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.
Before Class

This section needs a before class assignment.
Should you go to law school?

According to U.S. News, the median starting salary for law school students who graduated in 2018 was $75,000.

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. As of 2019/2020, the annual cost of going to a private law school is $49,548, based on U.S. News.

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?
Should you 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 also need to borrow an additional $20,000 to live on for the first year while you go to law school, with additional living expenses for the second and third years but with a 2% annual cost of living increase.

- Assume that you pay your loan back over 20 years with monthly payments at a 7.08% interest rate. (The interest rate comes from Federal Student Loans.

- Assume that you don’t have to start paying your debt back until you graduate law school.

- Assume that your salary goes up by 3% per year. That roughly corresponds to the table of salaries for lawyers, and comparable to the 3% expected raise in general from Mercer’s 2019/2020 US compensation planning survey.

Lawyer salaries by years of experience

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 years</td>
<td>$70,000</td>
</tr>
<tr>
<td>5-10 years</td>
<td>$98,000</td>
</tr>
<tr>
<td>10-20 years</td>
<td>$119,000</td>
</tr>
<tr>
<td>20 or more years</td>
<td>$139,000</td>
</tr>
</tbody>
</table>

- Assume that your living expenses go up by 2% per year.

- For simplicity, assume that taxes are 25% of your salary each year, even though
your actual tax percent will increase with your salary. Assume that you have no tax payments while in school.
How much money will you need to borrow to go to law school, if you borrow it as a lump sum at the beginning? Include the three years of tuition (assume no increase each year), and three years of living expenses (with a 2% increase in the cost of living each year).

What will your monthly payments be if you pay this loan back over 20 years at a 7.08% APR? What does this translate into as far as total debt payments each year?
Use a spreadsheet to estimate your annual income and payments if you 1) don’t go to law school, and 2) do go to law school.

Take into account
(a) debt payments
(b) tax payments
(c) a 3% raise each year
(d) a 2% cost of living increase each year
(e) interest on your savings, at a rate of 2% each year
Conclusions

Is in your financial interest to go to law school?

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

Is there a big difference financially, in the long run, between going vs. not going?

Does it make a difference if you only work until, say, age 50 instead of age 65?