downs or write offs. Furthermore, it requires 37 hours to be billed each week.

Therefore, while it is absolutely necessary to know the cost of each billable hour, you must take the collectibility variables into consideration when setting your fee.

Remember to read carefully Rule 1.04 of the Rules of Professional Conduct when setting your fee. Contingent fees must be set out in writing, and it is advisable to do the same for all fee arrangements. It is mandatory to communicate your billing practices with the client before entering into an engagement. Detailing to the client the fee/case expense arrangement will not only promote good client relations, but it will also increase the collectibility of your accounts receivable.