

**The  
Economic Benefits  
Of Paralegal  
Utilization**

**D. Jeffrey Campbell, Esq.  
And the  
American Bar Association  
Standing Committee on Paralegals**



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# **The Economic Benefits of Paralegal Utilization**

**D. Jeffrey Campbell  
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## **I. Introduction: Five Principal Advantages to Paralegal Utilization**

- A.** Increased Firm Leverage
- B.** Improved Firm Profits
- C.** Improved Return on Investment
- D.** Improved Client Satisfaction and Retention
- E.** Improved Lawyer Quality of Life

## **II. Paralegal Leverage**

As the paralegal profession has emerged over the past thirty years or so, lawyers have recognized that not all work traditionally performed by lawyers is considered the “practice of law.” With proper supervision, much of the other work can be performed by qualified non-lawyers. Career paralegals provide longevity of profits. It takes at least two years to train associates before they become profitable. After a few years of profits, the associate wants to be your partner and share the profits. Paralegals will never be your partner and will produce profits to the firm for their entire career.

**A. Expanding the Paralegal Role** - The goal is to expand the role of the paralegal. The work delegated is only limited by the skills and qualifications of the paralegal and the Rules of Professional Conduct.

**1. The Rules of Professional Conduct** - Lawyers and paralegals must first be guided by the local rules with regard to the use of paralegals. Most local rules are patterned after the ABA’s Rule 5.5 which provides that non-lawyers cannot do things that amount to the “practice of law.” It is generally accepted that a paralegal cannot:

- accept cases
- set fees
- give legal advice
- plan strategy
- make legal decisions
- take depositions
- appear in court

Under the supervision of a lawyer, the paralegal can perform most other work.

**B. Key Ingredients** - There are five key ingredients that are always present when paralegals are profitable. They are:

**1. Select the Appropriate Person**

The appropriate person is a career paralegal who is a qualified, experienced, well trained, mature individual who is the right match for the lawyers with whom he/she will be working.

**2. Assign the Proper Work**

The proper work is substantive legal work.

**3. Provide Understanding and Involvement**

The paralegal should have a complete understanding of the matter and the client's goals and should be involved in all aspects of the case.

**4. Confer Trust**

A paralegal can be profitable only if he/she has the trust of both the lawyer and the client.

**5. Properly Price the Work**

The work should be priced to return a profit to the lawyer.

**III. Quantifying Profits Achieved Through Paralegal Utilization**

**A. Analyzing the Profitability of Paralegal Work** - The first step in evaluating the benefits of employing paralegals is to determine whether the work performed by paralegals is returning a profit. This should be accomplished by a careful analysis of costs and revenues. The best approach is to conduct a specific analysis that compares the revenues and the costs associated with the paralegal.

**1. Evaluating Costs** - Costs should be determined by allocating all categories of expenses among partners, associates and paralegals. These costs can be divided into three general categories: compensation costs, direct costs and indirect costs. Compensation costs include salary, bonus, payroll taxes and fringe benefits. Direct costs include allocated portions of rent and secretarial support. Indirect costs include all other firm expenses, such as supplies, technology, utilities, social activities, insurance, business taxes, compensation costs of non-billing personnel, etc. Compensation costs and direct costs can be easily and precisely

allocated to individual time keepers. Indirect costs, however, are usually converted to average cost per partner, per associate, and per paralegal. The cost of maintaining a partner exceeds the cost of maintaining an associate, which exceeds the cost of maintaining a paralegal. While each firm must determine the relative portion of its general overhead which supports partners vs. associates vs. paralegals, a rough rule of thumb is that partners account for three times as much overhead cost, and associates twice as much, as do paralegals.

The following table sets forth estimates of typical paralegal costs, divided into the categories discussed above:

Salary (Compensation Cost)	\$40,000
Taxes & Fringe Benefits (Compensation Cost)	+10,000
Overhead (Direct & Indirect Costs)	<u>+45,000</u>
<b>Total Cost of Paralegal</b>	<b>\$95,000</b>

Once the total cost of an individual timekeeper (partner, associate or paralegal), or the average total cost per individual timekeeper for a group of similar timekeepers, is determined, it is important to determine the “cost per hour” for that individual or class of timekeepers. The cost per hour is determined by dividing the total cost for that individual by the number of client billable hours recorded by that individual in a year. For example, the typical paralegal referenced above has a total cost of \$95,000. If that paralegal records 1550 client billable hours in a year, her cost per hour would be \$61.29. This is the amount of the firm investment in every hour that the paralegal spends on client matters. In order to analyze the profitability of paralegals, it is important to know the cost per hour of all timekeepers or classes of timekeepers in the firm.

It should be noted that although absolute costs will vary from firm to firm and from region to region, the relative cost differentials between paralegals, associates and partners will be similar.

2. **Estimating Revenues** - Revenue potential is determined by multiplying the paralegal’s hourly rate times the billable hours anticipated. A rate of \$90 per hour times 1550 hours equals a revenue potential of \$139,500. To shift from potential revenue to actual revenue, a collection realization rate must be applied. Assuming a collection realization rate of 92.5 percent, revenue potential of \$139,500 would generate actual revenue of approximately \$129,000.

In evaluating the potential revenue of paralegals, it is important to remember that most paralegals should spend relatively little time on non-billable activities such as client development, community involvement or firm management. Although in larger paralegal programs senior paralegals will spend time mentoring, training, interviewing and

evaluating their more junior colleagues, their primary role is to produce billable hours. Thus, billable hour expectations should not be too modest. The greater the number of hours billed by the paralegal, the larger the profits to the firm.

- 3. Determining Profitability: Comparing Costs to Revenue** - Profitability is determined by comparing projected revenue with the costs associated with employing the paralegal. Using the examples of costs and revenues set forth above, the paralegal generates revenue of \$129,000 at a cost of \$95,000, thereby producing a profit of \$34,000.

If the comparison does not result in an acceptable profit level, the law firm needs to take corrective action by:

- increasing the paralegal’s hourly rate;
- increasing the number of billable hours required of the paralegal; or
- reducing the paralegal’s compensation costs (salary or benefits).

- a.** This profitability analysis is useful for estimating the profitability of paralegals with varying levels of experience. Although paralegals can and should be profitable regardless of their level of experience, lawyers must recognize that the relative profitability of paralegals at different experience levels depends upon relative salaries, benefits, overhead, billing expectations, hourly rates and realization.

In most circumstances, a lawyer can justify billing an experienced paralegal at a significantly higher rate than that of an entry-level paralegal. Thus, even if a senior paralegal’s compensation and benefits are substantially higher than those of entry-level paralegals, the profits generated by the experienced paralegal might be greater. This is because the additional revenue derived from the senior paralegal’s higher billing rate can more than compensate for his increased salary and benefits.

The following chart illustrates this principle:

	<b>Costs</b>	
	<i>Entry Level</i>	<i>Experienced</i>
Salary	\$30,000	\$ 50,000
Fringe Benefits	+ 9,000	+15,000
Overhead Costs	<u>+45,000</u>	<u>+45,000</u>
<b>Total Costs</b>	<b>\$84,000</b>	<b>\$110,000</b>

	<b>Revenue</b>	
	<i>Entry Level</i>	<i>Experienced</i>
Hours	1600	1500
Hourly Rate	<u>x 80</u>	<u>x 110</u>
Potential Revenues	\$128,000	\$165,000
Realization Rate	<u>X 90%</u>	<u>x 95%</u>
<b>Total Revenue</b>	<b>\$115,200</b>	<b>\$156,750</b>
Less Total Cost	<u>- 84,000</u>	<u>- 110,000</u>
<b>Profit</b>	<b>\$ 31,500</b>	<b>\$ 46,750</b>

You will note that this example assumes that entry level paralegals will, on average, record more client billable hours than will experienced paralegals. This is due to the fact that senior paralegals will tend to have more administrative and management responsibilities, such as mentoring, training and evaluation of junior paralegals, and participation on firm committees. However, the higher number of client billable hours worked by entry level paralegals is at least partially offset by the fact that they normally have lower realization rates than do experienced paralegals.

Although the above analysis might lead one to believe that law firms should seek to employ only experienced paralegals, that is not the case. While it is certainly true that a small firm which employs only one or two paralegals will benefit if they are all experienced, a larger firm which desires to develop a large paralegal program will be better served if it employs paralegals with a wide range of experience levels. The presence of entry level as well as experienced paralegals permits those with more experience to focus their efforts on more sophisticated and challenging work. This increases the job satisfaction of the paralegals, with a resulting reduction of costly turnover. In addition, the utilization of paralegals with a range of experience levels, and therefore employment costs, permits the firm to perform lower value work, and therefore lower billing rate work, at a profit.

- b. Comparing Profitability of Paralegals and Associates** – Just as the profitability analysis allows for comparison of the relative profitability of entry level and experienced paralegals, it permits comparison of profitability of paralegals and associates. In the following example we address the relative profitability of a mid-level paralegal and a first-year associate, two classes of time-keepers who often perform similar types of work.

<b>Costs</b>		
	<i>Paralegal</i>	<i>Associate</i>
Salary	\$ 40,000	\$100,000
Fringe Benefits	+ 10,000	+ 15,000
Overhead Costs	+ 45,000	+109,000
<b>Total Costs</b>	<b>\$ 95,000</b>	<b>\$224,000</b>

<b>Revenue</b>		
	<i>Paralegal</i>	<i>Associate</i>
Hours	1550	1850
Hourly Rate	X 90	x 160
Potential Revenues	\$139,500	\$296,000
Realization Rate	x 92.5%	X 92.5%
<b>Total Revenue</b>	<b>\$129,000</b>	<b>\$273,800</b>
Less Total Cost	- 95,000	- 224,000
<b>Profit</b>	<b>\$ 34,000</b>	<b>\$ 49,800</b>

Although this example demonstrates that a firm will generate more profit on a first-year associate than on a mid-level paralegal, there are several reasons why attempting to do so is not necessarily in the long term best interests of the firm. Firstly, the example assumes that the first-year associate will bill 1850 hours, while the paralegal will bill only 1550 hours. Therefore, the firm must have the additional 300 hours of work to keep the associate busy. Secondly, the example makes clear that while the cost to the client for the associate's services is \$273,800, the cost for the paralegal's services is only \$129,000. Therefore, client relationships, and presumably repeat business, should be significantly enhanced by effective paralegal utilization. Finally, although "profit per capita" might be greater on an associate than on a paralegal, the "return on investment" for the firm is greater on paralegals than on associates.

#### IV. Improved Return on Investment

- A. **Calculating Return on Investment** - Although profit per capita is a useful statistic, it does not provide any information on the efficiency with which the firm converts investment to profit. In order to analyze efficiency, the firm must divide the profit generated by a timekeeper by the cost to employ the timekeeper. This equation provides the return on the firm's investment (ROI) in the timekeeper. The greater the return on investment in a timekeeper, the greater the firm's efficiency and profit margin, and the lower the demand for capital.

In the prior example, which compared a first-year associate with a mid-level paralegal, the profit generated by the associate was \$49,800, on a cost of \$224,000. The profit generated by the mid-level paralegal was \$34,000, on a cost of \$95,000. As we noted, the profit per capita on the first-year associate is greater

than on the mid-level paralegal. However, when the profit is divided by the cost, it is clear that the ROI on the associate is only 22.2%, while the ROI on the paralegal is 35.8%. Thus, the profit margin on the hypothetical mid-level paralegal is more than 50% greater than the profit margin on the hypothetical first year associate.

**B. Profitability and Return on Investment in Alternative Fee Matters** - It should be noted that the potential for the greatest profits and ROI through the use of paralegals is in work that is not billed on an hourly rate basis. If fixed fees are established for a specific transaction, lawyers' profits will be directly related to their ability to operate efficiently and keep their investment in billable time low. Every hour of work that can be performed by a paralegal rather than a lawyer will lower the investment in the project. Similarly, for the contingency lawyer, shifting a larger portion of work to a paralegal increases the potential for profit and decreases the potential for loss.

**1. Fixed Fee Case**

If the fee for a service is fixed, the profits and ROI will be related directly to the ability to deliver the service at a low cost. Consider the following example:

<u>Fixed Fee</u>	<u>Worker</u>	<u>Hours</u>	<u>Cost/Hr</u>	<u>Investment</u>	<u>Profit</u>	<u>ROI</u>
\$1000	Partner	5 hrs	\$225	\$1,125	(\$125)	(11.1%)
\$1000	Associate	7 hrs	\$135	\$ 945	\$ 55	5.8%
\$1000	Partner	1 hr	\$225	\$ 225		
	Paralegal	9 hrs	\$ 65	<u>\$ 585</u>		
				\$ 810	\$190	23.5%

**2. The Contingency Case**

The contingency case provides the greatest potential for paralegal profits. The fee will be determined at the conclusion of the case. One goal of the lawyer is to minimize the firm's investment in the case. By expanding the role of the paralegal, the lawyer is minimizing the dollars that the firm has invested in the case. Consider the following examples which show the lawyer losing money without a paralegal and making a profit with a paralegal:

<u>Verdict</u>	<u>Fee</u>	<u>Workers</u>	<u>Cost/Hr</u>	<u>Hours</u>	<u>Investment</u>	<u>Profit</u>	<u>ROI</u>
\$120,000	\$40,000	Partner	\$225	180	\$40,500	(\$500)	(1.2%)
\$120,000	\$40,000	Partner	\$225	100	\$22,500		
		Paralegal	\$ 65	125	<u>\$ 8,125</u>		
					\$30,625	\$9,375	30.6%

**V. Improved Client Satisfaction and Retention**

One of the benefits of employing paralegals is improved client relationships. This can be achieved through a combination of reducing overall legal fees and providing clients with more accessible and familiar firm contacts. This is a natural result of delegating work to well qualified paralegals.

**A. Reducing Legal Fees**

This point is demonstrated by comparing the following two examples:

**Example 1: All work is performed by a lawyer at a rate of \$200 per hour.**

Interview with Client	3 hr.	\$ 600
Interview with Two Witnesses	4 hr.	\$ 800
Gather Information	6 hr.	\$1200
Review Documents	3 hr.	\$ 600
Legal Research and Analysis	4 hr.	\$ 800
Draft Pleading	3 hr.	\$ 600
Trial Preparation	5 hr.	\$1000
Trial	<u>4 hr.</u>	<u>\$ 800</u>
<b>Total</b>	<b>32 hr.</b>	<b>\$6400</b>

Without any paralegal assistance, the lawyer works 32 hours on the case and bills the client \$6,400.

**Example 2: Significant work delegated to a paralegal at \$90 per hour.**

<b>Interview with Client</b>		
Lawyer	3 hr.	\$600
Paralegal	3 hr.	\$270
<b>Interview with Two Witnesses</b>		
Paralegal	4 hr.	\$360
<b>Gather Information</b>		
Paralegal	6 hr.	\$540
<b>Review Documents</b>		
Paralegal	3 hr.	\$270
<b>Legal Research and Analysis</b>		
Lawyer	1 hr.	\$200
Paralegal	4 hr.	\$360
<b>Draft Pleading</b>		
Lawyer	1 hr.	\$200
Paralegal	3 hr.	\$270
<b>Interoffice Conferences</b>		
Lawyer	1 hr.	\$200
Paralegal	1 hr.	\$ 90

<b>Trial Preparation</b>		
Lawyer	2 hr.	\$400
Paralegal	4 hr.	\$360
<b>Trial</b>		
Lawyer	4 hr.	\$800
Paralegal	<u>4 hr.</u>	<u>\$360</u>
<b>Total</b>	<b>44 hr.</b>	<b>\$5280</b>

Under this scenario, the lawyer works 12 hours and the paralegal 32; billing is \$5,280, and the client saves \$1,120, or 17.5 percent of the original fee.

These examples demonstrate that even when there is some duplication of effort, such as when a lawyer and a paralegal both attend a client interview and a trial, it is more cost effective for the client when the lawyer delegates work to an experienced paralegal. This is true even when, as in Example 2, significantly more time is billed to the file. Because increased efficiency leads to greater savings to clients, and presumably more work for the firm, it is often beneficial for paralegals to become specialized in one practice area, where they can develop complete familiarity both with specific cases and with individual lawyers' practice styles.

Delegation to a paralegal works best in situations in which the paralegal has full involvement in the file. In most cases, the more work shifted to paralegals, the greater the savings to the client. This holds true, however, only if the shifting of work permits a reduction of lawyer hours on the file.

## **B. Improving Service**

The second significant way in which paralegals can improve client relations is by acting as an accessible and consistent client contact. While attorneys are often out of the office on business, and therefore not immediately available to clients, paralegals normally work in the office. Therefore, an experienced paralegal who has a working relationship with a client can often respond to client questions and concerns more promptly and effectively than can lawyers.

Furthermore, paralegals can maintain close working relationships with clients, particularly institutional clients, for years. While associates often move from one practice area to another in order to gain broad experience, leave the firm for other professional endeavors, or become partners and develop their own clientele, paralegals often work with one or a small group of partners servicing the same clients for years. Such clients develop a high degree of familiarity with and confidence in these paralegals - a much higher degree of confidence than they have in new and frequently changing associates. Thus, paralegals can strengthen client relationships not only by saving clients money, but also by enhancing client service and building client confidence.

## VI. Increase in Lawyer Billing Rates

A corollary to the fact that clients save money through a firm's utilization of paralegals, is the fact that to the extent that well-qualified paralegals can work on files, the lawyer can justify a higher hourly rate without increasing the total cost to the client. Let's reexamine Example 2 above with the lawyer having now increased his rate by 10 percent.

### Example 2A: Significant work delegated to paralegals with accompanying 10 percent rate increase by lawyer.

<b>Interview with Client</b>		
Lawyer	3 hr.	\$660
Paralegal	3 hr.	\$270
<b>Interview with Two Witnesses</b>		
Paralegal	4 hr.	\$360
<b>Gather Information</b>		
Paralegal	6 hr.	\$540
<b>Review Documents</b>		
Paralegal	3 hr.	\$270
<b>Legal Research and Analysis</b>		
Lawyer	1 hr.	\$220
Paralegal	4 hr.	\$360
<b>Draft Pleading</b>		
Lawyer	1 hr.	\$220
Paralegal	3 hr.	\$270
<b>Interoffice Conferences</b>		
Lawyer	1 hr.	\$220
Paralegal	1 hr.	\$ 90
<b>Trial Preparation</b>		
Lawyer	2 hr.	\$440
Paralegal	4 hr.	\$360
<b>Trial</b>		
Lawyer	4 hr.	\$880
Paralegal	<u>4 hr.</u>	<u>\$360</u>
<b>Total</b>	<b>44 hr.</b>	<b>\$5520</b>

Under this scenario, the attorney has increased his hourly rate by 10 percent, billed 12 hours of his own time plus 32 hours of paralegal time, and saved his client \$880, or 13.7 percent, compared to what the cost would have been if the attorney had handled the matter himself at a lower hourly rate. This demonstrates clearly the way in which a lawyer can utilize a paralegal both to save money for a client and to increase the lawyer's hourly rate and profitability

## VII. Improve Lawyer Quality of Life

A significant benefit derived from the extensive use of paralegals is increased job satisfaction, and therefore a reduced turnover rate, among firm lawyers. Experienced

paralegals perform many duties that associates historically performed. A number of these tasks, such as routine document drafting, responding to written discovery and summarizing large volumes of potentially relevant factual material, are generally considered by experienced attorneys to be unappealing. The single greatest factor in associate turnover at law firms is the degree of satisfaction with the quality of the work assignments. Heavy use of paralegals permits associate attorneys to focus their time and efforts on legal analysis, case strategy and client and witness interaction. Thus, all other things being equal, the heavy use of paralegals tends to minimize associate turnover, along with its attendant high cost and damage to client service and relationships.

### **VIII. The Destructive Impact of Turnover**

Frequent turnover among paralegals destroys the benefits previously discussed. Because a paralegal is not subject to the “up or out” syndrome that usually ensures associate turnover, a lawyer should, in theory, be able to train paralegals to perform substantive client work secure in the knowledge that those paralegals will be performing that work with expertise for years to come. Moreover, through such longevity, the paralegal is likely to provide better quality service than could be expected from inexperienced associate lawyers. If the turnover rate of paralegals approaches or exceeds that of associates, the expertise is lost, and with it the improved client service.

Firm profits and client savings are lost when there is significant turnover of paralegals. The firm experiences the lost billings and high administrative costs involved in the continual orientation and training of new paralegals. The cost of losing and replacing an experienced paralegal can approach \$100,000. This figure encompasses a number of components, including:

- lost revenue from the labor of the departing and incoming paralegals;
- lost revenue from the labor of partners, associates and other experienced paralegals who must devote time to the orientation and training of the new paralegal;
- administrative costs associated with hiring, training and orientation; and,
- out-of-pocket expenses such as agency fees and “want-ad” fees.

These costs can be estimated and itemized as follows:

Lost Revenue from Departing Paralegal	\$ 7,800
Lost Revenue due to Vacancy in Position	\$54,000
Lost Revenue from Incoming Paralegal due to Orientation and Familiarization with Matters	\$17,000
Lost Revenue from Lawyers and Other Paralegals Who Must Orient Incoming Paralegal	\$ 4,000

Cost of Administrative Time	\$ 3,500
Out-of-Pocket Expenses	<u>\$12,500</u>
<b>Total Costs</b>	<b>\$98,800</b>

These figures make clear that excessive paralegal turnover is extremely costly; like associate turnover, it will significantly limit a law firm's profitability. Therefore, firms should focus on ways to increase the job satisfaction, and therefore the retention and profitability, of their paralegals.

## GLOSSARY OF TERMS

1. Administrative Hours: Administrative hours are hours worked relating to firm business which are not billable to clients. These hours include time spent on continuing education and training, personnel administration, client development, invoice preparation and firm meetings.
2. Attorneys to Paralegals: Attorneys to paralegals is a ratio calculated by dividing attorney full-time equivalent personnel by paralegal full-time equivalent personnel for a given time period.
3. Billable Hours: Billable hours are those hours worked on client files for which the law firm expects to be paid.
4. Billable to Non-Billable Personnel: Billable to non-billable personnel is a ratio calculated by dividing all timekeeper full-time equivalent personnel by all support staff full-time equivalent personnel for a given time period.
5. Billing Realization Rate: Billing realization rate is the percentage of the value of the time recorded on a matter that is actually billed to the client. A billing realization rate of less than 100% indicates that some portion of the value of time recorded was not billed to the client. A billing realization rate can be calculated for an individual time keeper, a class of time keepers, or for a matter or class of matters.
6. Blended Hourly Rate: Blended hourly rate is the rate derived from dividing the total fees billed on an invoice by the total hours billed for the same invoice. The result is the actual average hourly rate charged to the client for services performed on that matter during that invoice time period.
7. Collection Realization Rate: Collection realization rate is the percentage of the value of the time recorded on a matter that is actually paid by the client. A collection realization rate of less than 100% indicates that some portion of the value of time recorded was not paid by the client. A collection realization rate can be calculated for an individual time keeper, a class of time keepers, or for a matter or class of matters.

8. Compensation Costs: Compensation costs are the salary, payroll taxes and fringe benefits applicable to each timekeeper.
9. Direct Costs: Direct costs are the proportionate share of the gross rent related to a timekeeper's work space plus the proportionate salary and benefit costs of secretarial support for the time keeper.
10. Indirect Costs: Indirect costs are all operating expenses not directly assigned to a timekeeper when calculating compensation costs or direct costs. These costs include the salary and benefit cost of administrative staff and gross rent for common areas.
11. Turnover: Turnover is the number of employees in a position who leave during a given period of time divided by the average number of employees in that position during that time period.

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