The Student Loan Crisis: How It's Affecting New Lawyers and the Firms Hiring Them

By Leslie Tayne

The student loan crisis is real. Tuition costs continue to rise nationwide, and as a result students continue to borrow more than ever before. The result: students entering the workforce with mountains of debt that will take them years—or even decades—to pay off.

While law is often thought of as a lucrative profession, new lawyers are not exempt from the student loan crisis. In fact, not only has obtaining a law degree become even more expensive than it has been in years past, but also high-paying legal jobs are becoming fewer and farther between.

What does this mean for the legal profession as a whole? New lawyers are looking for high salaries to help offset their massive debt. But can firms afford to meet these requirements when hiring at entry level?

What Law School Debt Means for New Lawyers

The Cost of Law School

According to *Business Insider*, the cost of private law school in 2016 was an average of about $47,000 a year.[1] Overall, the cost of earning a J.D. has risen by 3 to 5 times over the past 30 years.[2] And this does not account for undergraduate education, during which students likely would have built up additional debt. And while federal student loans go into deferment when a student is enrolled in graduate school, unsubsidized student loans continue to accrue interest, even when in deferment. This means if the student was not making payments towards unsubsidized loans while enrolled in law school, the student will be paying more on their loan over the long run.

According to the American Bar Association, the average law student in 2012 graduated from a private law school with about $122,000 in debt.[3] Once again, this is simply from their law schooling, and this number is outdated. The ABA has not updated this number since, but with tuition costs continuing to rise it's safe to assume that the average student's debt has risen as well.

The Financial Situation of a Young Lawyer

Law tends to be lumped in with the medical profession as the most lucrative career fields to pursue. As a result, many young people attend law school with the idea that the high salary they'll make when they graduate will more than offset the debt they've racked up by attending law school. However, tuition rates and student indebtedness have continued to rise faster than wages across the board. Law is no exception.

Law students often go to law school assuming they'll make top dollar when they graduate, meaning paying off their debt will be less of a financial burden. However, many students base their salary expectations on what lawyers from the top of their class at a private law school will be making at a major big-city law firm. The reality is that this is not what the average lawyer just out of law school will be making.

In 2016 "Big Law" (the largest firms, with over 1,000 lawyers) significantly raised salaries for first-year lawyers, in an attempt to offset rising debt and cost of living.[4] This marked the first significant Big Law salary increase since 2007. Powerhouse New York law firm Cravath, Swaine & Moore was the first to implement the increase, raising base pay from $160,000 to $180,000. But once again, Cravath, Swaine & Moore is very much at the top end of the spectrum. The same year, law firms with 50 or fewer lawyers paid first-year associates a median salary of $90,000. Even at bigger firms with 700 or more lawyers, median salaries were around $155,000.[5] After the 2007 salary increase took place, it took several years for it to take hold across the entire industry. Therefore, it's possible that salaries are continuing to rise across the board following the precedent set by Big Law in 2016.

In addition to varying by size of the firm, salaries for first-year associates are dependent on the type of law and amount of responsibility being performed by the new lawyers. Commercial law, compliance, health care and litigation were areas that were in high demand and therefore paid a higher salary. Additionally, first-year lawyers who entered the workforce with strong credentials, including previous work experience and an excellent academic record, were often offered higher paying jobs to start.[6]

That salary hike in 2016 essentially separated Big Law from the rest of the profession. Lawyers in smaller sectors and smaller towns are making significantly less than those in Big Law. In a 2015 study the range between $40,000 and $65,000 accounted for more than half of reported first-year salaries.[7] Thus, although many students believe

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their starting salary will allow them to pay their debt off relatively quickly, most recent graduates are making nowhere near the national median.

Law students should instead look at the regional and state employment data to get a better idea of what their salaries will actually be. Additionally, new lawyers may be miscalculating or neglecting to include their other expenses. In New York State in particular, cost of living is especially high. The state ranks above the national average for overall cost of living, groceries, utilities, transportation, housing, and health care. And, like the problem with tuition, cost of living continues to rise at a greater rate than wages. Therefore, even though a lawyer's income is likely to be higher in New York State, it may not be enough to completely compensate for the high cost of living.

In New York State, the average rent for a one-bedroom apartment is $1,291, significantly higher than the national average of $930.[8] In that case, if a young lawyer is living alone in New York State, they're looking at over $15,000 a year simply in rent—and that's only if you're looking at an average apartment. Young lawyers also have to account for food, health care, fitness, transportation and entertainment expenses, just to name a few. These expenses can add up quickly, particularly in a state like New York. Carrying a substantial amount of debt can certainly affect one's monthly budget, particularly if you were anticipating making more money.

Repaying Law School Debt

As with all student loan debt, a number of options exist to pay off law school debt, particularly if the loan is a federal student loan. For federal loans, you will be given an option for repayment when it comes time to begin making repayments (typically following a grace period after graduation). However, the repayment plan can change at any time over the course of the repayment period by request on the federal loan. Private student loan repayment plans, however, are set by the lender and often have less flexible repayment plans.

The standard federal student loan debt repayment plan is the 10-year plan, which calculates your monthly payment based on paying off your debt within 10 years. Ten years is a relatively quick amount of time to pay off student loan debt, which is one of the major benefits of this method. However, because of the exorbitant cost of law school, the 10-year plan most likely means monthly payments will be substantial. This may not be the most suitable option for young lawyers who are making lower salaries.

Another common path to take is the income-based repayment plan. Typically, with such a plan graduates will pay 15% of their salary until the debt is repaid or until 25 years have passed and the debt is forgiven. Payments change as income changes, meaning payments are lower when making a first-year salary and increase as salary increases. The benefit of an income-based repayment plan is that it's meant to keep your monthly payment at a level that is reasonable for your current financial situation. However, the major downsides are that it will take significantly longer to pay off the debt and, as a result, the debtor ends up paying significantly more in total because of the interest that will accrue over the years.

Another option is the Pay as You Earn (PAYE) method, which is another type of income-based repayment available to qualifying borrowers. This path includes paying 10% of your income for 20 years, with the remaining balance being forgiven as long as no payments were missed during the repayment period. This tends to result in lower monthly payments and a shorter repayment period than the traditional income-based repayment plan. Lawyers, however, are less likely to qualify for PAYE because you must demonstrate partial financial hardship.

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If you opt to apply for any repayment plan other than the standard plan, you will need to reapply each year with your updated income and tax information. The terms of your repayment, then, may differ from year to year depending on your situation.

As a result, new lawyers need not only take their repayment options into account when searching for jobs after graduation, but also to seek a salary that suits their debt repayment goals. In general, the more quickly the debt is repaid, the better off financial health will be throughout adulthood. Of course, everyone wants to make the highest salary they possible can. New lawyers, however, are limited by the area of law they are practicing, the location in which they are looking for work, and the skill set they are able to bring to the table.

What Law School Debt Means for Established Firms

Hiring Young Lawyers with Debt

With the increasing cost of law school, and subsequently the rise in student loan debt among law school graduates, law firms are also put in a difficult position. As in every profession, hiring young people typically costs less than hiring more experienced employees. This often makes financial sense for firms that can use new talent to fill positions that are appropriate for those just entering the profession but, with new lawyers carrying so much debt, firms may struggle to offer salaries that are sufficient for these first-year associates.

As someone who may be hiring new lawyers, how do you balance the budget of your firm with the salary needs of young people seeking employment? One of the most important considerations when making these decisions is comparing skill and salary demands.

Hiring a lawyer straight out of law school does not always mean hiring someone completely inexperienced. Many recent graduates have gained a great amount of experience even before officially entering the workforce. Additionally, strong academic records can be an indication of a potentially valuable young employee. Therefore, weighing the potential upside of a prospective employee is important when deciding what salary to pay. Are you truly getting an entry-level employee, or are you hiring someone who is already very knowledgeable and who will be able to contribute on a higher level right away? In the case of the latter, you may then be able to offer a more competitive salary that will match the benefit of adding this person to your practice. This could be a win-win for all involved. The young lawyer will be able to pay off his or her loans more easily, and you will have a bright new employee who will have a positive impact on your firm. If you're not able to offer a competitive salary, you may lose them to a firm that can. Offering a lower salary may mean lowering the quality of your candidate pool as well, but that is not always the case.

Also, be aware that if an entry-level employee is asking for a higher salary, you should not automatically assume that it's coming from a place of arrogance, in that he or she believes they're worth more than you're offering. It may, instead, be coming from a place of worry, fearing that they'll be saddled with student loan debt that they're unable to pay or that will take them much of their adult life to get rid of. Of course, asking about student loan debt is too personal for a job interview, but simply noting what law school they listed on their resume should give you an idea of how much their education cost. There is nothing wrong in negotiating salary to include offers to pay down student loan debt.

However, not every firm has the budget to offer these more competitive salaries. If your practice doesn't have much wiggle room in terms of what it can offer strictly in salary, consider what other benefits can be offered to prospective employees. Perhaps your company offers reimbursement for fitness memberships, cell phones, or meals while in the office. Or maybe your company gets deals on tickets to sporting events or shows around town. While these benefits are not the same as offering a higher salary, they can result in savings which can free up funds to be put towards the student loan debt. If you have a prospective employee who is interested in negotiating a higher salary that you can't provide, emphasize the value of these benefits and how they can help him or her.

In general, tuition and the cost of living are going to continue to rise, and the industry is going to need to respond. If your firm hasn't raised salaries in quite some time, and you're in need of new attorneys, it may be time to consider options that could attract the best candidates with alternatives to salary that do not go beyond your company budget. The notion behind the 2016 salary increase in Big Law was to adapt to the changing landscape of student loan debt and the rise in cost of living. The change is taking hold across the industry, but firms at all levels will need to continue to keep up and that means being creative.

When Lawyers Need a Student Loan Debt Lawyer

Knowing When to Seek Help

You don't have to be fresh out of school to be struggling with student loan debt. Unfortunately, student loan debt is a problem that individuals deal with at all different ages and steps in their careers.

The biggest indicator that someone may want to seek professional help for their debt is a feeling of drowning. That feeling typically means that debt has become unmanageable or that it is creeping into other areas of the person's life. Debt has the ability to affect both mental and physical health—spawning the term "crippling debt." If this is the reality, it's time to enlist professional services. In the end, you want your staff with clear heads.

But the feelings surrounding debt don't necessarily need to be that extreme to warrant seeking help. Simply being confused or having questions about debt are also valid reasons to ask for the advice of a professional. Student loan debt is confusing—there are different types of loans and a variety of different options to tackle student loan debt. A debt attorney can simply help navigate through the confusing labyrinth of repaying student loans. A consultation with a student loan debt attorney is also a low-cost benefit to offer to attorneys and staff.

Using Your Connections

One of the benefits of being a lawyer is the ability to find a lawyer for yourself more easily than the general public. Often, lawyers are well connected to other lawyers, including those who practice other areas of law. Young lawyers may not have had as much time to develop these networks. However, they can turn to the more experienced lawyers in their firms for recommendations. If they are not comfortable asking for a debt lawyer for themselves, they can ask under the guise of recommending to a friend or family member.

The student loan debt crisis doesn't just affect recent graduates. The impact can be felt by all throughout the business world, as employers try to juggle paying new employees a competitive salary sufficient for paying off student debt. This issue has been especially apparent in law, as a result of the high cost of obtaining a law degree and the expectation of a high salary upon landing a job in a law firm. But the reality is that only the top percentage of new associates are earning at that high level, while others are making a much more modest salary. Firms have had to respond accordingly, and will likely have to continue to do so, adjusting salaries or offering other benefits to new employees, one of which is the connection to student loan debt attorneys, who can help their fellow lawyers effectively manage their loans.

As the student loan landscape continues to change, the industry's response will likely continue to shift as well. Quality candidates are becoming more expensive—both for the candidates themselves and the firms hiring them.

Endnotes

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