

Law school

After completing this section, students should be able to:

- Calculate the long term financial impact of student debt.
- Compare scenarios of higher salary with debt to lower salary without debt.

Should you go to law school?

According to Law School Transparency, the median starting salary for law school students who graduated in 2018 was \$70,000. The mean salary was \$98,150 and the adjusted mean was \$91,833 (adjusted for non-response bias among fully employed graduates but not including unemployed or partly employed graduates).

In contrast, recent college graduates in the U.S. earned an overall average starting salary of \$50,944, according to the Summer 2019 Salary Survey report by the National Association of Colleges and Employers (NACE).

But law school costs money. In 2019, the average tuition at private law school was \$49,312, and the average tuition at a public school was \$28,186. The average law school graduate debt is \$145,500. Source: *Is Law School Worth It Anymore*.

For the three years that you go to law school, you will earn no salary and will accumulate debt. You will need to pay that debt off, but you will also earn a larger salary. Is it worth it financially to go to law school?

To answer this question, let's make some additional assumptions and then work out some of the pieces.

- Assume that you will need to take out a loan of \$145,500 to go to law school for three years. Assume that this loan includes what you need for tuition, fees, and living expenses. Assume that no interest accumulates on the loan for the three years that you are in law school.
- Assume that you pay your loan back over 20 years with monthly payments at a 4.8% interest rate. The interest rate is the average of the 4.3% rate for Stafford Loans and the 5.3% rate for Graduate PLUS loans quoted at the Law School Transparency Law School Costs website.
- Assume that on the JD track, your starting salary is \$91,833, and on the BA track, your starting salary is \$50,944. In either case, your salary goes up by 3% per year.
- Assume your living expenses are \$20,000 the year you graduate with a BA, and that your living expenses go up by 2% per year. Living expenses for the first three years of the JD are covered by your loan.
- For simplicity, assume that taxes are 25% of your taxable income (salary minus loan payments) each year, even though your actual tax percent will increase with your salary. Assume that you have no tax payments while in school.
- Assume savings earn interest every year at a 2% interest rate.

Explanation of spreadsheet columns ("BA" for bachelors degree in yellow, "JD" for law degree in green)

- year: start with year 1 at BA graduation, ends at year 43. Assuming graduation at 22, this implies a retirement age of 65
- salary BA: starts at \$50,944, increases 3% annually
- salary JD: starts at \$91,833 after 3 years of law school, increases 3% annually
- debt BA: none
- debt JD: cost of student loans (monthly payments \times 12), assuming a 20 year loan of \$145,500 with an APR of 0.048 (4.8%)
- taxes BA: assume a rate of 25% on taxable income (salary minus debt payments), starting in year 1
- taxes JD: assume a rate of 25% on taxable income (salary minus debt payments), starting after graduation in year 4
- living expenses BA: assumed to be \$20,000/year, with cost of living increasing 2% per year. Starts at \$20,000 in year 1.
- living expenses JD: same as for JD, except charged at \$0 for the first three years since living expenses during law school are assumed to be covered by the loan. Starts at $\$21,224.16 = \$20,000 \cdot (1.02)^3$ in year 4
- annual savings BA: salary minus taxes minus living expenses, starting in year 1
- annual savings JD: salary minus debt minus taxes minus living expenses, starting in year 4
- wealth BA: cumulative annual savings, starting year 1, adding in 2% annual interest on the prior year's wealth

- wealth JD: cumulative annual savings, starting in year 4, adding in 2% annual interest on the prior year's wealth

Fill in the formulas for the columns using the assumptions above. through year 43. Hint: don't write over the cells with \$0s!

Questions:

1. What are the monthly and annual debt payments for the JD?

2. In what year does wealth of a JD surpass that of a BA?

3. What is the wealth of the BA vs JD at Year 43?

4. What is the sum of the annual savings of the BA vs. JD at Year 43?

5. The starting salary estimate of \$91,833 is likely too high, since this is the mean salary for fully employed law school graduates, and 18.5% of graduates are unemployed or underemployed.
Revise your spreadsheet using the median \$70,000 law school starting salary, or a conservative mean expected salary of $\$91,833 \cdot 0.815 + \$0.185 \cdot 0 = \$74,843.90$ that counts the 18.5% of graduates that are unemployed and underemployed as earning \$0.

Conclusions

Is it in your financial interest to go to law school?

Does it make a difference if you spend all your extra money vs. save it?

What assumptions seem unrealistic?

Is this analysis sensitive to varying the assumptions?