Law School Student Loan Repayment:

Strategies for Graduates Entering the Private Sector

Presented by:
Jason DiLorenzo
Boalt Hall “Tax Day”
March 3rd, 2011
Overview

• **Brief Examination of Law Career Economics**

• **Income-Based Repayment (IBR):** What it is and how graduates can navigate it to maintain liquidity early in career

• **Targeted Repayment**

• **Strategic debt reduction and other financial objectives** *(home purchase, stock market)*
**Changes in Student Debt Levels**

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

Debt levels have doubled in the last 7 years

1992: $37k  
2003: $49k  
2010: $109K

* Based on data collected by The American Bar Association and GL internal student database
Law Class of 2009 Salaries

* Source: Wall Street Journal
**Career Paths**

**Salaries and Debt Levels**

- **Large Firm**
  - Salary: $115k
  - Student Debt: $109k

- **Small Firm**
  - Salary: $109k
  - Student Debt: $65k

- **Non-Profit**
  - Salary: $109k
  - Student Debt: $45k
**Income-Based Repayment (IBR)**

**Partial Financial Hardship**

- Limit monthly payment to 15% of discretionary income, capped at 10-year standard
- **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**

- Unpaid balance forgiven after 25 years
Income-Based Repayment

- **Goal for Law borrowers:**
  1. Minimize Payment Burden Early in Career for Liquidity
  2. Maximize Any Available Subsidy

- 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?

\[ \frac{(AGI - 150\% \text{ Poverty Level}) \times 15\%}{12 \text{ months}} \]

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

\[ \frac{($60,000 - $16,335) \times 15\%}{12 \text{ months}} = $546 / \text{mo.} \]
# IBR Charts

**Family Size = 1, Lower 48 States**

## IBR Payments, Year 1

<table>
<thead>
<tr>
<th>Salary</th>
<th>$50,000</th>
<th>$75,000</th>
<th>$100,000</th>
<th>$125,000</th>
<th>$150,000</th>
<th>$175,000</th>
<th>$200,000</th>
<th>$225,000</th>
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### 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

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*Payment Capped (10 Year Std.)*

*Payment < 10 Year Std.*

*Payment < 25 Year Std.*
## IBR Charts
### Family Size = 1, Lower 48 States

### IBR Payments, Year 3

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<th>$100,000</th>
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<td>10 Year Std.</td>
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| Payment Capped (10 Year Std.) | Payment < 10 Year Std. | Payment < 25 Year Std. |
Targeted Repayment

Standard Repayment Plan

- **IBR Fixed Stafford Loan – 6.8%**
- **IBR Grad PLUS – 7.9%**
  - Repayment Period: 17 yrs
  - Effective Rate (APR) = 7.36%

- **IBR Non-payment 6.8%**
- **IBR 7.9%**
  - Repayment Period: 5 1/2 yrs
  - Effective Rate (APR) = 7.82%

- **IBR**
  - Repayment Period: 16 yrs
  - Effective Rate (APR) = 6.77%

$7,821

Graduating

Large Firm

Effective Rate (APR) = 7.36%

Effective Rate (APR) = 6.96%
Stock Investing

7.4% Average S&P Return (A/T)

8.1% Average PLUS Return

0%

8%

16%

1940 1960 1987 2001

Pre-Tax Returns
PLUS Loan
S&P 500

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

Increase In Liquidity of ~$60k

Monthly Payment

$2,000

$1,000

1st  5th  10th  15th  20th

Repayments Years
Thank You

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