

Law Degree Economics:

How Recent Legislation has Improved the Economic Value of a Law Degree

Presented by:

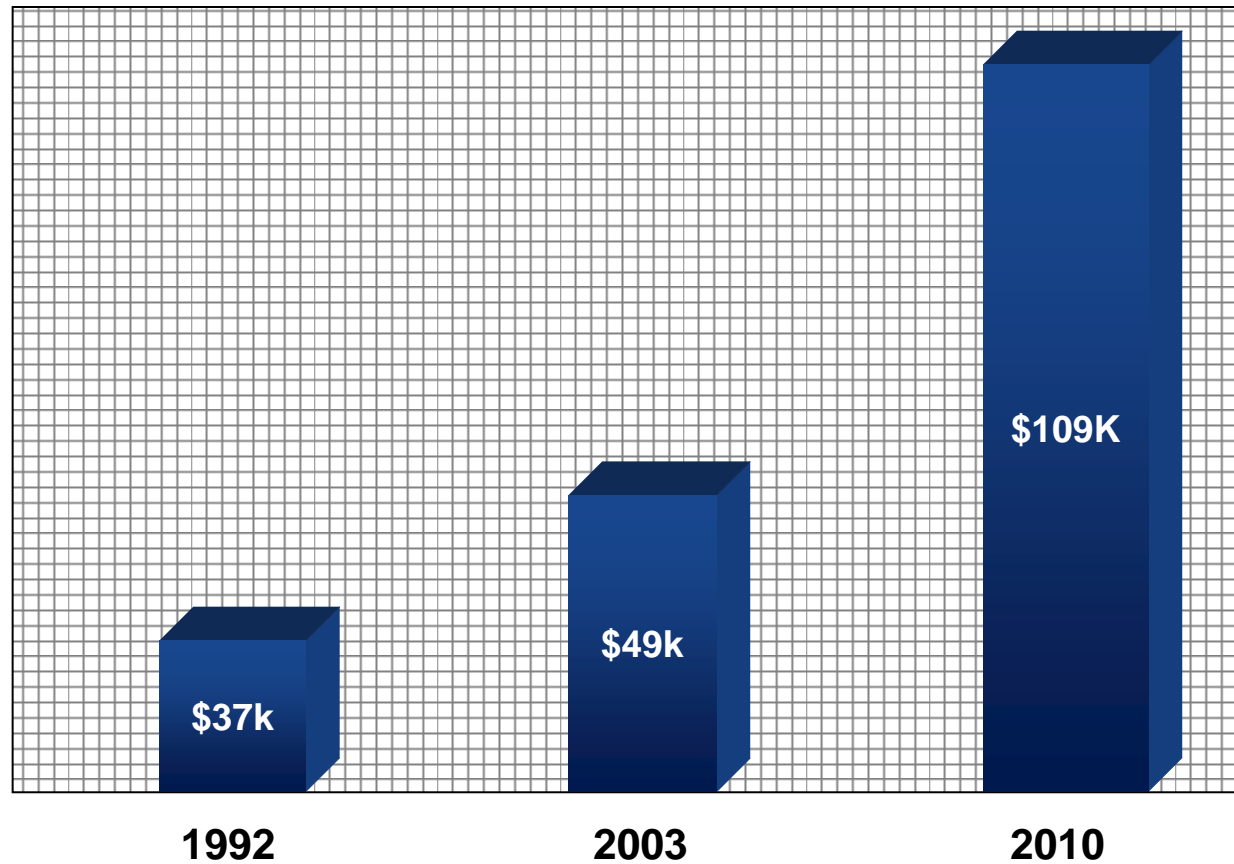
Jason DiLorenzo

Boalt Hall

April 18th, 2011

- ***Brief Examination of Law Career Economics***
- ***Income-Based Repayment (IBR): What it is and how graduates can navigate it to keep liquidity early in career and be positioned to maximize potential forgiveness***
- ***Strategic debt reduction and other financial objectives (home purchase, stock market)***
- ***Boalt Hall Graduate Profile:***
 - ***Average indebtedness of 2009 grads with law school debt: \$91,277***
 - ***Percent who work in Public Interest: ?***

Changes in Student Debt Levels



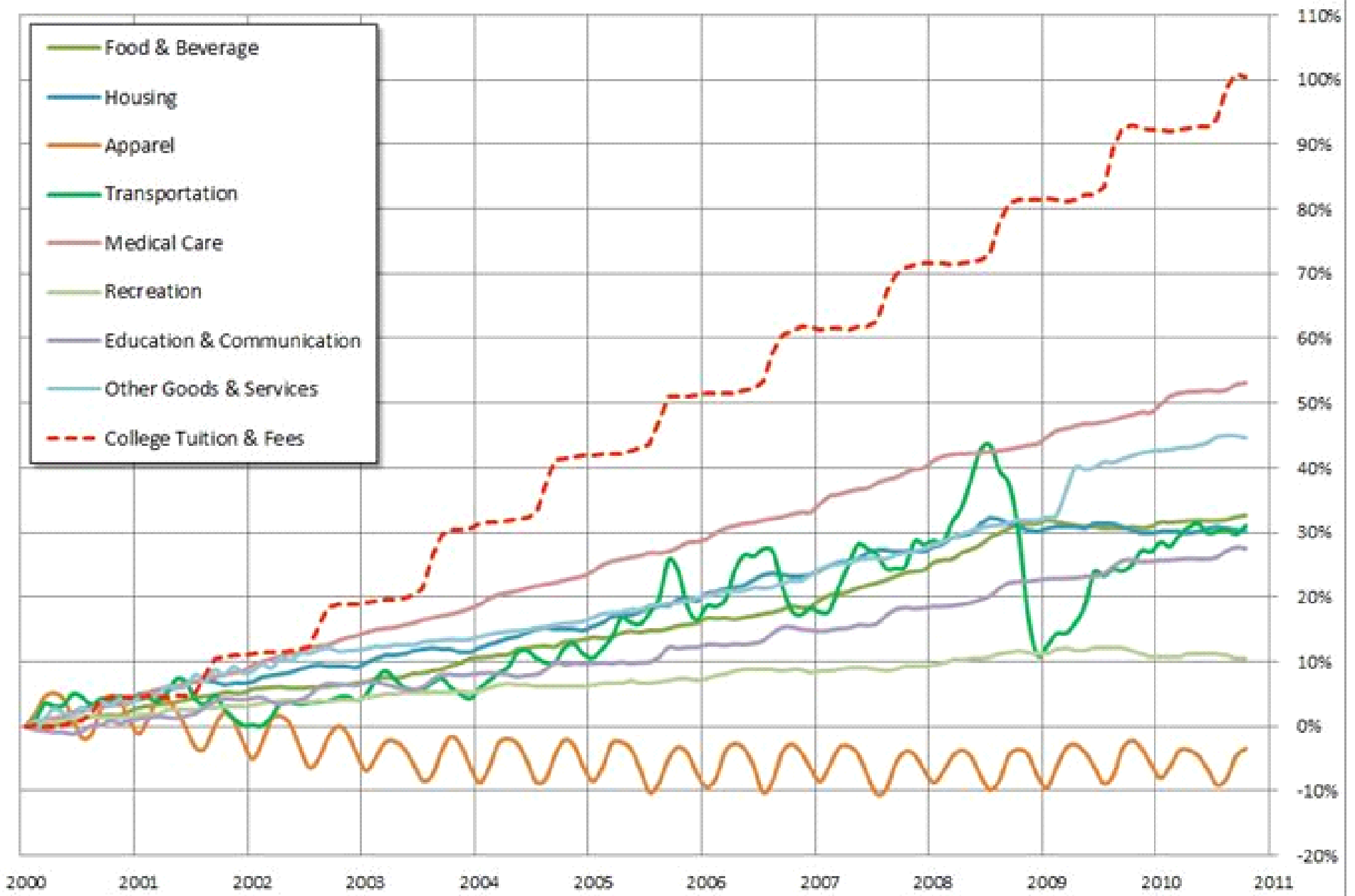
Debt levels have doubled in the last 7 years

* Based on data collected by The American Bar Association and GL internal student database

Breaking Down the Consumer Price Index

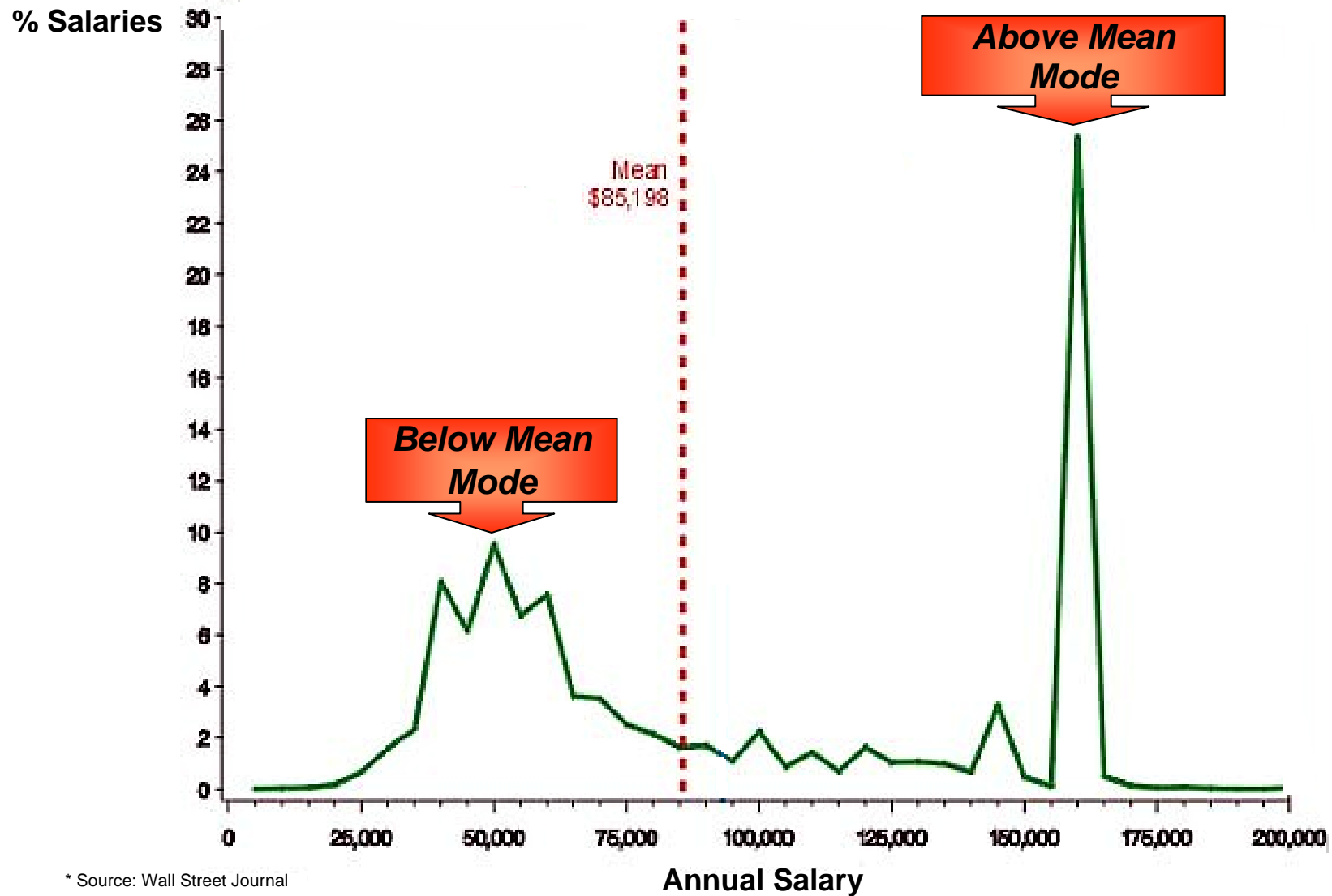
College Tuition - The Inflation Nightmare

dshort.com
November 2010



Law Distributions

Law Class of 2009 Salaries

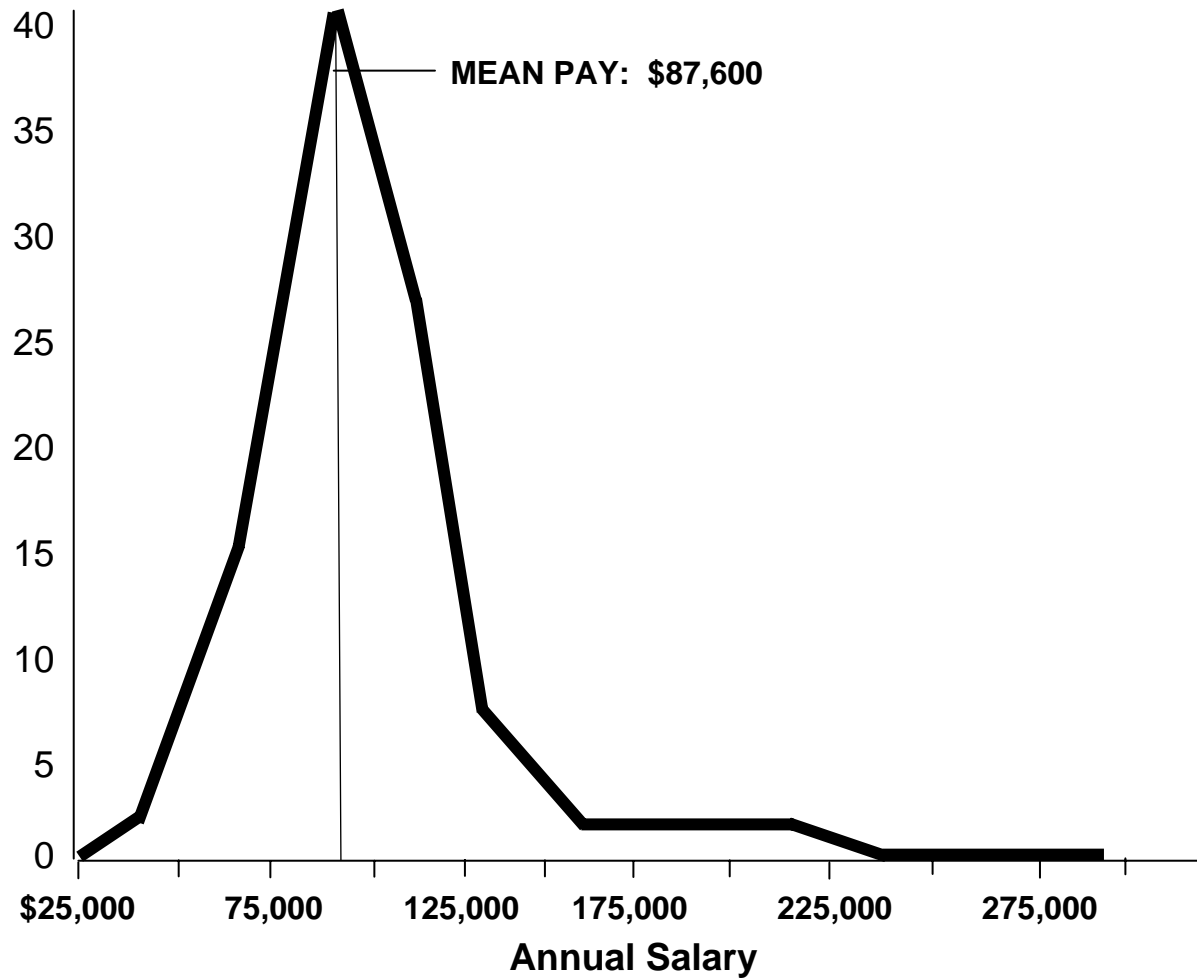


* Source: Wall Street Journal

MBA Distributions

MBA Class of 2009 Salaries

% of salaries



Data: PayScale, select school data

MBA Salary Distribution More Normalized

Issue Has Not Gone Unnoticed

“Bar Raised for Law-Grad Jobs”

~ Wall Street Journal, May 5, 2010

“The Two-Track Lawyer Market”

~ The New York Times, July 26, 2010

“Irate Law School Grads Say They Were Misled About Job Prospects”

~ The Star-Ledger , August 15, 2010

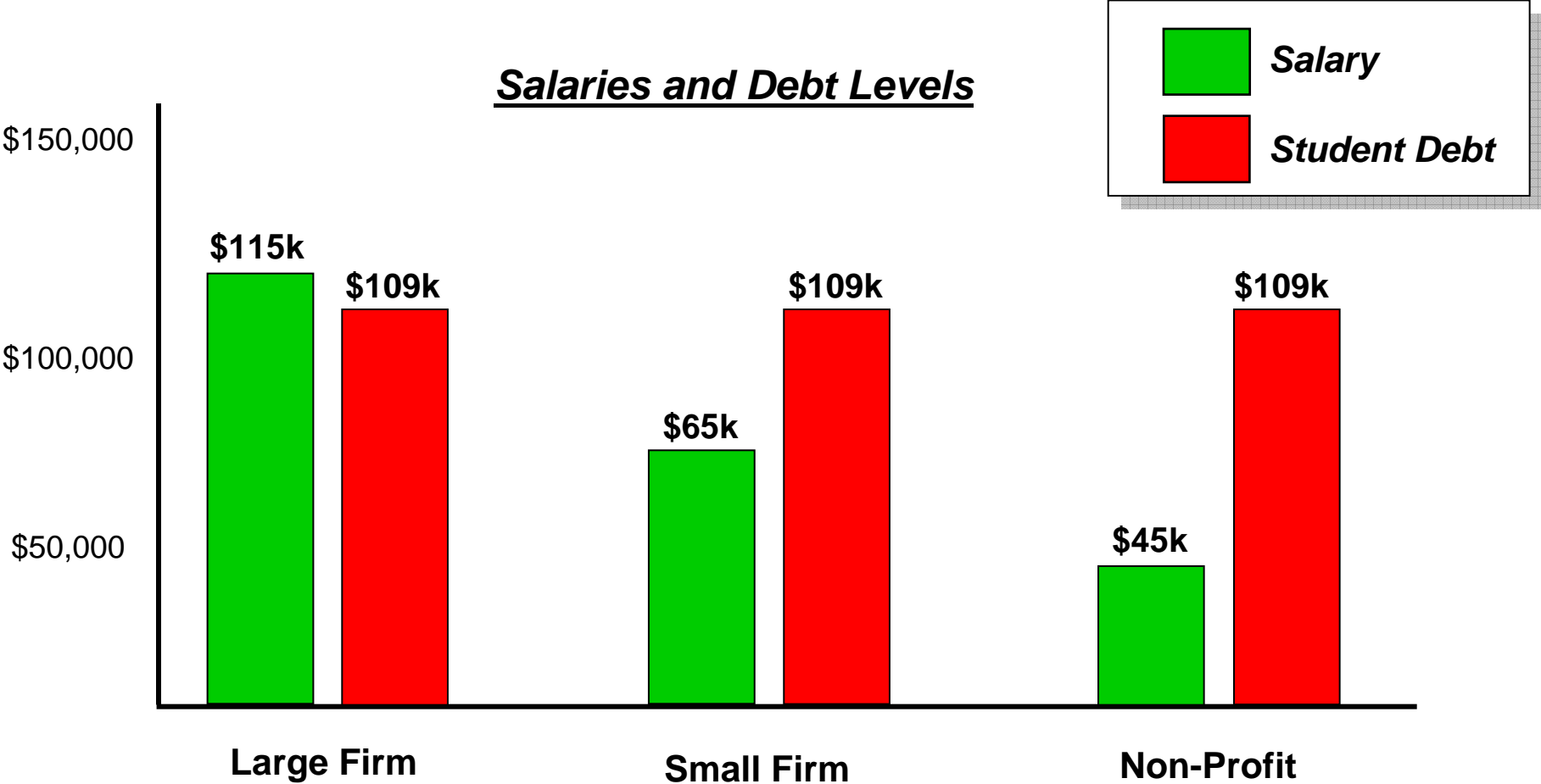
“Law Grad in 'Severe Financial Distress' Seeks \$200K for Law Degree on eBay”

“Ohio Supreme Court Denies Law License for Grad with \$170,000 in Student Loans” ~ ABC News, January 18 2011

- 1. Large Firm** -- *Corporate, Product Liability, Bankruptcy, etc.*
- 2. Small Firm** -- *Small Law Firm, Solo Practice, In-House Counsel, etc.*
- 3. Non-Profit** -- *Non-Profit or Government Entity*

Career Paths

Salaries and Debt Levels



Impact of Legislation

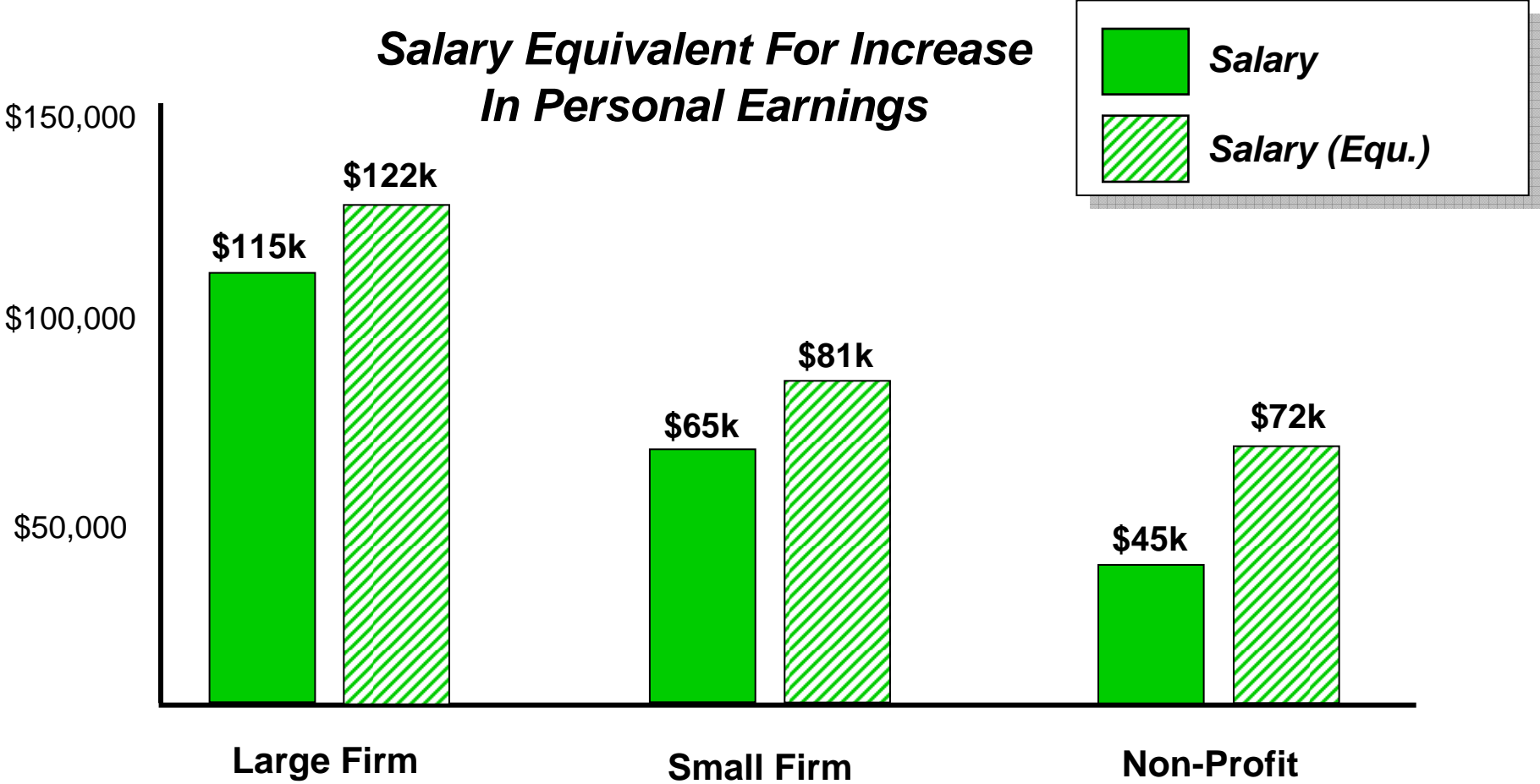
Small Firm (Twenty Year Small Firm)

Non-Profit

Years:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Monthly Payment:	\$150,000	75,000	437.75	303.07	20.00	326.73	339.19	75.00	352.08	365.43	379.24	373.06	408.32	258.43	423.64	439.48	455.89	508.62	278.92	546.93
Poverty Line:	\$21,855	22,620	23,412	24,231	25,079	25,957	26,865	27,806	28,779	29,786	30,829	31,908	33,024	34,180	35,377	36,615	37,896	39,223	40,595	42,016
AGI Deduction:	\$3,500.00	3,500.00	4,500.00	4,500.00	6,500.00	7,500.00	8,500.00	8,500.00	9,500.00	9,500.00	10,500.00	10,500.00	11,500.00	11,500.00	12,500.00	12,500.00	13,500.00	13,500.00	14,500.00	14,800.00
Income Multiplier:	15%	15%	15%	10%	15%	10%	10%	15%	10%	10%	15%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Debt Outstanding:	\$110,750.80	125,016.15	141,151.5	130,850.15	116,730.00	139,092.39	142,362.72	146,751.75	150,922.63	155,741.80	160,969.43	162,293.23	168,059.54	172,545.89	178,141.42	183,910.00	190,441.81	174,388.35	141,532.97	177,435.91
Wage:	\$70,000	72,436	74,966	77,610	80,370	83,258	86,248	89,325	92,477	95,703	99,004	102,381	105,775	109,187	112,627	116,099	119,604	123,142	126,714	130,321
AGI:	\$66,500	68,950	71,486	74,110	76,829	79,638	82,548	85,565	88,677	91,883	95,184	98,581	101,975	105,367	108,757	112,144	115,528	118,909	122,287	125,662
Marginal Federal Tax Rate:	23%	23%	23%	23%	23%	24%	24%	24%	25%	25%	25%	26%	26%	26%	27%	27%	27%	28%	28%	29%
Effective Tax Rate:	23%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	22%	22%	22%	22%	22%	23%	23%	23%
Tax Shield:	\$0	580	1,160	1,740	2,320	2,900	3,480	4,060	4,640	5,220	5,800	6,380	6,960	7,540	8,120	8,700	9,280	9,860	10,440	11,020
Student Loan Payments:	\$0	3,666.83	3,920.59	4,174.35	4,428.11	4,681.87	4,935.63	5,189.39	5,443.15	5,696.91	5,950.67	6,204.43	6,458.19	6,711.95	6,965.71	7,219.47	7,473.23	7,726.99	7,980.75	8,234.51
Disposable Income:	\$51,619.29	53,500.65	55,382.01	57,263.37	59,144.73	61,026.09	62,907.45	64,788.81	66,670.17	68,551.53	70,432.89	72,314.25	74,195.61	76,076.97	77,958.33	79,839.69	81,721.05	83,602.41	85,483.77	87,365.13
Available Savings:	\$5,454.77	5,308.58	5,032.53	4,756.54	4,480.55	4,204.56	3,928.57	3,652.58	3,376.59	3,100.60	2,824.61	2,548.62	2,272.63	2,000.00	1,727.37	1,454.74	1,182.11	909.48	636.85	364.22
Savings Interest:	\$0	2,043.26	4,086.52	6,129.78	8,173.04	10,216.30	12,259.56	14,302.82	16,346.08	18,389.34	20,432.60	22,475.86	24,519.12	26,562.38	28,605.64	30,648.90	32,692.16	34,735.42	36,778.68	38,821.94
Discount Value Year 10:	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Residual Loan Cost Year 10:	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Discount Value for Today:	0.909090909	0.826446281	0.751314801	0.683013455	0.620921323	0.56447393	0.513158118	0.46650738	0.424097618	0.385543289	0.350493889	0.318630818	0.28966438	0.263331254	0.239392049	0.217629136	0.197844669	0.17965879	0.163507991	0.148643628
Residual Cost Year 1:	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sum of Disposable Income:	\$564,966	532,177	517,715	504,429	492,147	480,865	470,583	461,301	453,019	445,737	439,455	434,173	428,891	424,609	420,327	416,045	411,763	407,481	403,199	398,917
Savings Sum w/Interest:	\$76,925.65	147,715	262,505	392,295	537,085	696,875	871,665	1,061,455	1,266,245	1,486,035	1,720,825	1,970,615	2,235,405	2,515,195	2,810,985	3,122,775	3,450,565	3,794,355	4,154,145	4,530,935
Sum of Residual Loan Cost:	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Savings w/Int & Residual:	\$76,925.65	147,715	262,505	392,295	537,085	696,875	871,665	1,061,455	1,266,245	1,486,035	1,720,825	1,970,615	2,235,405	2,515,195	2,810,985	3,122,775	3,450,565	3,794,355	4,154,145	4,530,935

Modeled Increase In Available Savings Due To Legislation

Career Paths



New Programs Increase After-Tax Savings

What We Will Cover:

- **New landmark legislation and impact on law professionals**
- **In-school consolidation**
- **Action Plan based on individual's situation**

Income-Based Repayment

Partial Financial Hardship

- Limit monthly payment to 15% of discretionary income, capped at 10-year standard payment
- 2014: Monthly payment limit reduced to 10%

Government Subsidy

- Subsidized interest not covered by reduced payment is paid by government
- Subsidy is provided for maximum of 3 years

Loan Forgiveness

- After 25 years any outstanding balance is forgiven
- 2014: Forgiveness after 20 years

Income-Based Repayment

- **Goal for Law borrowers:**
 1. **Minimize Payment Burden Early in Career for Liquidity**
 2. **Maximize Any Available Subsidy and Forgiveness**
- **Problem is IBR process and forms are complicated and unintuitive, furthermore lenders and government have disincentive to support.**
- **Common mistakes made by borrowers with IBR:**
 - **Using salary data instead of AGI**
 - **Provide supporting documentation not reflective of actual AGI**
 - **Not using the most appropriate tax data and filing year (married joint/separate, etc.)**
 - **Timing of filing**

How is IBR calculated?

(AGI – 150% Poverty Level) x 15%

12 months

Estimate in years 1 & 2 for graduate with \$120k Salary:

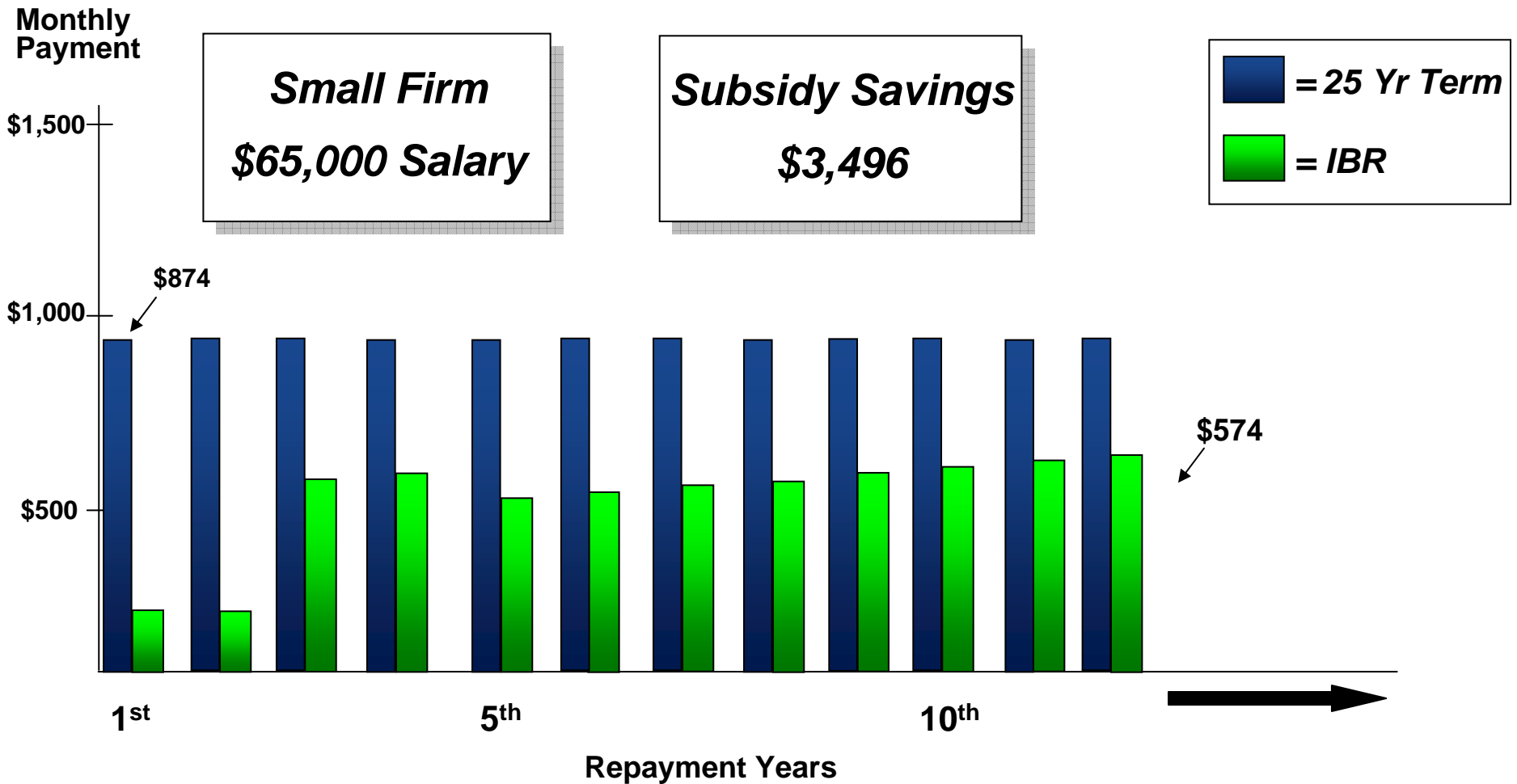
(\$60,000 – \$16,335) x 15%

12 months

= \$546 / mo.

IBR Payment and Subsidy: Small Firm

Limits monthly payment to 15% of discretionary income



Assumptions: Based on last year's AGI, except first year based on current AGI. AGI is \$3,000 less than salary. Starting salary is \$65,000 which is pro-rated for first year. Salary increases 3% after 2nd year; Poverty line for single person increases by 3% after 2nd year; Family size increases to 2 in the third year and 3 in the fifth year. Loan Portfolio: \$25,500 of \$120,000 debt is subsidized.

New Program Details

Income Based Repayment:

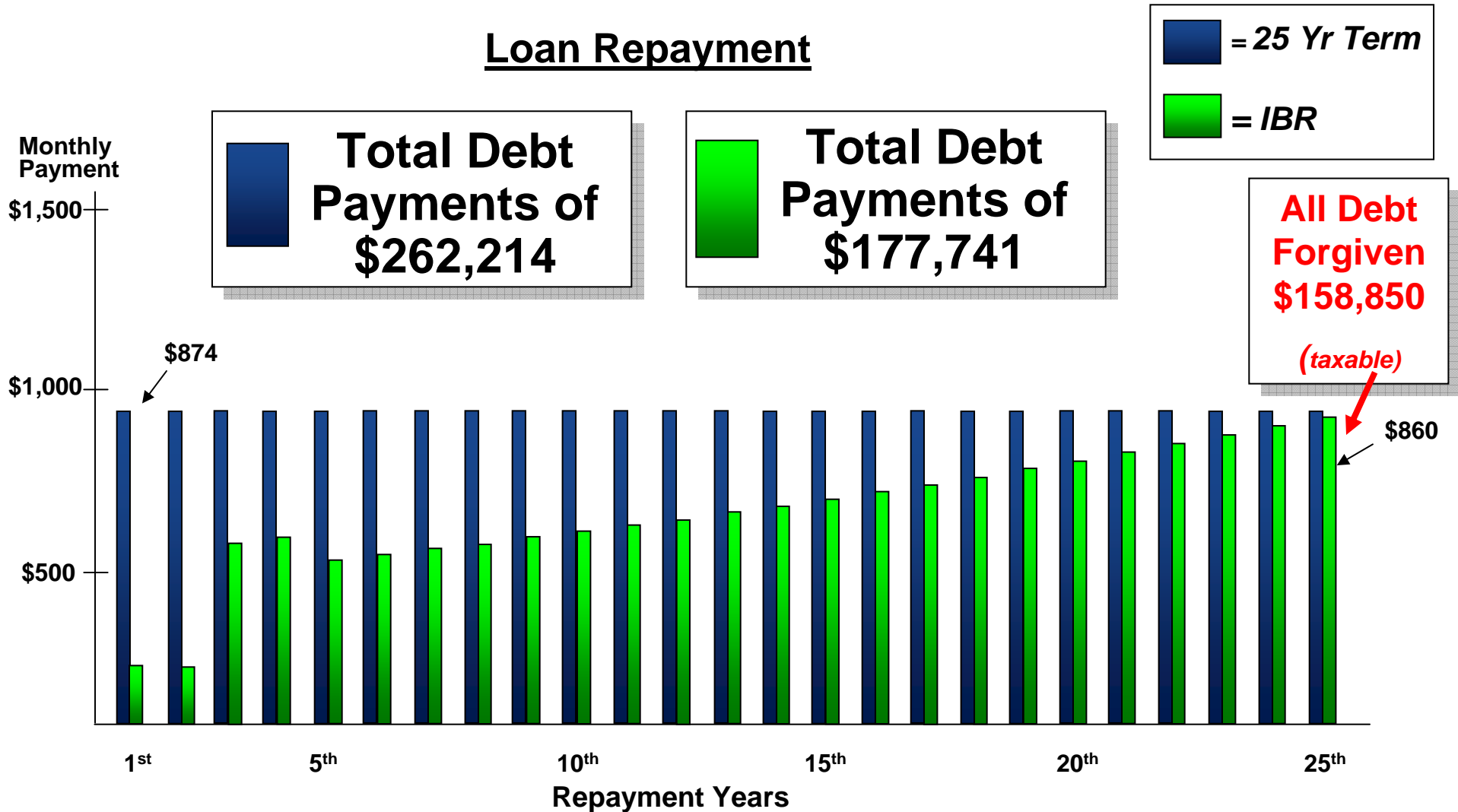
- Limits monthly payment to 15% of discretionary income

Loan Forgiveness:

- Outstanding debt forgiven after 10 years for public service
- Outstanding debt forgiven after ~20 years for private sector

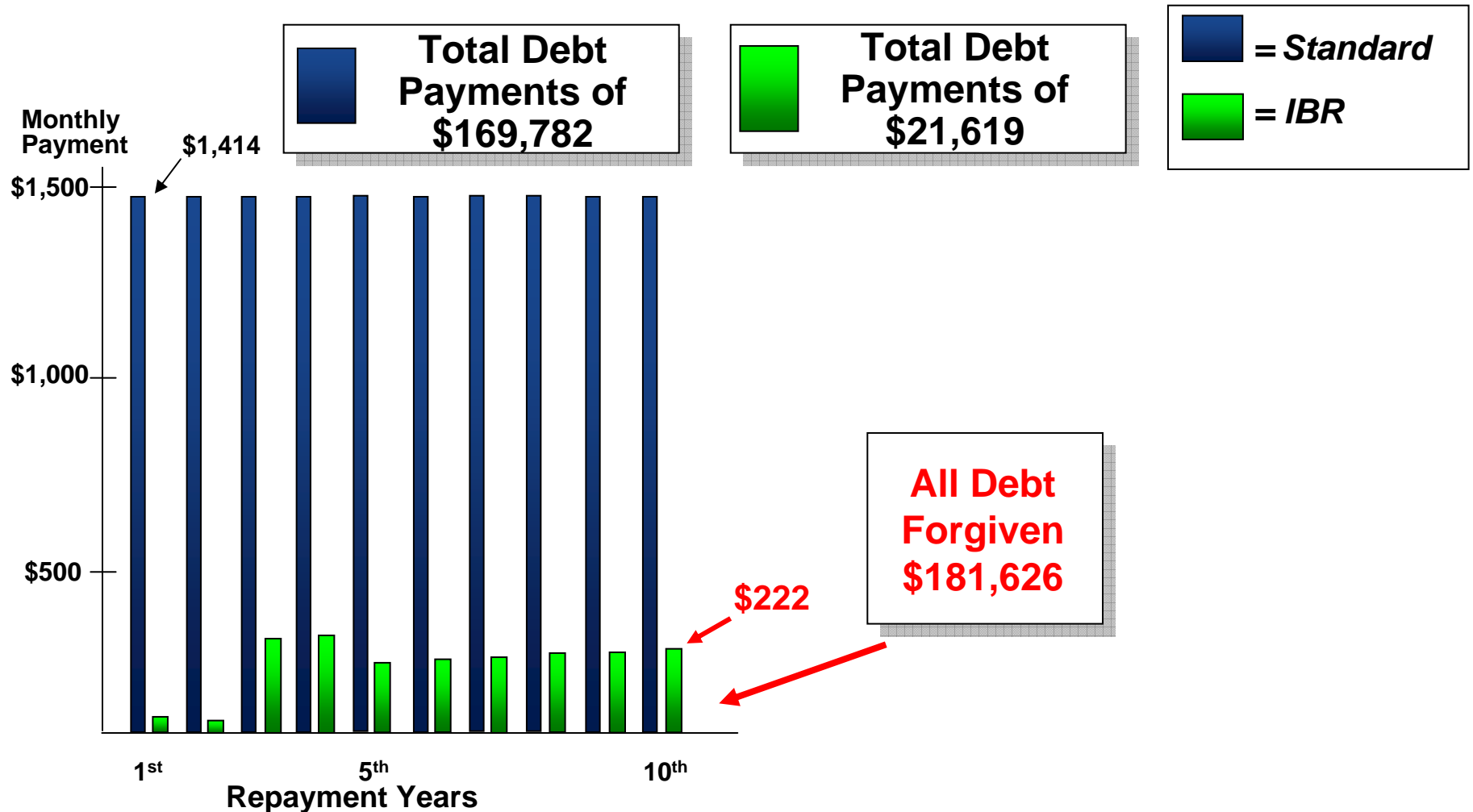
IBR Loan Forgiveness: Small Firm

Loan Repayment



Total Debt Burden Reduced By More Than 32%

Loan Forgiveness: Non-Profit Career



Total Debt Burden Reduced By More Than 87%

Same assumptions as previous slides except this scenario assumes a \$45,000 salary.

The Berkeley Law LRAP Program

Graduates through 2012 who work in qualified employment have two options:

1. Standard Track LRAP: Provides support for monthly payments for up to \$100k in loans and interest
 - Limited to \$100k, only JD debt, incl. some private loans
 - Will provide partial assistance if leave public service before 10 years
2. IBR Track: Provides support for monthly IBR payments with no overall loan cap
 - Applies to *all* federal loans (Stafford, Grad PLUS, Perkins if consolidated), including undergrad, but *no* private loans
 - Support based on annualized income, not AGI
 - With more debt, provides greater liquidity (\$600/mo @ \$150k in Standard)
 - All-or-nothing, negative amortization implications, free loan

What We Will Cover:

- New landmark legislation and impact on law professionals
- **In-school consolidation**
- Action Plan based on individual's situation

In-School Consolidation

In-School Consolidation:

- **Initiated by Department of Education for one year only (July, 2010 – July, 2011)**
- **Enacted due to nationalization of student loans**
 - **Primary driver was to simplify student loans for borrowers**
- **Program highly attractive for some current *students* *if done correctly***
 - **Fix variable rate loans at historically low rates**
 - **Consolidated loans eligible for loan forgiveness**

In-School Consolidation

Potential Benefits of In-School Consolidation:

- 1. Opportunity to lock in low rates (with variable loans)**
- 2. Consolidated loans become eligible for loan forgiveness (payment clock starts)**
- 3. Single bill**

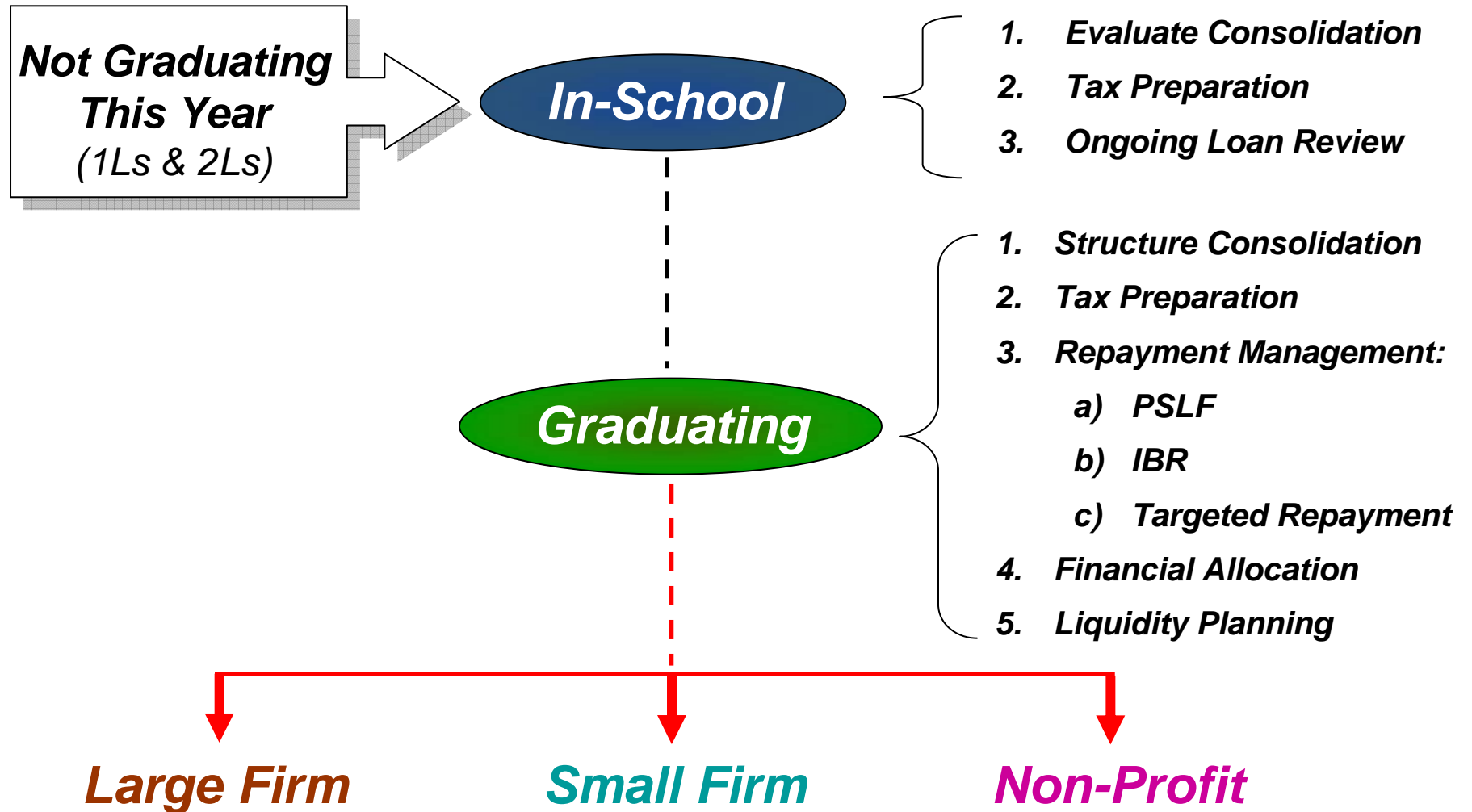
Potential Costs of Consolidation:

- 1. Loss of a low interest rate loan due to aggregation***
- 2. Potential loss of borrower benefits***
- 3. Capitalization of accrued interest (loss of grace irrelevant if IBR or deferment utilized properly)***

What We Will Cover:

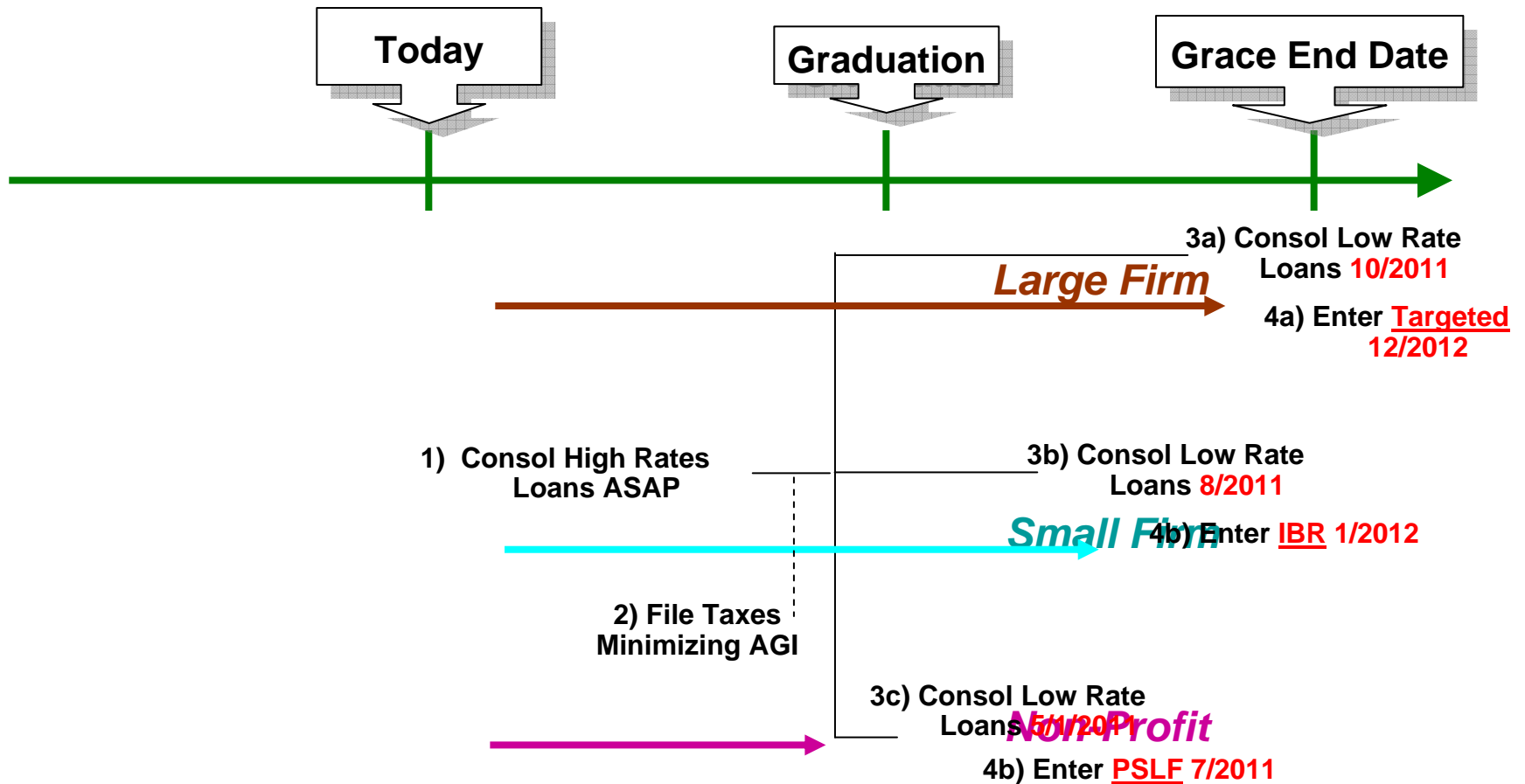
- New landmark legislation and impact on law professionals
- In-school consolidation
- **Action Plan based on individual's situation**

Your Path



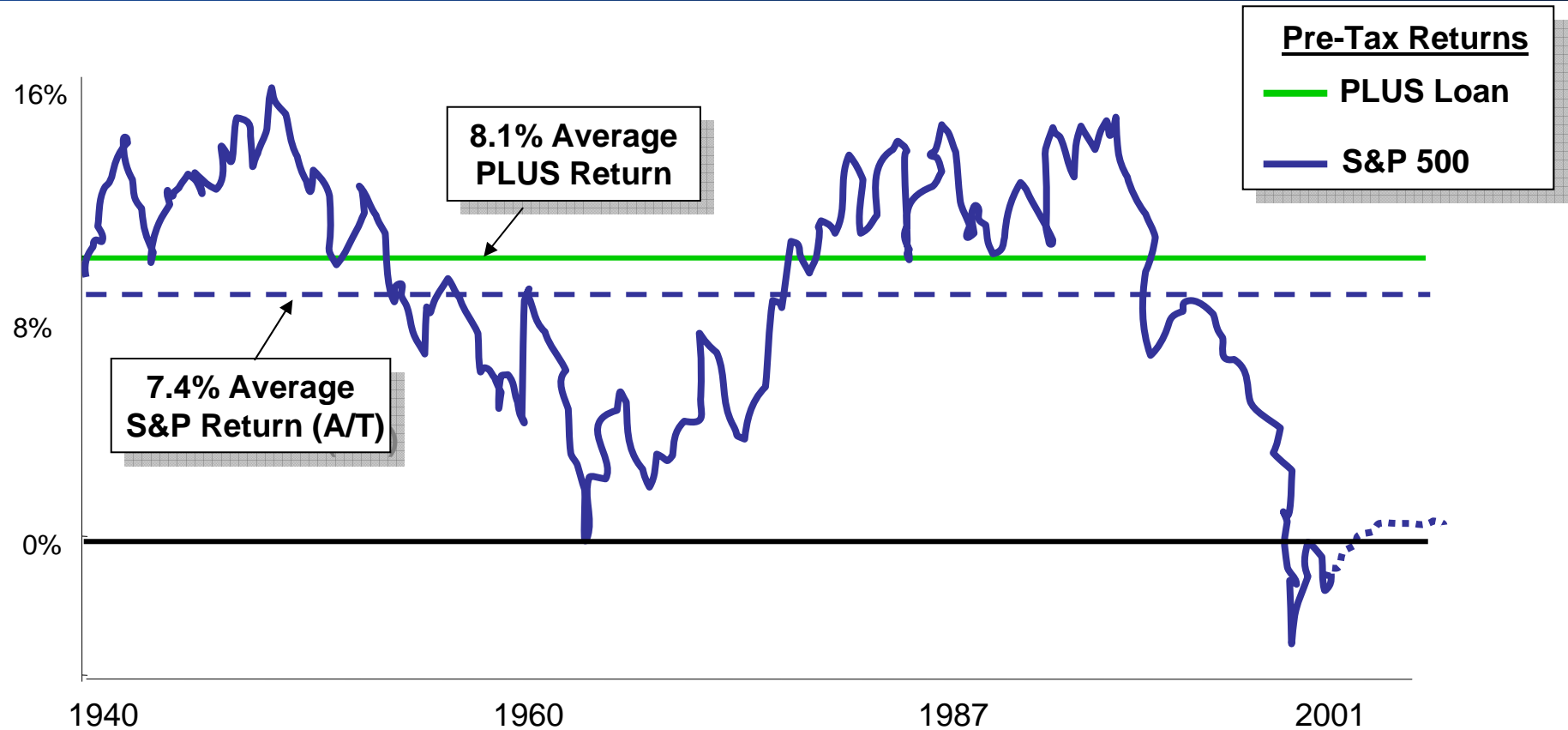
In-School Consolidation (3Ls)

Graduating



* To maximize IBR Subsidy borrower should establish credit or deductions prior to year end

Stock Investing



Sources: Yale Econ/Robert Shiller, Standard & Poor's, Federal Reserve, Bloomberg

All Returns Here Are After Tax

Home Or Practice Purchase

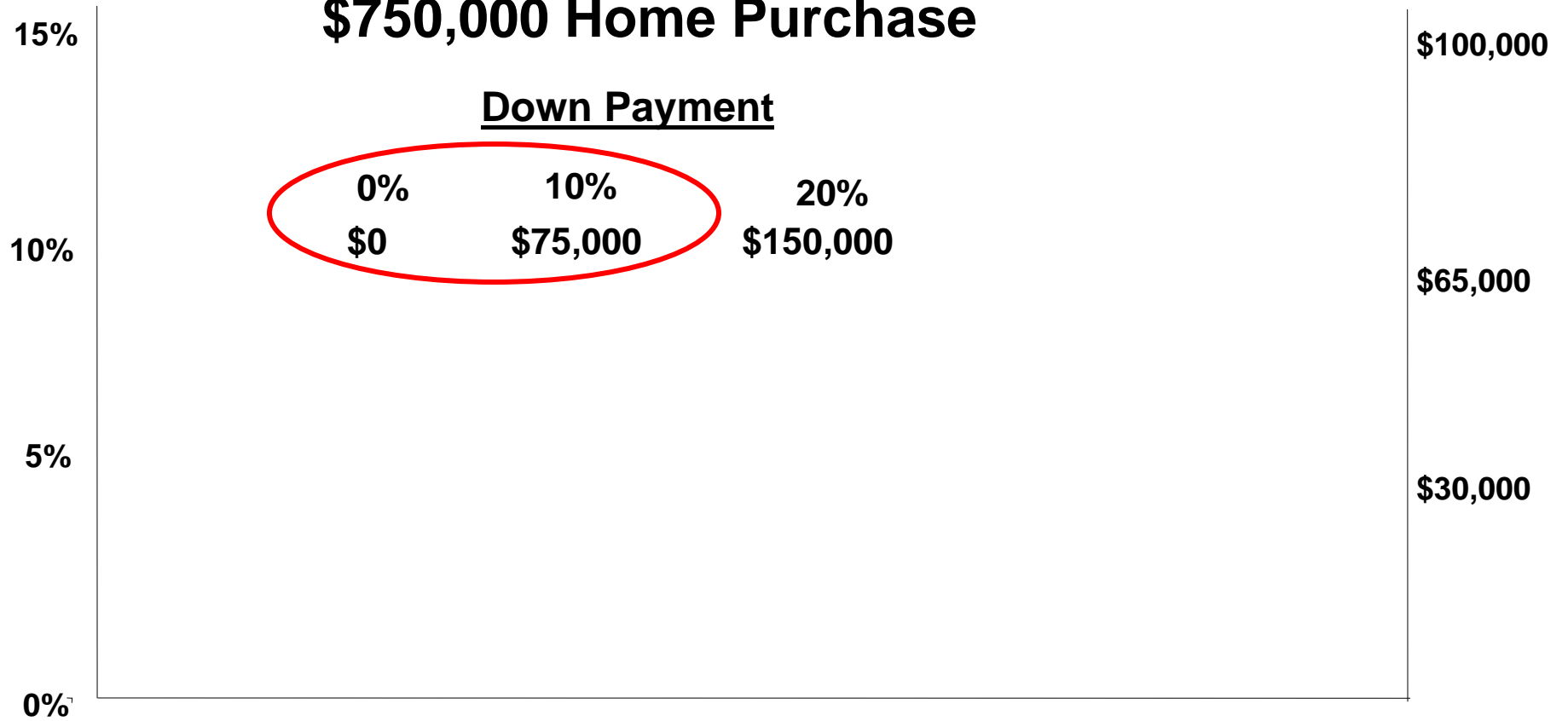
- New Attorneys lack liquidity in early years:
 - Most make major purchase (home, practice, etc.)
- Even if loans can be secured with minimum liquidity
 - The incremental cost has increased substantially

Home Purchase Example

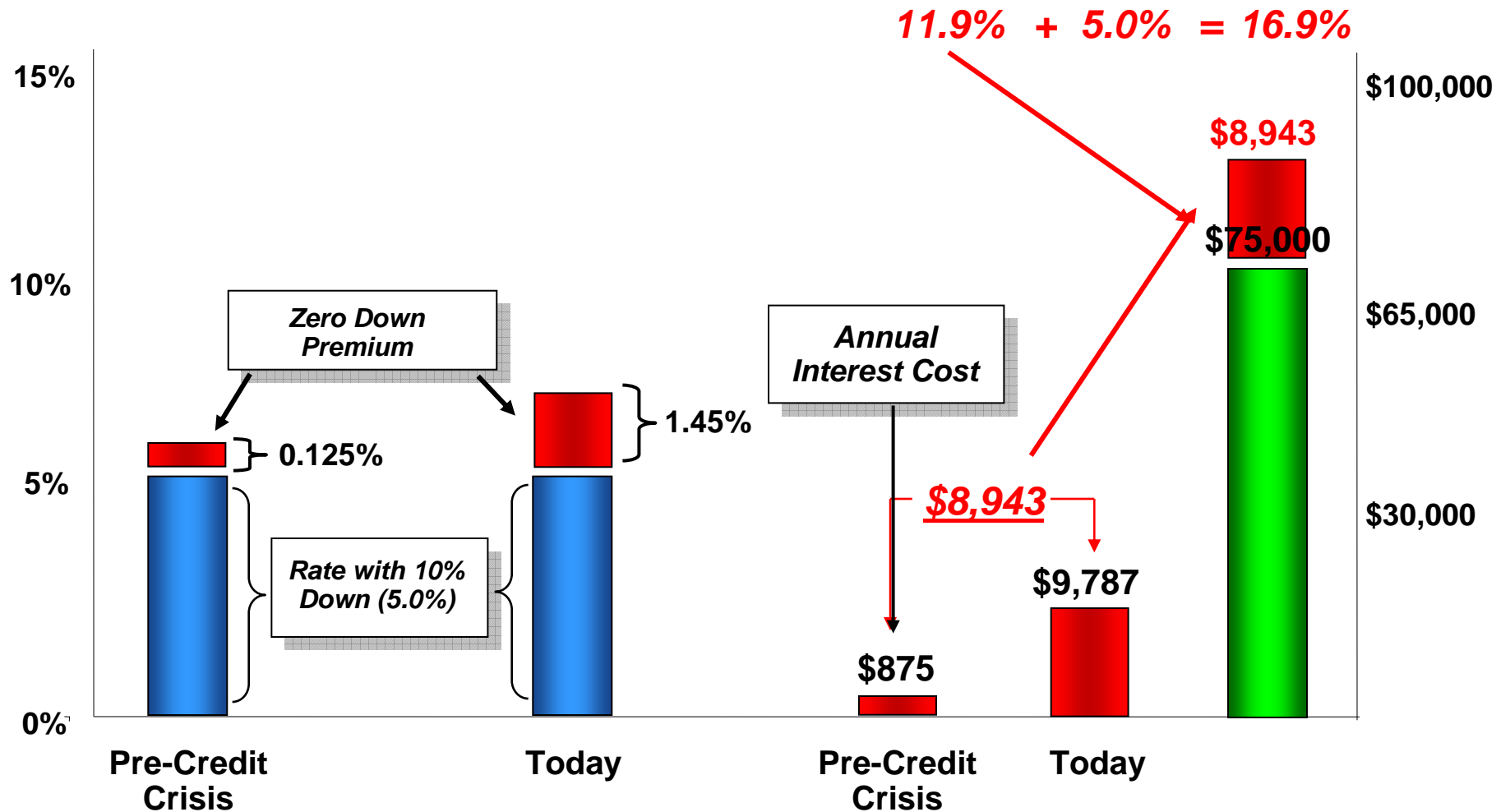
\$750,000 Home Purchase

Down Payment

0%	10%	20%
\$0	\$75,000	\$150,000

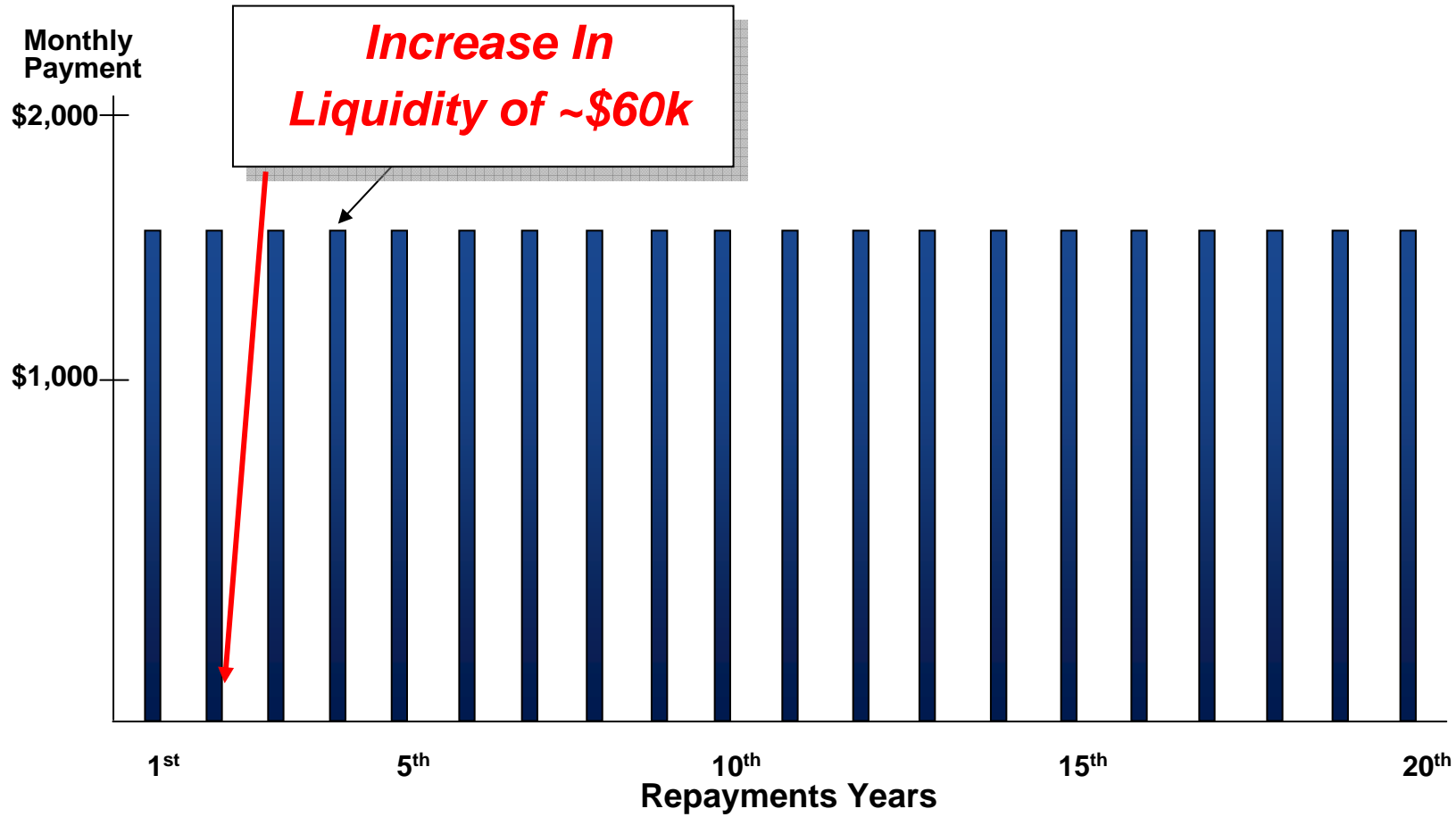


Home Or Practice Purchase



17% Annual Cost On Down Payment

Liquidity Solution



- **Annual Review: Married Filing Jointly vs. Married Filing Separately, Community Property in CA**
- **Taxes during school and after the Bar Exam**
 1. Hope and Lifetime Learning Tax Credit OR
 2. Tuition and Fees Deduction

Decision Process:

- Tax benefit of both options calculated
- Changes in subsidy benefit added back for final number

Many Law Students Not Taking Advantage Of New Tax Breaks

Summary

1. Income Based Repayment & Loan Forgiveness Programs

- a) Benefit all law school borrowers and highly advantageous for most
- b) Process begins during school for all borrowers

2. In-School Consolidation Required to Maximize Savings

- a) Initial consolidation review should be completed
- b) File taxes in final year as appropriate

3. Tax Implications

- a) All borrowers should file taxes regardless of income status
- b) Tuition and fees deduction often superior to Lifetime Learning Credit due to IBR
- c) Understand the trade-off of filing jointly with spouse

4. Graduating Students

- a) Utilize IBR and non-payment status to increase subsidies and liquidity
- b) Be leery investment advisors conflicts -- only invest when returns exceed cost of debt

New Programs Apply To All Law School Borrowers

MY TIMELINE

Quarter 3 2010 Quarter 4 2010 Quarter 1 2011 Quarter 2 2011 Quarter 3 2011 Quarter 4 2011

9/20: Evaluate Disabili... End of Year T... Select to 6 Month... Auto IRR... Auto IRR...

Current Quarter

JUL AUG SEP OCT

Processing Cons... →

GL ADVISOR

Overview

- We have compiled and analyzed your personal debt portfolio in order to determine the optimal debt management strategy. The tasks outlined below include each step required to minimize your cost of debt.
- Below your task list you will also find a detailing of the savings as well as your loan portfolio for your records.

Required Tasks To Achieve Plan Objective:

- November 15, 2010: Consolidate all low rate loans as initial in-school application
- February 15, 2011: Complete Add-on Consolidation application form to include all low rate loans occurred in spring disbursement
- March 1, 2011: Verify in-school deferment status on all consolidated loans to prevent payment and ensure subsidy
- March 20, 2010: Complete tax filing process according to specific filing status: i) Non-Exempt: File using deductions for AGI to maximize subsidy and minimize

Action Items

Contact

idilorenzo@g

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Main: 877

Initiate

Repayment Option Comparison	Liquidity	Annual Economic Benefits		
	Monthly Payment Amount	Loan Forgiveness Savings	Subsidy Savings	Tax Savings
Full Repayment (Extended Term)	\$1,043	\$0	\$0	\$320
Forbearance	\$0	\$0	\$0	\$0
IBR Program Participation	\$34	\$25,830	\$2,218	\$53

DEBT PORTFOLIO

Federal Student Loans		
Loan	Type	Balance
ACS	Consolidation	\$ 15,017
Dept Of Ed/Great Lakes	Unsubsidized Stafford	\$ 38,667
Dept Of Ed/Great Lakes	Subsidized Stafford	\$ 8,500
Great Lakes Educational Loan Services	Unsubsidized Stafford	\$ 71,702
Great Lakes Educational Loan Services	Subsidized Stafford	\$ 23,375
University Of California, San Francisco	Perkins	\$ 7,415
PHEAA	Consolidation	\$164,412
ACS	Consolidation	\$ 10,011

Appendix



IBR Charts

Family Size = 1, Lower 48 States

IBR Payments, Year 1

		Debt								
		\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$175,000	\$200,000	\$225,000	\$250,000
Salary	\$50,000	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56
	\$75,000	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81
	\$100,000	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06
	\$125,000	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31
	\$150,000	\$577.33	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56
	\$175,000	\$577.33	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81
	\$200,000	\$577.33	\$870.81	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06
10 Year Std.	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$2,100.19	\$2,413.36	\$2,715.03	\$2,967.54	
25 Year Std.	\$349.41	\$530.08	\$730.88	\$933.93	\$1,132.99	\$1,321.83	\$1,527.11	\$1,718.00	\$1,847.48	

Payment Capped (10 Year Std.)	Payment < 10 Year Std.	Payment < 25 Year Std.
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IBR Charts

Family Size = 1, Lower 48 States

IBR Payments, Year 3

		Debt								
		\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$175,000	\$200,000	\$225,000	\$250,000
Salary	\$50,000	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31
	\$75,000	\$577.33	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81
	\$100,000	\$577.33	\$870.81	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31
	\$125,000	\$577.33	\$870.81	\$1,180.50	\$1,320.81	\$1,320.81	\$1,320.81	\$1,320.81	\$1,320.81	\$1,320.81
	\$150,000	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,633.31	\$1,633.31	\$1,633.31	\$1,633.31	\$1,633.31
	\$175,000	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$1,945.81	\$1,945.81	\$1,945.81	\$1,945.81
	\$200,000	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$2,100.19	\$2,258.31	\$2,258.31	\$2,258.31
10 Year Std.		\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$2,100.19	\$2,413.36	\$2,715.03	\$2,967.54
25 Year Std.		\$349.41	\$530.08	\$730.88	\$933.93	\$1,132.99	\$1,321.83	\$1,527.11	\$1,718.00	\$1,847.48

Payment Capped (10 Year Std.)	Payment < 10 Year Std.	Payment < 25 Year Std.
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Thank You

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